

SIMON FRASER UNIVERSITY
Department of Economics

Econ 345 – INTERNATIONAL FINANCE
Syllabus – Fall 2008

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Office Hours: Mon. 1:30 – 2:30
Wed. 4:30 – 5:30
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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 (Wednesday, October 15)	– 40%
Final exam (Friday, December 12)	– 40%

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 CRISES

- 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**