

UNIVERSITY OF BRITISH COLUMBIA
Vancouver School of Economics

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Term 2

Economics 490 - International Economics

This is a course in which students are expected to learn how to apply standard economic tools to real world issues by working on an individual research project under the close supervision of the instructor. These economic tools include (but are not limited to) what students have learned in Econ 301 (Microeconomic Theory), Econ 302 (Macroeconomic Theory), Econ 355 (International Trade), Econ 356 (International Finance), and statistics/econometrics courses.

Students are expected to successfully complete a research paper by the end of the quarter on an economic issue related to either a region/area of interest, or an international economics question of interest to the student.

A successful research paper must satisfy the following three conditions: (a) a clear issue; (b) a well-defined and consistent approach to answer the question; and (c) a clear conclusion which follows from a solid economic analysis.

The grade will depend on how successfully the research paper meets the above criteria. The paper should **NOT** exceed 15 double-spaced pages using standard 12 point font.

While my research interests are centered in international economics, macroeconomics and macro-development, in this course I am open to issues in all areas of economics as long you are able to articulate a clear economic question in that area.

Office Hours

Given the nature of the course, there will be no formal lectures. Students are expected to meet with me on a regular basis in accordance with the schedule below. In addition, I strongly encourage students to come and see me as often as they need. I will have sign-up sheets outside my office. You should sign up for the time that suits you most. **Please do not sign-up for multiple times across contiguous weeks and then cancel at the last minute.** The sign-up method is intended to allow students to meet with me without having to wait for long periods of time outside my office. Please be aware that signing up for a time-slot and then cancelling a day or two before is unfair and disrespectful to others. I shall monitor it. Please remember that time is a precious resource for everyone.

My office hours will be on Tuesdays and Thursdays from 12.30 – 2 pm.

Schedule

The schedule for the course will be:

Weeks 1-3: There will be one in-class lecture on data issues and data handling. Students should meet with me from Week 2 onward to discuss issues and methodology;

Week 4 end (January 29): A one page outline of the paper must be submitted;

Week 8 end (March 5): A first draft of the paper should be submitted;

Last day of classes (April 8): Final draft of the paper must be submitted.

HOW TO WRITE A RESEARCH PAPER

- 1. General reading in area of interest.** You first want to get an idea of (i) what have been the main issues in the area that you are interested in, and (ii) how have other researchers answered these questions. To this effect, you should do some general reading (and hopefully you have done this over the summer!). You can find some sources of readings by [clicking here](#). Google searches are another obvious way of getting started. But you may want to check with me on the quality of the material that you find online just to make sure that these are academically solid readings.
- 2. Define the question that you want to ask.** Once you have become familiar with the main issues in your area of interest, you must come up with a question that you want to ask. The question should be specific, relevant, and “answerable” with standard economic methodologies:
 - **Specific/concrete:** For example, “The Chinese economy” is *not* a specific issue or question but “Should the Chinese authorities let the renminbi (the Chinese currency) float?” or “Why have real wages been stagnant in the United States economy?” are specific questions.
 - **Relevant:** The question should be relevant for public policy and/or our understanding of economic phenomena.
 - **“Answerable” with some methodology:** For instance, “What will happen to the U.S. economy if Hillary Rodham Clinton is elected president?” may be an interesting question for a Time magazine article or for discussion over the dinner table but is not answerable with standard economic methodologies (i.e., we obviously have no data but neither do we have good models to predict events of this nature). The question “Why have real wages been stagnant in the United States economy?” or “Why do some financial crises spread from

country to country?” are, in principle, questions that can be answered using standard economic methodologies.

You should always ask yourself: What is the question that I am trying to ask? If you have no good answer to that question, you do not have a question!

3. Positive versus normative analysis

Depending on the type of question that you are asking, your analysis can be thought of as *positive* or *normative*. Positive analysis means that you are just trying to understand how the world works without taking a stand on how the world *should* work. For instance, the question “What factors drive the business cycle in the United States?” will lead to a positive analysis. You are trying to determine the factors that cause business cycles (i.e., GDP going up and down over time) in the United States.

On the other hand, asking the question “Should the Bank of Canada (i.e., the Canadian Central Bank) raise interest rates when inflation goes up?” is a *normative* question. You are trying to understand how monetary policy *should* be conducted. (Raising interest rates will probably reduce inflation but at the cost of a recession, so there is a trade-off to be considered.) Of course, it may well be the case that normative analysis can lead to some public policy prescription of a normative nature. For instance, if you were asking the question of what causes business cycles in the United States and concluded that monetary policy itself has been the source of business fluctuations, you would conclude that the Federal Reserve should take a closer look at how it conducts monetary policy.

4. Empirical versus theoretical analysis

Depending on the methodology that you use, your paper can be *empirical* or *theoretical*. An *empirical* paper uses econometric methods to answer the question at hand. For instance, if you ask the question “What were the output costs of the transition from a planned to a market economy in Eastern Europe?” you would run some sort of regression with changes in output as the dependent variable and a bunch of independent variables: control variables (external factors, changes in labor force, changes in capital stock, among others) and then some measure of the change in market institutions that would give you the answer that you are seeking.

On the other hand, a *theoretical* paper will use a theoretical model to answer a particular question. Typically, you would identify some puzzle that you want to explain with a theoretical model. For instance, suppose that there is evidence that fiscal policy in developing countries has been procyclical (meaning that fiscal policy is expansionary in good times and contractionary in bad times), which is the opposite

that you would expect. You might develop a theoretical model that shows that if political interest groups pressure policymakers into spending money when the government runs budget surpluses, then fiscal policy will indeed be procyclical. Alternatively, you could write a purely theoretical paper (i.e., a paper which is not trying to offer a theoretical explanation for some observed phenomenon). For instance, to answer the question “How should the government auction available gates in an airport?” you might develop a theoretical model of auctions that would show that one type of auction would lead to a more efficient outcome than some other type of auction.

Most often, undergraduate research involves *empirical* analysis, simply because top undergraduates have normally acquired the required basic econometric skills to carry out such a task. In contrast, the typical undergraduate does not yet have the needed theoretical tools to undertake serious theoretical analysis. But if you feel you do and have an interesting question that can be answered with a theoretical model, you should definitely go for it!

5. Write an outline of the paper

Writing (and doing it early rather than later) is a critical component of any research project. One obvious reason is that you eventually need to put into writing your question, motivation, and findings. If your writing is not very good, I would strongly suggest (and we can talk about this) finding some course on writing (believe me, it will be a great investment!). The other (less obvious) reason is that writing forces you to put your ideas in a clear and concise way. Being able to formulate your question in writing will indeed tell you if you have a question.

I thus advocate and strongly suggest that you get used to drafting as often as you can. You will first write a one-page proposal (outlining the question and its relevance) and then a 3-page proposal or outline (which will also include a discussion of the methodology to be used).

An outline (i.e., a 3-page proposal) should consist of three main parts:

- Introduction: motivates and defines the problem to be dealt with, and says why it is an interesting and non-trivial problem.
- Methodology: How will you go about in answering the question you want to address? What economic tools will you bring to bear on the issue? What data will you be looking for?
- Conclusions and/or policy recommendations: What do you expect to conclude? How will your conclusions follow from your analysis? What are the policy recommendations that may follow from your analysis?

6. Write a working draft

After finishing the core of the work, you should begin to draft. Don't wait until you have done everything to begin to write the paper. Drafting helps in refining your thinking because it forces you to spell out your ideas and results. It also helps a lot in obtaining feedback from the instructor. At the end of the Fall semester, you should have a roughly 15-page working draft.

7. Structure of the paper

There is not a unique way of structuring a paper but a typical structure would be as follows:

- Introduction: here you motivate the question you are asking. This section should contain some charts and tables to illustrate the problem. It should also give an idea of what is the conventional wisdom on the issue and how your paper differs. It should also contain a brief summary of your main conclusions.
- One or two sections in which you develop your theoretical and/or empirical analysis.
- A final section with conclusions and policy lessons.

The paper should be divided into sections, which should be numbered and titled. Every section must have a point, ask yourself: what I am trying to say in this section?

Data Sources

Databases

- [Penn World Tables](#) (cross-country time series data on various macro aggregates like GDP, consumption, investment, prices, exchange rates etc.)
- [World Bank Database](#)
- [International Financial Statistics](#) (IMF) (You can access this from the UBC library system)
- [EDGAR Database of Corporate Information](#) (database provided by the [Securities and Exchange Commission](#))
- [Federal Reserve Bank of St. Louis' FRED database](#) (historical U.S. economic and financial data)
- [NBER Online Databases](#) (numerous macro and micro databases)
- [GeoInvestor.com](#) (a global economic and financial database, covering more than 40 countries)

International Organizations

- [Asian Development Bank \(ADB\)](#)
- [Bank for International Settlements \(BIS\)](#)
- [Economic Commission for Latin America and the Caribbean \(ECLAC\)](#)
- [European Bank for Reconstruction and Development \(EBRD\)](#)
- [European Central Bank](#)
- [European Union](#)
- [Inter-American Development Bank \(IDB\)](#)
 - [Research Department](#)
 - [Economic and Social Progress in Latin America \(IPES\)](#): Annual reports focusing on important public policy issues
- [International Finance Corporation](#)
- [International Monetary Fund \(IMF\)](#)
 - [IMF Working Papers](#) (available online starting with WP/97/01).
 - [World Economic Outlook](#) (latest issue from October 1998 available online)
 - [Finance and Development](#) (an economic policy review published quarterly by the IMF and the World Bank; available on line)
- [IMF website by the Hoover Institution](#) (provides information and debates about the IMF's role)
- [Organisation for Economic Co-operation and Development \(OECD\)](#)
- [World Bank](#)
- [World Trade Organization \(WTO\)](#)

National sources of data and information

- [Central Banks on the World Wide Web](#): Links to central banks from all over the world provided the [BIS](#).
- United States
 - [Board of Governors of Federal Reserve System](#) (Central Bank)
 - [Federal Reserve Bank of New York](#) (Research publications, like the [Economic Policy Review](#), are available online)
 - [Federal Reserve Bank of St. Louis](#)
 - [Federal Reserve Bank of San Francisco](#)