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>
<thead>
<tr>
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<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 (Wednesday, February 22)</td>
<td>40%</td>
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<tr>
<td>Final exam (Thursday, April 20)</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 weekly tutorials and the two problem sets. The TAs will be announced the first day of class. 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 (7th Edition, 2006) 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

Jan. 9 – Introduction and Overview
Krugman & Obstfeld, Preface

Jan. 11 – National Income Accounting and the Balance of Payments
Krugman & Obstfeld, Chpt. 12

II. EXCHANGE RATES

Jan. 16 – The Foreign Exchange Market
Krugman & Obstfeld, Chpt. 13 (pgs. 306-323)

Jan. 18 – Equilibrium in the Foreign Exchange Market
Krugman & Obstfeld, Chpt. 13 (pgs. 323-337)

Jan. 23 – Money and Exchange Rates in the Short-Run
Krugman & Obstfeld, Chpt. 14 (pgs. 338-353)

Jan. 25 – Money and Exchange Rates in the Long-Run: Exchange Rate Overshooting
Krugman & Obstfeld, Chpt. 14 (pgs. 353-366)

Jan. 30 – Purchasing Power Parity
Krugman & Obstfeld, Chpt. 15 (pgs. 369-388)

Feb. 1 – The Real Exchange Rate
Krugman & Obstfeld, Chpt. 15 (pgs. 389-406)
Kasa, “Understanding Trends in Foreign Exchange Rates” (class webpage)

III. OPEN ECONOMY MACROECONOMICS: THE MUNDELL-FLEMING MODEL

Feb. 6 – Output and Exchange Rate Determination in the Short-Run
Krugman & Obstfeld, Chpt. 16 (pgs. 407-423)
Krugman, “O Canada”, (class webpage)

Feb. 8 – Monetary and Fiscal Policy with Flexible Exchange Rates
Krugman & Obstfeld, Chpt. 16 (pgs. 424-433)

Feb. 13 – Macroeconomic Policies and the Current Account
Krugman & Obstfeld, Chpt. 16 (pgs. 433-446)

Feb. 15 – Fixed Exchange Rates
Krugman & Obstfeld, Chpt. 17 (pgs. 447-456)

Feb. 20 – No Class (Reading Break)
Feb. 22 – Midterm Exam (Closed Book)
Problem Set 1 due in class

Feb. 27 – Monetary and Fiscal Policy with Fixed Exchange Rates
Krugman & Obstfeld, Chpt. 17 (pgs. 456-481)

IV. SPECULATIVE ATTACKS AND BALANCE OF PAYMENTS CRISES

March 1 – First-Generation Models: Macroeconomic Policy Inconsistency
Krugman & Obstfeld, Chpt. 17 (pgs. 482-484)

March 6 – Second-Generation Models: Multiple Equilibria & Self-Fulfilling Beliefs
Class Notes

V. INTERNATIONAL MACROECONOMIC POLICY

March 8 – Evolution of the International Financial System
Krugman & Obstfeld, Chpt. 18

March 13 – More on the Evolution of the International Financial System
Mundell, “A Reconsideration of the Twentieth Century” (class webpage)

March 15 – Macroeconomic Policy Coordination
Krugman & Obstfeld, Chpt. 19

March 20 – Optimum Currency Areas and Monetary Unions
Krugman & Obstfeld, Chpt. 20

March 22 – Currency Boards and Dollarization
Krugman & Obstfeld, Chpt. 22 (pgs. 625-627)
Kasa, “Why Attack a Currency Board?” (class webpage)

March 27 – The Gains From International Capital Mobility
Krugman & Obstfeld, Chpt. 21 (pgs. 576-591)

March 29 – Assessing the Performance of the Global Capital Market
Krugman & Obstfeld, Chpt. 21 (pgs. 591-599)
Obstfeld, “The Global Capital Market: Benefactor or Menace?” (class webpage)
Kasa, “Time for a Tobin Tax?” (class webpage)

April 3 – The Globalization Debate
Krugman & Obstfeld, Chpt. 22 (pgs. 627-636)

April 5 – Review
Problem Set 2 due in class

April 20 – FINAL EXAM