

National and Kapodistrian University of Athens

Department of Economics

# INTERNATIONAL ECONOMICS: Theory and Policy

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Academic Year 2025-26

1<sup>st</sup> lecture

Introduction

# Today's plan

- We shall provide an overview of the subject and a guide to the organization of the course.
- Course logistics.
- What is international economics about?
- Why do we study International Trade?
- Gravity model.

# Course logistics

- Prerequisites of the course: Principles of Economics and Principles of Macroeconomics, and Microeconomics.
- Grading scale: 0-10
- Two instructors:
- George Chortareas, Professor
- Nikolina Kosteletou, Emerita Professor

# Two main subfields of international economics

- *Theory of international trade (real side of transactions) Kosteletou*
- *International finance (or international macroeconomics, or international monetary economics...) Chortareas*

**Recommended textbook:** Paul Krugman, Maurice Obstfeld, and Melitz, International Economics, 12th edition, Pearson. (KOM)

- **Course Outline:**

1. International Economics, Globalization and Global Markets , Krugman, P., M. Obstfeld, M. J. Melitz, (Pearson 2023) (KOM) “*International Economics, Theory and Policy*”, Chapters 1, 2.
2. Classical Trade Theory and the Theory of Comparative Advantage: from A. Smith to Ricardo, KOM, Chapter 3.
3. The Neoclassical Trade Model: The Heckscher-Ohlin Theorem of Comparative Advantage, KOM, Chapter 5.
4. External Economies of Scale and the International Location of Production, the multinational company, exports, and outsourcing, KOM, Chapter 7,8.
5. Instruments of Trade Policy: tariffs, quotas, and their effects, *KOM, Chapter 9*.
6. The Political Economy of Trade: free trade or protection? KOM, Chapter 10.
7. Exchange rates and the foreign exchange market. KOM, Chapter 14 or Feenstra, R.S., A.M. Taylor, (FT) “*International Economics, Macmillan*”, 5<sup>th</sup> edition, 2021, Chapter 13.
8. Prices and exchange rates in the long run. KOM, Chapter 16 or FT Chapter 14.
9. Money, Interest rates and Exchange rates. KOM, Chapter 15 or FT Chapter 15.
10. National Accounts and the Balance of Payments. KOM, Chapter 13 or FT Chapter 16.

# Erasmus-Civis Program 2025-26

## International Economics, Theory and Policy: Part I

	October	Topics	Instructor
Wednesday	8	Introduction-Gravity model	Kosteletou
Wednesday	15	Ricardo's theory of comparative advantage	Kosteletou
Wednesday	22	Neoclassical Approach: The Heckscher-Ohlin model	Kosteletou
Wednesday	29	Exercises	Kosteletou
	November		
Wednesday	5	Economies of scale, external economies	Kosteletou
Wednesday	12	Instruments of policy	Kosteletou
Wednesday	19	Political Economy of Trade	Kosteletou
Wednesday	26	mid-term exam	Kosteletou

# Why do we study the theory of international Economics?

- To improve our understanding of many key events that shape our domestic and international environment, such as
- Globalization versus the rising wave of protectionism.
- The war between Russia and Ukraine – and the resulting energy crisis.
- The effects of the war between Israelis and Palestinians on the world economy.
- Fluctuations in the value of the dollar and the euro.
- Major economic crises (e.g., the Latin American debt crisis of the 1980s, the Mexican crisis of 1994, the East Asian financial crisis of 1997, and the global financial crisis of 2008–09 following the U.S. housing market bust)

# Questions that arise as we study International Trade:

- Are international transactions different from those conducted within a country?
- What are the differences between transactions between citizens of the same country and those between citizens of different countries?
- What defines a sovereign state (including aspects like country, borders, government, and policies)?
- Why has the volume of international transactions increased?
- What factors are driving the growth of international trade?
- How does international trade influence the growth and development of a country and its economic policies?

# International Transactions Today

- A wide range of goods, services, and financial transactions exists.
- We require models (theories) to address questions related to international trade.
- This is a long-established economic field (D. Hume, A. Smith, D. Ricardo, etc.).
- International trade is a distinct topic within economic science.

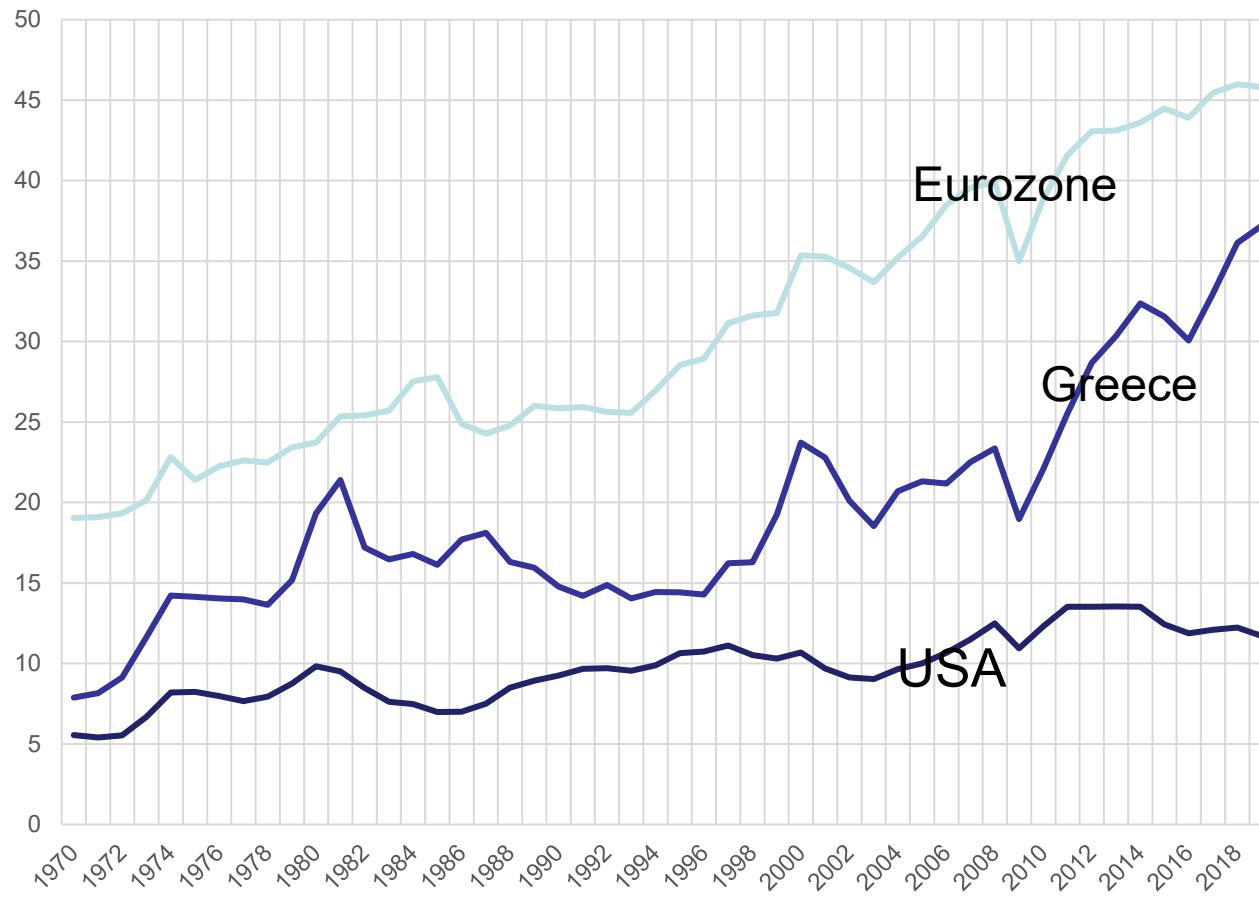
# During the semester we will discuss:

- What is international economics about?
- causes of trade: traditional approaches, comparative advantage and the pattern of trade
- the benefits of trade
- other causes of trade, recent approaches (economies of scale)
- government policy and
- international financial issues (capital flows)
- exchange rates, prices, interest rates
- balance of payments (exchange rate)

# What is international trade about;

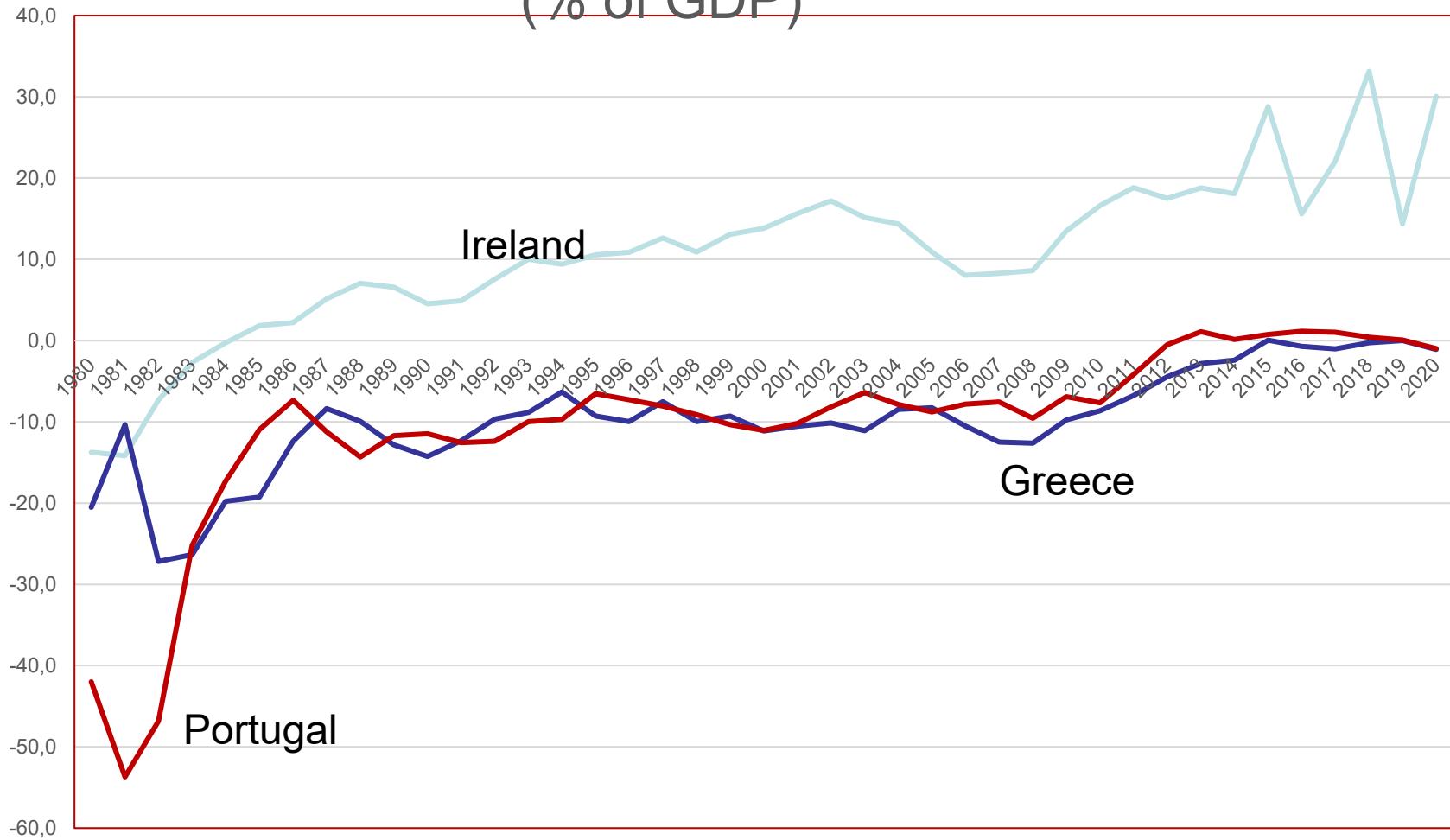
- International economics examines how countries interact through the exchange of goods, services, and capital.
- National economies are increasingly interconnected through international trade in goods and services.

## Exports of Goods and Services(%GDP)



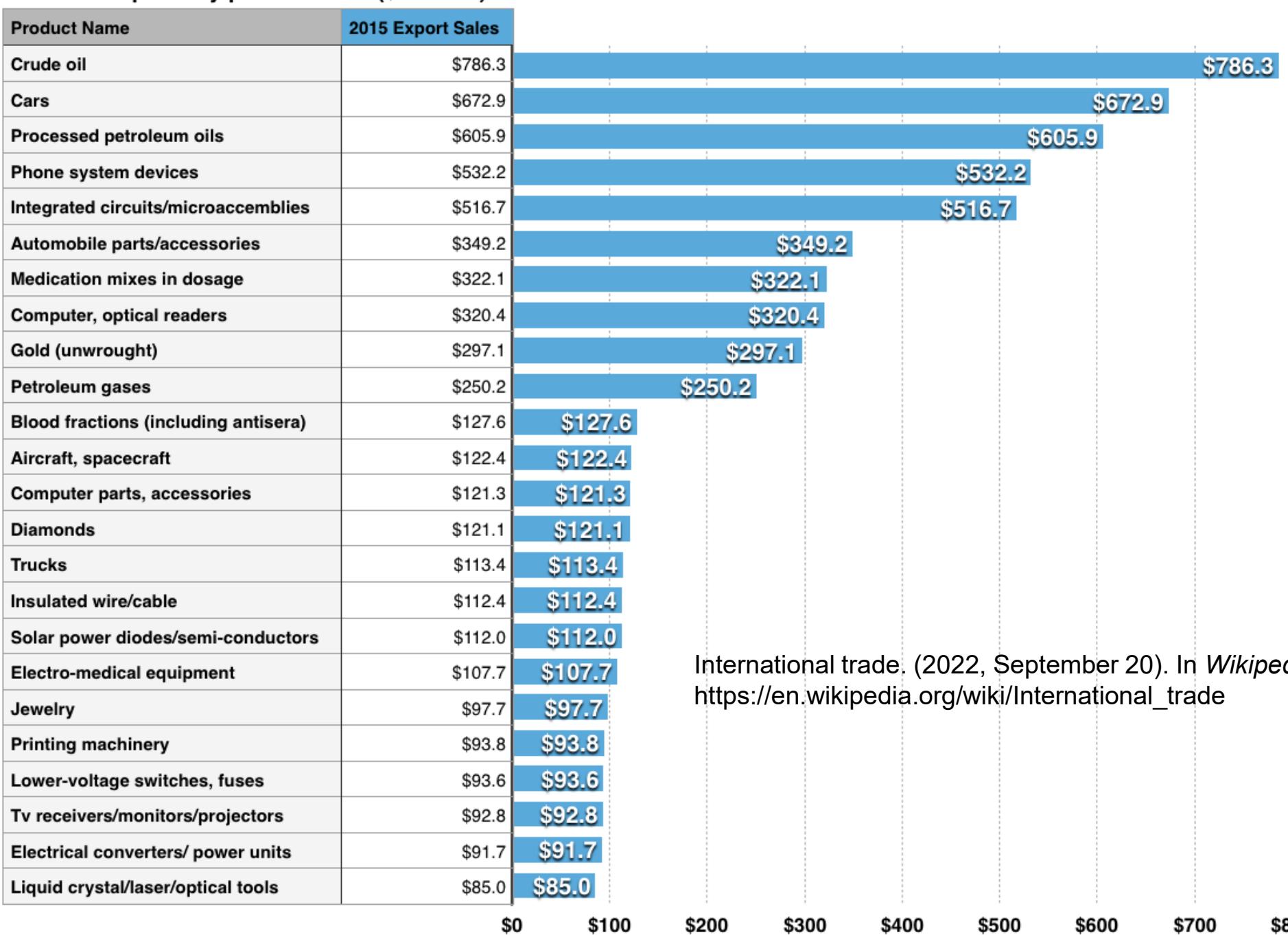
Source: AMECO data base, European Commission

# NET Exports of Goods and Services (% of GDP)



Source: AMECO data base, European Commission

## Global exports by product 2015 (\$Billions)

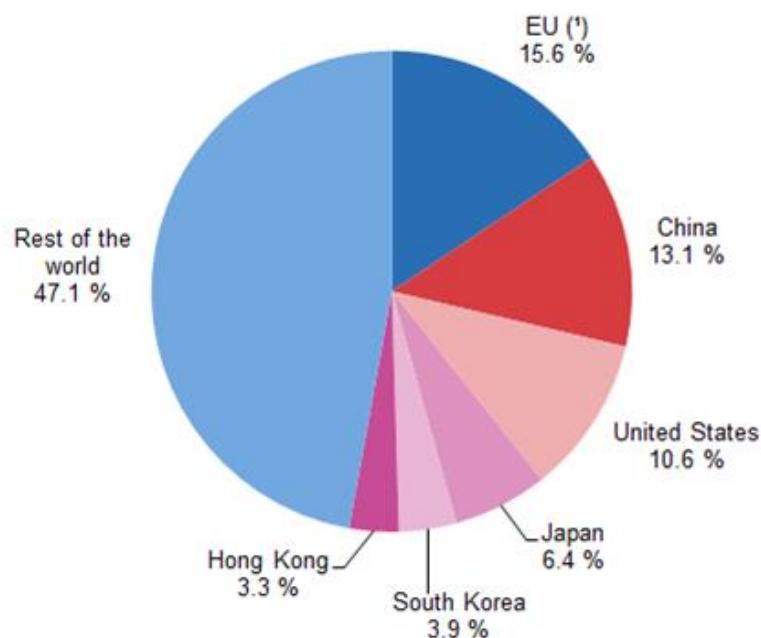


International trade. (2022, September 20). In Wikipedia  
[https://en.wikipedia.org/wiki/International\\_trade](https://en.wikipedia.org/wiki/International_trade)

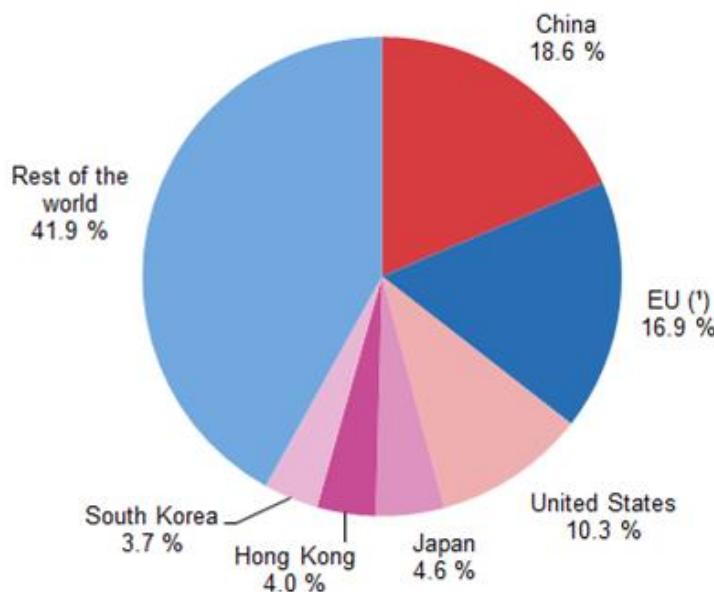
## Exports of goods, selected countries, 2010 and 2020

(share of world exports)

2010



2020



Note: the figure shows the top six countries/geographic aggregates with the highest values for exports of goods in 2017. The total value of exports for the world excludes intra-EU trade.

(\*) Extra-EU trade.

Source: Eurostat (online data code: ext\_lt\_introle), United Nations (Comtrade) and International Monetary Fund (Direction of Trade Statistics)

## Highlights (EU exports of goods)

**The EU accounted for 16.9 % of world exports and 15.1 % of world imports in goods in 2020.**

**The EU was the world's leading exporter of food, drinks and tobacco as well as of chemical products in 2020 but was highly dependent upon imports of mineral fuels.**

**In 2020, the United States remained the principal destination for goods exported from the EU and China the main source of goods imported into the EU.**

# Topics of International Economics:

(themes that recur throughout the study of international economics)

- The pattern of trade (theories, models)
- Gains from trade
- How much trade (the volume of trade)
- Policies
- The balance of payments
- Monetary issues
- Mobility of labor
- The international capital market