

SIMON FRASER UNIVERSITY
Department of Economics

Econ 446 – SEMINAR IN INTERNATIONAL FINANCE
Syllabus – Fall 2009

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Office Hours: Wed. 10:00 – 11:00
Wed. 3:30 – 4:30
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COURSE OBJECTIVES AND PREREQUISITES

This course surveys a variety of topics in international finance and open-economy macroeconomics. Among the topics covered are: (1) Theories of exchange rate determination, (2) Determinants of international capital flows, (3) The transmission of monetary and fiscal policies across countries, (4) The pros and cons of fixed vs. flexible exchange rates, and (5) Theories of speculative attacks and currency crises.

One of the goals of the course is to help students become critical readers of popular press accounts of ongoing debates about the global economy. Should countries attempt to manage their exchange rates and capital flows? When is a current account deficit ‘unsustainable’? Why is China accumulating so many foreign exchange reserves? Should Britain adopt the Euro?, and so on. Therefore, it is expected that students will stay informed of ongoing developments in the world economy. In support of this effort, there are about a dozen recent articles from *The Economist* newsmagazine, which students should read carefully and critically, and attempt to relate to the course material.

There are three prerequisites for this course: Econ 301, Econ 305, and Econ 345. Exceptions can be made on a case-by-case basis, but students without this background will be at a disadvantage. Simple calculus (i.e., derivatives and Lagrangians) will be used throughout the course.

COURSE STRUCTURE

The course is divided into three main parts. The first part discusses international capital flows and theories of current account determination. The second part discusses theories of exchange rate determination. The final part of the course focuses on a few miscellaneous policy issues. The theoretical material will be presented in a traditional lecture format, whereas the policy material will be more discussion oriented.

COURSE EVALUATION

	<u>Weight in Grade</u>
Problem Sets	– 20%
Project	– 20%
Midterm exam (Friday, October 16)	– 30%
Final exam (Friday, December 11)	– 30%

The best way to learn the material is by applying it to the real world. This will be done in two ways: (1) Problem sets, (2) A group project. Students are encouraged to work together on the problem sets, but everyone must turn in their own copy. The problem sets will be available as PDF files on the class webpage (at www.sfu.ca/~kkasa/). The group projects consist of a short (10-15 pages) paper, along with a classroom presentation. Groups should be consist of 2 or 3 people, and the topics are open.

COURSE MATERIALS

There is one required book for this course: *International Macroeconomics*, by Stephanie Schmitt-Grohe and Martin Uribe. It is available online at no charge, and is posted on the class webpage. There is also a more advanced, graduate level, text entitled “Lectures in Open Economy Macroeconomics”. It is by Martin Uribe, and is available online at no charge. We will use one of the chapters from this manuscript. Finally, there are a number of journal articles, popular press clippings, and supplementary notes that are available for download on the course webpage. Students who have taken Econ 345 may find their textbook for that course useful at times (in all likelihood, Krugman and Obstfeld’s book “International Economics”). A copy should be on reserve at the library.

COURSE OUTLINE AND READINGS

Readings marked with a (*) are downloadable from the course webpage.

I. INTERNATIONAL CAPITAL FLOWS

- Sept. 9 – **Introduction and Overview**
- * Data Plots
 - * Setser (2009), “China, New Financial Superpower”
 - * *The Economist* (2009), “Birth Pains”
 - * *The Economist* (2009), “Yuan Small Step”
 - * *The Economist* (2009), “Not Quite So SAFE”
- Sept. 11 – **Balance of Payments & the Sustainability of Current Account Imbalances**
- * Schmitt-Grohe & Uribe, Chpt. 1
 - * *The Economist* (2006), “America’s Dark Material”
 - * *The Economist* (2007), “Sustaining the Unsustainable”
 - * *The Economist* (2009), “The Spend is Nigh”
- Sept. 16 – **A Simple 2-Period Model of the Current Account**
- * Schmitt-Grohe & Uribe, Chpt. 2 (pgs. 21-30)
- Sept. 18 – **Applications of the Simple 2-Period Model**
- * Schmitt-Grohe & Uribe, Chpt. 2 (pgs. 30-43)
- Sept. 23 – **Incorporating Production and Investment**
- * Schmitt-Grohe & Uribe, Chpt. 3
- Sept. 25 – **A Global (Two-Country) Model**
- * Schmitt-Grohe & Uribe, Chpt. 4
 - Problem Set 1 due
- Sept. 30 – **Fiscal Policy and the Current Account**
- * Schmitt-Grohe & Uribe, Chpt. 5
- Oct. 2 – **A Stochastic Infinite Horizon Model**
- * Uribe, Chpt. 2
- Oct. 7 – **The Feldstein-Horioka Puzzle**
- * Schmitt-Grohe & Uribe, Chpt. 6 (pgs. 87-93)

- Oct. 9 – **Portfolio Allocation and the Current Account**
 * Ventura (2002), “Towards a Theory of Current Accounts”
 Problem Set 2 due
- Oct. 14 – **The Allocation Puzzle**
 * Lucas (1990), “Why Doesn’t Capital Flow From Rich to Poor Countries?”
 * Gourinchas & Jeanne (2009), “Capital Flows to Developing Countries: The Allocation Puzzle”
 * *The Economist* (2007), “A Topsy-Turvy World”
 * *The Economist* (2009), “When a Flow Becomes a Flood”
 * *The Economist* (2008), “The Resilient Dollar”

Oct. 16 **Midterm Exam**

II. EXCHANGE RATES

- Oct. 21 – **Purchasing Power Parity and the Real Exchange Rate**
 * Schmitt-Grohe & Uribe, Chpt. 7 (pgs. 105-109)
 * Taylor & Taylor (2004), “The Purchasing Power Parity Debate”
- Oct. 23 **The Balassa-Samuelson Model of Real Exchange Rates**
 * Schmitt-Grohe & Uribe, Chpt. 7 (pgs. 110-118)
 * *The Economist* (2009), “Burger-Thy-Neighbor Policies”
 * Kasa (1995), “Understanding Trends in Foreign Exchange Rates”
- Oct. 28 – **Money and Nominal Exchange Rates**
 * Schmitt-Grohe & Uribe, Chpt. 10 (pgs. 157-174)
- Oct. 30 – **The Monetary Model of Exchange Rates**
 * Class Notes
 * Wang (2008), “Why Are Exchange Rates So Difficult to Predict?”
- Nov. 4 – **Uncovered Interest Parity: The Forward Premium Puzzle**
 * Schmitt-Grohe & Uribe, Chpt. 6 (pgs. 455-472)
 * Class Notes
 * *The Economist* (2008), “The Domino Effect”
- Nov. 6 – **First Generation Currency Crisis Models**
 * Schmitt-Grohe & Uribe, Chpt. 10 (pgs. 174-180)
 * Class Notes
- Nov. 11 – **Remembrance Day (No Class)**
- Nov. 13 – **Second Generation Currency Crisis Models**
 * Class Notes
 * Obstfeld (1996), “Models of Currency Crises with Self-Fulfilling Features”
 Problem Set 3 due

III. SOME POLICY ISSUES

- Nov. 18 – **The Canadian Dollar and the Chinese Yuan**
* Devereux (2008), “Much Appreciated: The Rise of the Canadian Dollar, 2002-08”
* Obstfeld (2007), “The Renminbi’s Dollar Peg at the Crossroads”
Problem Set 3 due
- Nov. 20 – **Optimum Currency Areas and the Euro**
* Class Notes
* Mundell (1961), “A Theory of Optimum Currency Areas”
* *The Economist* (2008), “One Size Fits None”
* *The Economist* (2008), “Fear of Floating”
- Nov. 25 – **Currency Boards and Dollarization**
* Class Notes
* Kasa (1999), “Why Attack a Currency Board?”
- Nov. 27 – **Project Presentations**
- Dec. 2 – **Project Presentations**
- Dec. 4 – **Review**
- Dec. 11 – **FINAL EXAM**