

SIMON FRASER UNIVERSITY
Department of Economics

Econ 446 – SEMINAR IN INTERNATIONAL FINANCE
Syllabus – Spring 2018

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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 does China have so many foreign exchange reserves? Why are oil prices and the Canadian dollar so closely linked?, 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 twenty recent articles from *The Economist* magazine, 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 (Monday, February 19)	– 30%
Final exam (Monday, April 16)	– 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, Martin Uribe, and Michael Woodford (SUW). 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.

COURSE OUTLINE AND READINGS

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

I. INTERNATIONAL CAPITAL FLOWS

- Jan. 3 – **Introduction and Overview**
- * Data Plots
 - * Setser (2009), “China, New Financial Superpower”
 - * *The Economist* (2009), “Birth Pains”
 - * *The Economist* (2017), “It’s Been a Privilege”
 - * *The Economist* (2016), “The Mighty Dollar”
- Jan. 8 – **Balance of Payments & the Sustainability of Current Account Imbalances**
- * Schmitt-Grohe, Uribe & Woodford (SUW), Chpts. 1 & 2
 - * *The Economist* (2006), “America’s Dark Material”
 - * *The Economist* (2017), “Lies, Damned Lies and...”
- Jan. 10 – **A Simple 2-Period Model of the Current Account**
- * SUW, Chpt. 3 (pgs. 61-75)
- Jan. 15 – **Applications of the Simple 2-Period Model**
- * SUW, Chpt. 3 (pgs. 75-96), Chpt. 5 (pgs. 133-143)
- Jan. 17 – **Incorporating Production and Investment**
- * SUW, Chpt. 4
- Jan. 22 – **Interest Rates and Global Imbalances**
- * SUW, Chpt. 6
 - * *The Economist* (2017), “The German Problem”
- Problem Set 1 due
- Jan. 24 – **Fiscal Policy and the Current Account**
- * SUW, Chpt. 7
- Jan. 29 – **A Stochastic Infinite Horizon Model**
- * Uribe, Chpt. 2
 - * Class Notes
- Jan. 31 – **The Feldstein-Horioka Puzzle**
- * SUW, Chpt. 8 (pgs. 225-233)

- Feb. 5 – **Portfolio Allocation and the Current Account**
 * Ventura (2002), “Towards a Theory of Current Accounts”
 Problem Set 2 due
- Feb. 7 – **The Allocation Puzzle**
 * Lucas (1990), “Why Doesn’t Capital Flow From Rich to Poor Countries?”
 * Gourinchas & Jeanne (2012), “Capital Flows to Developing Countries: The Allocation Puzzle”
 * Class Notes
 * *The Economist* (2007), “A Topsy-Turvy World”
- Feb. 12-14 **Spring Break (No Class)**
- Feb. 19 **Midterm (Closed Book)**

II. EXCHANGE RATES

- Feb. 21 – **Purchasing Power Parity and the Real Exchange Rate**
 * SUW, Chpt. 9 (pgs. 269-283)
 * *The Economist* (2017), “Meat Reversion”
- Feb. 26 **The Balassa-Samuelson Model of Real Exchange Rates**
 * SUW, Chpt. 9 (pgs. 284-294)
 * Kasa (1995), “Understanding Trends in Foreign Exchange Rates”
- Feb. 28 – **Money and Nominal Exchange Rates**
 * SUW, Chpt. 13 (pgs. 387-398)
- March 5 – **The Monetary Model of Exchange Rates**
 * Class Notes
- March 7 – **Uncovered Interest Parity: The Forward Premium Puzzle**
 * SUW, Chpt. 8 (pgs. 234-266)
 * Class Notes
- March 12 – **First Generation Currency Crisis Models**
 * SUW, Chpt. 13 (pgs. 414-422)
 * Class Notes
- March 14 – **Second Generation Currency Crisis Models**
 * Class Notes
 * *The Economist* (2017), “Hot and Sour”

III. SOME POLICY ISSUES

- March 19 – **Growing Like China**
* Song, Storesletten, and Zilibotti (2011), “Growing Like China”
* Class Notes
Problem Set 3 due
- March 21 – **The Future Role of the Chinese Yuan**
* *The Economist* (2015), “Taking a Pounding”
* *The Economist* (2016), “Fight or Flight”
* *The Economist* (2017), “Tricky Troika”
* *The Economist* (2017), “Biting at the Champs”
- March 26 – **The Open Economy Trilemma**
* Obstfeld & Taylor (2017), “International Monetary Relations: Taking Finance Seriously”
* Class Notes
* *The Economist* (2017), “Two Out of Three Ain’t Bad”
* Mankiw (2010), “The Trilemma of International Finance”
- March 28 – **Project Presentations**
- April 4 – **Project Presentations**
- April 9 – **Review**
- April 16 – **FINAL EXAM**