COURSE OBJECTIVES AND PREREQUISITES

This course surveys a variety of topics in international finance and open-economy macroeconomics, including: the foreign exchange market, exchange rate determination, Purchasing Power Parity, the Mundell-Fleming model of output and exchange rate determination under fixed and flexible exchange rates, speculative attacks and the causes and consequences of international financial crises. The course will also discuss various recent policy debates. We will discuss the theory of Optimum Currency Areas and debate the pros and cons of monetary unions and currency boards. We will also discuss several recent proposals to reform the international financial system.

The only prerequisites for the course are a previous course in microeconomics and a previous course in macroeconomics. Although there are no mathematical prerequisites, much of the material is analytical in nature, and students should feel comfortable manipulating graphs and simple algebraic equations.

COURSE STRUCTURE

Roughly speaking, the course is divided into two main parts. The first half focuses on theory and the second half focuses on policy. The hope is that the theory you learn in the first half will help provide better answers to the policy questions discussed in the second half.

COURSE EVALUATION

<table>
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<tr>
<th>Weight in Grade</th>
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<tr>
<td>Problem Sets</td>
<td>– 20%</td>
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<tr>
<td>Midterm exam</td>
<td>– 40%</td>
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<td>Final exam</td>
<td>– 40%</td>
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The best way to learn international finance is to do it. Therefore, an important part of this course are the section meetings and problem sets. There are two TAs for the course: Horatio Morgan (hmorgan@sfu.ca) and Chengxi Zhang (czhanga@sfu.ca). The problem sets are available as PDF files on the class webpage (at www.sfu.ca/~kkasa/).

COURSE MATERIALS

There is one required book for this course: *International Economics: Theory and Policy*, by Paul Krugman and Maurice Obstfeld (8th Edition, 2009) published by Addison-Wesley. There are also a few journal articles and supplementary notes that will be available for download on the course webpage.

The Krugman-Obstfeld text is available at the campus bookstore and on reserve at the library.
COURSE OUTLINE AND READINGS

I. BACKGROUND
Sept. 3  –  Course Overview/National Income Accounting & the Balance of Payments
            Krugman & Obstfeld, Preface and Chpt. 12

II. EXCHANGE RATES
Sept. 10 –  The Foreign Exchange Market
            Krugman & Obstfeld, Chpt. 13
Sept. 17 –  Money, Interest Rates, and Exchange Rates
            Krugman & Obstfeld, Chpt. 14
Sept. 24 –  Purchasing Power Parity
            Krugman & Obstfeld, Chpt. 15
            Kasa, “Understanding Trends in Foreign Exchange Rates” (class webpage)

III. OPEN ECONOMY MACROECONOMICS: THE MUNDELL-FLEMING MODEL
Oct. 1   –  Monetary and Fiscal Policy with Flexible Exchange Rates
            Krugman & Obstfeld, Chpt. 16 (pgs. 420-447)
            Problem Set 1 due in class
Oct. 8   –  Macroeconomic Policies and the Current Account
            Krugman & Obstfeld, Chpt. 16 (pgs. 447-459)
            Krugman, “Will There Be A Dollar Crisis?” (class webpage)
Oct. 15  –  Midterm Exam (Closed Book)
Oct. 22  –  Monetary and Fiscal Policy with Fixed Exchange Rates
            Krugman & Obstfeld, Chpt. 17

IV. SPECULATIVE ATTACKS AND BALANCE OF PAYMENTS CRISIS
Oct. 29  –  First- vs. Second-Generation Currency Crisis Theories
            Krugman & Obstfeld, Chpt. 17 (pgs. 474-476, 498-500)
            Rogoff, “Institutions for Reducing Global Financial Instability” (class webpage)
            Summers, “International Financial Crises: Causes, Prevention and Cures” (webpage)
V. INTERNATIONAL MACROECONOMIC POLICY

Nov. 5 – Evolution of the International Financial System
Krugman & Obstfeld, Chpt. 18
Problem Set 2 due in class
Mundell, “A Reconsideration of the Twentieth Century” (class webpage)

Nov. 12 – Macroeconomic Policy Coordination
Krugman & Obstfeld, Chpt. 19

Nov. 19 – Optimum Currency Areas and Monetary Unions
Krugman & Obstfeld, Chpt. 20
Krugman & Obstfeld, Chpt. 22 (pgs. 646-648)
Kasa, “Why Attack a Currency Board?” (class webpage)

Nov. 26 – Assessing the Performance of the Global Capital Market
Krugman & Obstfeld, Chpt. 21
Obstfeld, “The Global Capital Market: Benefactor or Menace?” (class webpage)
Kasa, “Time for a Tobin Tax?” (class webpage)
Problem Set 3 due in class

Dec. 12 – FINAL EXAM