

SIMON FRASER UNIVERSITY
Department of Economics

Econ 345 – INTERNATIONAL FINANCE
Syllabus – Fall 2004

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Office Hours: Tue. 3:00 – 4:00
Wed. 2:00 – 3:00
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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

	<u>Weight in Grade</u>
Problem Sets	– 20%
Midterm exam (Monday, October 25)	– 40%
Final exam (Friday, December 10)	– 40%

The best way to learn international finance is to do it. Therefore, an important part of this course are the weekly tutorials and the two problem sets. The TAs are Ivan Tchinkov and Nick Kasi-matis. 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 (6th Edition, 2003) published by Addison-Wesley. There are also a few journal articles and supplementary notes that are 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 AND OVERVIEW

- Sept. 8 – **Introduction and Overview**
Krugman & Obstfeld, Preface
- Sept. 13 – **National Income Accounting and the Balance of Payments**
Krugman & Obstfeld, Chpt. 12

II. EXCHANGE RATES

- Sept. 15 – **The Foreign Exchange Market**
Krugman & Obstfeld, Chpt. 13 (pgs. 324-341)
- Sept. 20 – **Equilibrium in the Foreign Exchange Market**
Krugman & Obstfeld, Chpt. 13 (pgs. 341-356)
- Sept. 22 – **Money and Exchange Rates in the Short-Run**
Krugman & Obstfeld, Chpt. 14 (pgs. 357-372)
- Sept. 27 – **Money and Exchange Rates in the Long-Run: Exchange Rate Overshooting**
Krugman & Obstfeld, Chpt. 14 (pgs. 373-385)
- Sept. 29 – **Purchasing Power Parity**
Krugman & Obstfeld, Chpt. 15 (pgs. 388-411)
- Oct. 4 – **The Real Exchange Rate**
Krugman & Obstfeld, Chpt. 15 (pgs. 411-432)
Kasa, “Understanding Trends in Foreign Exchange Rates” (class webpage)

III. OPEN ECONOMY MACROECONOMICS: THE MUNDELL-FLEMING MODEL

- Oct. 6 – **Output and Exchange Rate Determination in the Short-Run**
Krugman & Obstfeld, Chpt. 16 (pgs. 433-450)
Krugman, “O Canada”, (class webpage)
- Oct. 11 – **No Class (Thanksgiving Holiday)**
- Oct. 13 – **Monetary and Fiscal Policy with Flexible Exchange Rates**
Krugman & Obstfeld, Chpt. 16 (pgs. 450-480)
- Oct. 18 – **Fixed Exchange Rates**
Krugman & Obstfeld, Chpt. 17 (pgs. 481-493)
- Oct. 20 – **Monetary and Fiscal Policy with Fixed Exchange Rates**
Krugman & Obstfeld, Chpt. 17 (pgs. 494-526)

- Oct. 25 – **Midterm Exam (Closed Book)**
Problem Set 1 due in class

IV. SPECULATIVE ATTACKS AND BALANCE OF PAYMENTS CRISES

- Oct. 27 – **First-Generation Models: Macroeconomic Policy Inconsistency**
Krugman & Obstfeld, Chpt. 17 (pgs. 527-530)
- Nov. 1 – **Second-Generation Models: Multiple Equilibria & Self-Fulfilling Beliefs**
Class Notes

V. INTERNATIONAL MACROECONOMIC POLICY

- Nov. 3 – **Evolution of the International Financial System**
Krugman & Obstfeld, Chpt. 18
- Nov. 8 – **More on the Evolution of the International Financial System**
Mundell, “A Reconsideration of the Twentieth Century” (class webpage)
- Nov. 10 – **Macroeconomic Policy Coordination**
Krugman & Obstfeld, Chpt. 19
- Nov. 15 – **Optimum Currency Areas and Monetary Unions**
Krugman & Obstfeld, Chpt. 20
- Nov. 17 – **Currency Boards and Dollarization**
Krugman & Obstfeld, Chpt. 22 (pgs. 695-696)
Kasa, “Why Attack a Currency Board?” (class webpage)
- Nov. 22 – **The Gains From International Capital Mobility**
Krugman & Obstfeld, Chpt. 21 (pgs. 636-654)
- Nov. 24 – **Assessing the Performance of the Global Capital Market**
Krugman & Obstfeld, Chpt. 21 (pgs. 655-663)
Obstfeld, “The Global Capital Market: Benefactor or Menace?” (class webpage)
Kasa, “Time for a Tobin Tax?” (class webpage)
- Nov. 29 – **Developing Countries and Emerging Markets**
Krugman & Obstfeld, Chpt. 22 (pgs. 665-695)
- Dec. 1 – **The Globalization Debate**
Krugman & Obstfeld, Chpt. 22 (pgs. 697-703)
- Dec. 6 – **Review**
Problem Set 2 due in class
- Dec. 10 – **FINAL EXAM**