

SIMON FRASER UNIVERSITY
Department of Economics

Econ 446 – SEMINAR IN INTERNATIONAL FINANCE
Syllabus – Spring 2002

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COURSE OBJECTIVES AND PREREQUISITES

During the past decade two topics have dominated the field of International Finance: (1) Currency Crises, and (2) Monetary Unions. This course provides a broad overview of these two important topics.

The only essential prerequisites are intermediate micro and macro (Econ 301 and 305). Econ 345 is not really required, but it could make your life easier at times. Knowing basic calculus could also make your life a lot easier. The most important prerequisite, however, is having the interest and ability to analyze economic models.

COURSE STRUCTURE

The course will be divided into two parts. The first half of the course will focus on Currency Crises, starting first with an analysis of various theories of speculative attacks, and then moving on to a discussion of policy. The second half of the course will focus on Monetary Unions, again starting with theory, and then moving on to policy.

The format of the course will be a mixture of traditional lecture material and classroom discussion. Participation in the class discussion is required!

COURSE EVALUATION

	<u>Weight in Grade</u>
Midterm Exam	– 35%
Term Paper (due last day of class)	– 30%
Final exam (Monday, April 15)	– 35%

Students are responsible for developing their own topics for the term paper. The papers should be between 15 and 20 pages, and *must* be typed.

COURSE MATERIALS

There is no textbook for this course. Instead, the required readings consist of a collection of journal articles and working papers. Most of them have been assembled into a course reader, which is available through *Custom CourseWare* at the bookstore. The remaining articles will be distributed in class as we go along.

I also recommend that you keep up with current events by regularly reading the economics section of *The Economist* weekly news magazine.

COURSE OUTLINE AND READINGS

Readings labeled with an **(R)** are in the Course Reader. Readings labeled with a **(C)** will be distributed in class. Readings marked with a **(*)** are optional, and are either on the web or on reserve at the library.

I. INTRODUCTION (2 lectures)

- Week 1 – **Historical Overview**
R Mundell (2000), “A Reconsideration of the Twentieth Century”
R Obstfeld (1998), “The Global Capital Market: Benefactor or Menace?”

II. CURRENCY CRISES (15 lectures)

- Weeks 2-3 – **First-Generation Models/Macroeconomic Fundamentals**
C Krugman (1997), “Bahtulism: Who Poisoned Asia’s Currency Markets?”
R Krugman (1979), “A Model of Balance of Payments Crises”
C Flood and Garber (1984), “Collapsing Exchange Rate Regimes: Some Linear Examples”, *Journal of International Economics*
* Burnside, Eichenbaum, and Rebelo (2001), “Prospective Deficits and the Asian Currency Crisis”, *Journal of Political Economy* (link: JSTOR)
* Blanco and Garber (1986), “Recurrent Devaluation and Speculative Attacks on the Mexican Peso”, *Journal of Political Economy* (link: JSTOR)
- Weeks 4-5 – **Second-Generation Models/Multiple Equilibria**
R Obstfeld (1996), “Models of Currency Crises with Self-Fulfilling Features”
R Krugman (1996), “Are Currency Crises Self-Fulfilling?”
* Morris and Shin (1998), “Unique Equilibrium in a Model of Self-Fulfilling Currency Attacks”, *American Economic Review* (link: JSTOR)
* Jeanne (1997), “Are Currency Crises Self-Fulfilling? A Test”
Journal of International Economics
- Weeks 6-7 – **Third-Generation Models/Financial Fragility**
C Chang and Velasco (2001), “Fostering Financial Stability: A New Case for Flexible Exchange Rates”
C Krugman (1999), “Analytical Afterthoughts on the Asian Crisis”
C Krugman (2000), “Balance Sheets, the Transfer Problem, and Financial Crises”
* Chang and Velasco (1999), “Liquidity Crises in Emerging Markets: Theory and Policy” *NBER Macro Annual*
- Week 8 – **Policy Implications**
R Rogoff (1999), “Institutions for Reducing Global Financial Instability”
R Summers (2000), “International Financial Crises: Causes, Prevention, and Cures”
R Obstfeld and Rogoff (1995), “The Mirage of Fixed Exchange Rates”
C Barro (1998), “The IMF Doesn’t Put Out Fires, It Starts Them”

Midterm Exam (in class)

III. MONETARY UNIONS (7 lectures)

- Weeks 9-11 – **Optimal Currency Areas: Theory and Evidence**
R Friedman (1953), “The Case for Flexible Exchange Rates”
R Mundell (1961), “A Theory of Optimum Currency Areas”
C Levin (2002), “The Economic Benefits and Costs of the Euro”
R Frankel and Rose (1998), “The Endogeneity of Optimum Currency Area Criteria”
R Rose and Engel (2000), “Currency Unions and International Integration”
C Barro and Alesina (2001), “Currency Unions”
R Rogoff (2001), “On Why Not a Global Currency”
R Alesina (2001), “Dollarization”
* Rose (2000), “One Market One Money”, *Economic Policy*
- Weeks 12-13 – **Policy Implications**
R Mundell and Friedman (2001), “One World, One Money?”
C Barro (2000), “The Dollar Club: Why Countries Are So Keen To Join”
R Courchene and Harris (1999), “From Fixing to Monetary Union: Options for
 North American Currency Integration”
C Levin (2002), “Special Problems of the Euro Area”
- April 15 – **FINAL EXAM**