

SIMON FRASER UNIVERSITY
Department of Economics

Econ 345 – INTERNATIONAL FINANCE
Syllabus – Fall 2010

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Office Hours: Wed. 2:00 – 3:00
Fri. 2:30 – 3:30
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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 role of global imbalances in the recent financial crisis, and 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 (Friday, October 22)	– 40%
Final exam (Wednesday, December 8)	– 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: Steve Fagan (sfagan@sfu.ca) and Zoey Chen (xca32@sfu.ca). The problem sets are available as PDF files on the class webpage. (Note: There are no tutorials during the first week).

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. Recently, this book has been made available in two parts - the first part covers international trade theory, and the second part covers international finance. Since we won't be covering trade theory, a cheaper alternative is to just purchase the second half, which has been made available through custom courseware, and can be purchased at the bookstore.

There are also a few journal articles and supplementary notes that will be available for download on the course webpage.

COURSE OUTLINE AND READINGS

I. BACKGROUND

- Sept. 10 – **Course Overview/National Income Accounting & the Balance of Payments**
Krugman & Obstfeld, Preface and Chpt. 12
Mankiw, “The Trilemma of International Finance” (class webpage)
“Birth Pains” (class webpage)
“China, New Financial Superpower” (class webpage)
Reich, “Who Is Us?” (class webpage)

II. EXCHANGE RATES

- Sept. 17 – **The Foreign Exchange Market**
Krugman & Obstfeld, Chpt. 13
- Sept. 25 – **Money, Interest Rates, and Exchange Rates**
Krugman & Obstfeld, Chpt. 14
- Oct. 1 – **Purchasing Power Parity**
Krugman & Obstfeld, Chpt. 15
“Burger-Thy-Neighbour Policies” (class webpage)
Kasa, “Understanding Trends in Foreign Exchange Rates” (class webpage)

III. OPEN ECONOMY MACROECONOMICS: THE MUNDELL-FLEMING MODEL

- Oct. 8 – **Monetary and Fiscal Policy with Flexible Exchange Rates**
Krugman & Obstfeld, Chpt. 16 (pgs. 138-165 in custom courseware version)
Problem Set 1 due in class
- Oct. 15 – **Macroeconomic Policies and the Current Account**
Krugman & Obstfeld, Chpt. 16 (pgs. 165-177 in custom courseware version)
- Oct. 22 – **Midterm Exam (Closed Book)**
- Oct. 29 – **Monetary and Fiscal Policy with Fixed Exchange Rates**
Krugman & Obstfeld, Chpt. 17

IV. SPECULATIVE ATTACKS AND BALANCE OF PAYMENTS CRISES

- Nov. 5 – **First- vs. Second-Generation Currency Crisis Theories**
Krugman & Obstfeld, Chpt. 17 (pgs. 194-196, 218-220)
Rogoff, “Institutions for Reducing Global Financial Instability” (class webpage)
Summers, “International Financial Crises: Causes, Prevention and Cures”(webpage)

V. INTERNATIONAL MACROECONOMIC POLICY

- Nov. 12 – **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. 19 – **Macroeconomic Policy Coordination**
Krugman & Obstfeld, Chpt. 19
- Nov. 26 – **Assessing the Performance of the Global Capital Market**
Krugman & Obstfeld, Chpt. 21
Krugman, “Taking on China” (class webpage)
Obstfeld & Rogoff (2009), “Global Imbalances and the Financial
Crisis: Products of Common Causes” (class webpage)
Bernanke (2009), “Asia and the Global Financial Crisis” (class webpage)
“Paper Chains” (class webpage)
“Invested Interests” (class webpage)
Problem Set 3 due in class
- Dec. 3 – **Review/Buffer**
- Dec. 8 – **FINAL EXAM**