

8461 - INTERNATIONAL ECONOMICS AND BUSINESS DYNAMICS - PART I (APPLIED INTERNATIONAL ECONOMICS)

Course responsible:

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Instructor:

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Gianmarco I.P. Ottaviano is professor of economics at the Department of Economics of Bocconi University, research fellow of the Centre for Economic Policy Research (CEPR) in London, non-resident senior fellow of the think-tank Bruegel in Brussels, research fellow of Fondazione Eni Enrico Mattei (FEEM) in Milan, research fellow of Knowledge, Internationalization and Technology Studies (KITeS) research centre at Bocconi University and member of the scientific committee of Centre of High Studies on Contemporary China (CASCC) in Turin. He is the co-author of many works in international trade, urban economics and economic geography. His recent publications focus on the competitiveness of European firms in the global economy and the economic effects of immigration on employment and wages. His findings have been covered by major international journals and magazines such as Business Week, Economist, Financial Times, New York Times, Newsweek, New Yorker and Sole24Ore. His essay "Agglomeration and Trade Revisited" (with G., T. Tabuchi, Tokyo University, and J.-F. Thisse, Université Catholique de Louvain, *International Economic Review* 43, 409-436, 2002) has been cited in the Scientific Background motivating the award of the 2008 Nobel Prize in Economics to Paul Krugman.

Objectives and structure of the course:

The course analyzes the challenges and opportunities firms face in the global economy. By the end of the course the student will master economic concepts that are useful for the analysis of and decision making on the internationalization activities of firms. In particular, the student will be able to: analyze the issues pertaining to foreign direct investment (FDI); analyze the advantages and the disadvantages of the different modes of firm internationalization; analyze in detail the role of multinational firms and the issues related to outsourcing and offshoring in emerging countries.

Overview of course program:

Business across borders offers both challenges and opportunities. This course provides a framework for analyzing decisions made by firms in an international context. While the foundations of the course are concepts developed in economics, they will be combined with (and challenged by) insights from strategy, international finance, marketing, human resource management, and other areas. The final aim of the course is to provide the student with a critical understanding of whether and to which extent the ways economists have studied and modelled firms' internationalization decisions offer any support in real world decision making. The course is integrative by design, which leads to some overlap with material taught in other courses.

The course is based on the Springer textbook "Elements of Multinational Strategy" by Keith Head (Sauder School of Business, University of British Columbia). With Keith Head, I share the ambitious goal "to integrate the academic study of international trade and foreign direct investment - the work [we both] do when [we are] not teaching - with the actual strategic and operational decisions of exporters and multinational enterprises" (*preface*).

The course will address the following key questions: What are the specific challenges associated with international operations? How should firms tackle these challenges depending on their own competitive advantages as well as the characteristics of the countries and industries in which they operate?

These questions will be addressed following the logical sequence of topics in the textbook, namely:

- Business across borders
- The gains from trade
- Factor advantages
- Trade Costs
- Trade Rules
- Market Adaptation
- Multinational Formation
- Internalization
- Competitive interactions
- Foreign exchange and political risk
- International taxation

Some of the topics in the textbook will be further developed in lecture notes providing a simplified presentation of models at the cutting edge of international trade theory. The full-fledged

description of these models can be found in the Princeton University Press book “Multinational Firms in the World Economy” by Giorgio Barba Navaretti and Anthony J. Venables.

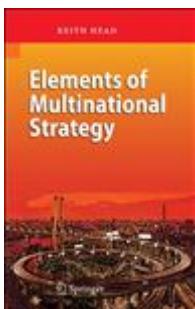
Attendance and participation:

All lecture notes will be posted on line in the e-learning space of the course. Regular attendance and participation are crucial for not falling behind. If you miss the class, it is your responsibility to make up for the lecture notes and announcements made in class. Lectures will become increasingly interactive as all students acquire the knowledge of the concepts needed for an informed discussion.

Readings:

The textbook is:

K. Head, *Elements of Multinational strategy*, Berlin, Springer. There are two editions with identical content: 2007 (hardcover) and 2008 (paperback) .



All the chapters of the textbook are compulsory exam material and have to be carefully prepared for the exam independently from the time allocated to them in class. The corresponding original handouts and slides are freely downloadable from: <http://strategy.sauder.ubc.ca/head/book> .

Lecture slides and notes posted on the e-learning space represent additional compulsory material for the exam.

Finally, the following book:

G. Barba Navaretti and A.J. Venables, *Multinational Firms in the World Economy*, Princeton, Princeton University Press, 2004.

represents further non-compulsory reading for those interested in a deeper understanding of the technical details of the models presented in class.

Office hours

Students often do not make much use of the office hours, yet these may turn out to be your best learning tools. If you have questions about the lectures and especially if at any point during the course you feel that you are falling behind, please come talk to me or to the tutor.

My office hours are: Wednesdays 16:30-17:30 (no office hours on Oct. 28 and Nov. 4, 2010; last office hours before the Xmas break on Dec. 16, 2010), Via Roentgen 1, Floor 5, Room C1-09.

My e-mail address is: gianmarco.ottaviano@unibocconi.it

Tutor:

The tutor of the course is: Laura Casi

Her e-mail address is: laura.casi@unibocconi.it

Grading system:

Presentation: 30%

Final written exam: 70%

There is no midterm exam.

Project presentation:

There is one presentation worth 30% of the course grade. The presentation consists in the critical review of an article, related to the class materials, selected from major international journals and magazines such as Business Week, Economist, Financial Times, New York Times, Newsweek.

Presentations are made by the pre-assigned teams of 4 or 5 students defined by the Director of the Program (Markus Venzin). Exchange students not belonging to any pre-assigned teams must propose the tutor by e-mail their own teams of 4 or 5 members within one week since the first lecture. Their proposals will be taken into due account but will not necessarily determine the final composition of their teams.

The tutor coordinates the presentations. Any communication/question regarding the presentations has to be addressed to the tutor.

At the latest one week before the presentation each team has to propose an article of their choice to the tutor by e-mail for my approval. The e-mail must contain:

- the list of team members;
- the proposed article as a PDF attachment.

The presentation will consist of 3-4 PowerPoint slides of discussion based on the article followed by free Q&A session (10 minutes total). Each team has to write a paper (max. 10 pages) as a background for the presentation.

At the latest two days before the presentation each team has to submit the presentation and the paper to the tutor by e-mail.

Compliance with deadlines will be considered for grading.

During the presentation each team is required to:

1. summarize the article;
2. present the analysis related to the materials covered in class;
3. refute or support the article with opinion;
4. tackle the Q&A session.

Points 1, 2 and 3 must be covered in the background paper.

Class attendance and active participation to all presentations will be also considered for grading.

Final written exam:

The exam lasts 60 minutes. It consists of two sections for a total maximum grade of 30 points out of 30. In the first section, students have to answer 9 short questions spanning the whole program of the course. Each right answer contributes 2 points to the final grade, each wrong answer subtracts 1 point from the final grade, no answer gives 0 points. In the second section, students have to answer a long question consisting of three parts: the presentation of a model presented in class and two applications of the model to real world issues. The right answer to each part of the long question contributes 4 points to the final grade.

Sample exam questions will be discussed in class.