



International Monetary Economics
Professor Laura Veldkamp
Syllabus

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Office Hours: Th 1:30-3:00
Precept: Th 11:00-11:50

Class: T,Th 10:00-10:50
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Precept: Th, time TBD

Course Description

This course presents International Monetary Economics theory and applies it towards gaining an understanding of recent events and current policy issues. The theory presented in this course covers a broad range of topics including exchange rate determination, monetary and fiscal policy in an open economy (that is, an economy that trades goods and assets with the rest of the world), balance of payments crises, the choice of exchange rate systems, and international debt. The insights provided by these theoretical frameworks will enable us to discuss topics such as the US current account deficit and global financial imbalances, the Chinese exchange rate regime, proposed changes in the international financial architecture, the single currency in Europe, the Asian and Argentine financial crises, global financial imbalances, and the role of international factors on a nations employment, wage and economic performance.

Prerequisites

You are expected to be comfortable with basic micro and macroeconomics, logarithms, and algebra.

Course Materials

Notes, slides, and deliverables (see below) will be posted on the course blackboard website. I strongly encourage you to check the blackboard announcements at least once a week to keep up-to-date about upcoming quizzes, assignments, discussion topics and readings. The course material consists of:

- Textbook: *International Economics: Theory and Policy* by Paul Krugman and Maurice Obstfeld, 7th edition, Addison-Wesley, 2005. The accompanying *Study Guide* by Linda Goldberg, Michael Klein and Jay Shambaugh, Addison-Wesley, is recommended.
- Articles. An important component of the class will be discussions of current news items. Articles are posted on blackboard, are required reading and are fair game on quizzes and exams. I may add more recent news during the class. If I do, I will announce this in class and post an announcement on blackboard. The articles are short, and hopefully interesting. Many are controversial, partisan, and contradictory to each other. I give these to you, not to convince you of any point of view. I want you to read these critically and decide whether you agree or disagree, and why. I mean for these to spark a conversation.

All the readings listed in this syllabus are on reserve at the library. Regular reading of relevant articles in newspapers such as the *Financial Times* or in magazines such as *The Economist* will enhance your understanding of the material presented in this course by allowing you to apply what you learn to issues of the day.

- Notes. For some sessions, I have prepared notes that explain technical material in more detail. I will announce them in class. They are also posted on blackboard.
- Slides. All the slides I show in class will be posted on blackboard, after class.

Deliverables and Grades

The various “deliverables” in the course are designed to develop different skills:

- Class participation. It’s important to integrate what you learn and be able to express it effectively. Your participation grade will be based on the quality (not quantity) of your contributions to class sessions.
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- Forecasting exercise. Apply the tools learned in class to analyze data. You may work in groups of up to 5 people, but you are not required to.
 - Quizzes. Quizzes will take place in the first 5-10 minutes of class. Dates are noted on the calendar below. The intent of the quizzes is to encourage each student to do the assigned reading and review previous course material before class. This will avoid the problem of poorly prepared students wasting class time for well-prepared students. If you are late for class, or have some other appointment during class time, you cannot make the quiz up. However, you get 2 free passes: I will drop the lowest 2 quiz grades at the end of the class.
 - Exams. There will be two exams. The midterm is in class on October 19th. The final exam date will be announced late October/early November. I have no power to change the final exam date. If you have schedule conflicts, or cannot make the exam for any reason, you need to see the registrar.

Exams and quizzes are closed-book. You may bring in and consult one piece of paper with anything on it you like (standard paper size, both sides), and a calculator. Your answers should be entirely your own work. There will be practice questions and practice exams posted on blackboard, similar in content to the quiz and exam questions. I recommend answering these questions to help you review. For the forecasting exercise, you may discuss the assignment with anyone – in fact, I encourage it — but what you submit should be the work of your group.

Your grade for the course will be based on your performance on all of these deliverables, weighted as follows:

Class Participation	10%
Forecasting Exercise	15%
Quizzes	15%
Midterm Exam	25%
Final Exam	35%

According to university guidelines, grades of A- or above must comprise not more than 35% of the grades for this class.

We also hold ourselves to a high standard of professional behavior. Accordingly, lateness, using cell phones, holding private conversations, and indeed any behavior that disrupts me or your colleagues will be considered inappropriate. Repeated violations of this standard may affect your participation grade.



International Monetary Economics: Outline and Calendar

A. International Financial Markets

I. September 14

Introduction and overview. No precept today.

II. September 19, 21

Foreign Exchange Markets. Exchange rates, real exchange rates. Mechanics of foreign exchange markets.

Read before class: KO ch.13

III. September 26, 28, October 3

Accounting for flows of goods and payments. Understanding the current account. What moves the current account? Does the current account matter? Foreign debt sustainability.

Read before class: KO ch.12, handout on debt,

- “Global Imbalances: The New Economy, the Dark Matter, the Savvy Investor, and the Standard Analysis.” by Barry Eichengreen, March 2006.
- “The Trade Gap: How Long Can It Go On?” Business Week, Nov. 22,2004.

Quiz #1: September 26th, start of class.

B. What determines the value of currency?

IV. October 5, 10

Economic determinants of exchange rates. Purchasing power parity, current account and exchange rates, supply and demand for money.

Read before class: KO ch.15

Quiz #2: October 5th, start of class.

V. October 12, 17

Financial determinants of exchange rates. Interest rate parity, overshooting, trading off risk and return.

Read before class: KO ch.14

Quiz #3: October 12th, start of class.

VI. October 19: Midterm exam No precept today.

VII. October 24

What's in the data? Will the US Dollar collapse?

Read before class:

- “Honey, I Shrunk the Dollar” by Thomas Friedman, New York Times, February 24, 2005.

C. Fixed and flexible exchange rates

VIII. October 26

Exchange rate regimes. Fixed, pegged, floating, floating pegs, crawling pegs. How flexible are exchange rates? Evidence on pass-through. Why do countries fix their exchange rates?

Read before class: KO ch.16 (p.436-438 on pass-through), ch.17 (p.447-455 on fixing exchange rates).

Fall Recess!

IX. November 7, 9, 14

Monetary and fiscal policy with fixed and flexible rates. How do business cycles work in an open economy? Should the UK join the Euro?

Read before class: KO ch.17 (p.456-467 on fixed rates), ch.19 (p.516-523 on flexible rates), ch.20 (p.548-556 on currency areas).

Quiz #4: November 9

Forecasting exercise: Due at the start of class, Nov 14th.

X. November 16

China's Exchange Rate Policy. Is China's fixed rate good for China? What are the benefits and costs of accumulating foreign reserves? Is China's policy bad for the U.S.?

Read before class: KO ch.19 (p.534-536),

- “Putting the Cart Before the Horse” IMF policy paper,
- “China's Currency: Not The Problem” Carnegie policy brief,
- “Will It Take a Tariff to Free the Yuan?” by Senators Charles Schumer and Lindsey Graham.

Quiz #5: November 16

D. Financial Crises

XI. November 21, 28

Speculative currency attacks. Coordination games, multiple equilibria, equilibrium selection. The collapse of the South African Rand, the British Pound.

Read before class: KO ch.19 (p.537-541),

- “Bhatulism: Who poisoned Asia’s currency markets?” by Paul Krugman, Slate, Aug. 14, 1997.

Happy Thanksgiving!

XII. November 30, December 5

Debt default. Coordination games, local currency vs. foreign currency denominated debt, Debt and exchange rate adjustments. Sustainability revisited

Read before class: KO ch.22 (p.609-619).

XIII. December 7

Argentina’s economic turmoil. What were the causes of the crisis? Evaluating the policy options.

Read before class:

- “A decline without parallel,” The Economist Feb 28th, 2002.
- “Argentina’s Money Monomania” by Paul Krugman.

Quiz #6, December 7

XIV. December 12, 14

The IMF and capital market liberalization. Is the IMF doing the right thing? Comparing two approaches to crisis management. Evaluating the Tobin tax.

Read before class: KO ch.22 (p.629-633),

- “A Proposal for Monetary Reform” by James Tobin
- “Rethinking capital controls: When should we keep an open mind?” by Kenneth Rogoff.

XV. Final exam Time and place TBA.
