SIMON FRASER UNIVERSITY Department of Economics

Econ 345 – INTERNATIONAL FINANCE Syllabus – Spring 2006

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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

	Weig	ght in Grade
Problem Sets	_	20%
Midterm exam (Wednesday, February 22)	_	40%
Final exam (Thursday, April 20)	_	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 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	_	Midter	rm Exa	am (C	losed Bo	ok)			
		Problem	n Set 1	due in	class				
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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