

International Finance

Professor J. Konings
Fall 2016

Schedule :

Monday : 1:30 – 2:45

Wednesday: 1:30 – 2:45

TA : Dinara Alpysbayeva

Syllabus

Objective:

This course aims to get students acquainted with current analytical tools and topics in international finance/monetary economics. We will use a step by step approach to develop a standard macroeconomic model of international finance. This model offers you a powerful framework that will allow you to understand and explain many economic and policy oriented issues of the financial world today.

The subject matter of this course is extremely topical. The last few decades have seen dramatic events in the international financial system: The global financial crisis that emerged in 2008 and spread throughout the world, the sovereign debt crisis affecting many European countries, such as Portugal, Ireland, Spain, Greece and Italy. The Euro crisis that emerged from it. The currency war between China and the U.S., the continued enlargement of the EU with the Central and East European countries. The exchange rate crisis that emerged in Russia. How can we make sense of all these events? The model we will develop will help us explain and interpret all of this.

The material we go through in class should allow you to master the basic tools of international monetary economics. At the end of the course you should be able to comment on how economic events affect exchange rates, prices and the macro economic performance of countries. To this end, we will go through a number of readings (special topics) and try to make sense of those in the context of the model we develop.

Prerequisites:

To start this course you must have successfully completed intermediate macroeconomics and introductory mathematics for economists.

Required Texts:

1) *International Economics: Theory and Policy* by Krugman, Obstfeld, Melitz (2000), (ed. 10), Pearson Publishers.

2) *Handouts, Transparencies and Problem sets*

There will be a number of handouts summarizing some chapters made available to you. In addition, you will be able to download all the transparencies I am using in class as well as the problem sets that you will have to deal with.

I will be using the interface of “*MoogLe*” to communicate with you. This interface allows you to download material, to exchange messages, to get access to exciting and challenging problems, and so on.

3) *Current financial press such as The Wall Street Journal and The Economist.*

Reading the financial press regularly will help you to apply the tools learned in class into practice. While reading the financial press it is useful to try to interpret and explain the news in the context of the models that we discuss in this course and to make an assessment of what you expect will happen with interest rates, inflation, etc.. I will make a number of readings available in due course and announce those via *MoogLe*.

Office Hours

My office hours are on Wednesdays between 3 pm and 5 pm and I am located in the GSB 6040 (phone:4724).

Course Format

Here are 7 hints to success !

1) Have enough sleep and wake up with a smile.

2) Come to class regularly and be prepared. By that I mean to review the material from the last lecture, which will make your time in class more enjoyable and will limit your study time afterwards. It is important to know that I will approach the material in class in a more accessible and different way than the corresponding chapters in Krugman, Obstfeld, Melitz. This allows you to look at the same material from different perspectives.

3) Read the text in Krugman, Obstfeld, Melitz that corresponds to the material that we cover in class. We will cover the material at a high pace. The textbook will prove to

be a very useful way both to read before the lecture as a way to prepare yourself and after the lecture to go over the material once more.

4) The handouts are summaries of the most important elements discussed in class. If you prefer to make your own that is fine too. You want to go through these handouts after each class and verify that you understand everything.

5) Do the problem sets in a timely and systematic fashion. Make them before you look at the answers. Working in little teams is helpful, which stimulates thinking and problem solving strategies.

6) Read the financial press. This is important for you to see that what we do in class goes beyond mere theory and abstract modelling. One of the purposes of this course is to give you a framework that will allow you to understand recent events in the international finance world. It will also help you form your own opinion about what you read !

7) Participate actively in class. This makes both my life and your life easier and more exciting.

Exams:

The final grade for this course will be determined by your performance on two midterm exams and a cumulative final exam. Each of the two midterm exams accounts for 25% of your grades. The final exam counts for the other 50 % of your grade.

- 1) Midterm exam I (25% of final grade)
- 2) Midterm exam II (25% of final grade)
- 3) Final exam (50% of final grade) during the exam slot administered by the college.

Syllabus

COURSE OUTLINE

I A model of the Foreign-Exchange Market

Number of classes 3
Text: chapter 14 + appendix

II Adding the Money Market to the Model

Number of classes 3
Text: chapter 15

III. Additional topics on the Money market and Foreign-Exchange Market

Number of classes 3
Text: chapter 16

IV. Adding the Output Market to the Model

Number of classes: 5
Text: chapters 13, 17 + appendix

V. Recasting the Model for Fixed Exchange Rates

Number of classes 4
Text: chapter 18 + appendices

VI. Fixed versus Flexible Exchange Rates

Number of classes 4
Text: chapters 19-21 + various readings

VII. Current topics about the international Financial System

Number of classes 5
Text: chapter 22 + various readings

Note: As this is just an outline we may deviate from this depending on student involvement and interest, which may affect the exact pace and coverage.