Course Description:

The global integration of economic interaction has proceeded at perhaps a surprisingly rapid pace in recent decades. Not only have barriers to international trade been reduced (through agreements such as NAFTA), but also, the extent of international flows of money, bonds, and equity has grown substantially. This integration creates connections among countries in the occurrence of business cycles, as well as in the behavior of interest rates and decisions regarding investment.

We will study the motivations behind this increased globalization of international markets in order to understand current-account behavior, exchange-rate movements, and government-policy effectiveness. In addition, we will compare different exchange-rate systems, both historically and at present, and will explore the particular conditions that influence borrowing by developing countries.

Course Materials:


Additional Sources: Listed below and as announced. Articles and Supplemental Notes will be available on reserve at Norlin Library.

Course Requirements:

There will be two exams during the semester and a final exam. In addition, problem sets and other homework projects will be assigned throughout the term. Assignments are due at the beginning of class on the due date. Late assignments will not be accepted. Problem sets will be designed to reinforce the essential theoretical concepts developed in class, while the project will encourage a study of current world events in international financial markets. The latter will be discussed in further detail in class.

Exam dates will be announced in advance.

Grading:  
- Problem sets: 10%
- Homework Project: 10%
- 2 Midterm Exams: 25% each
- Final: 30%

Given the unusual meeting time of this course, there may be some flexibility in setting the Final Exam date and time. The default will be to treat this as an evening class which would set the exam for Monday, May 13 from 11:30am - 2:30pm.

Office Hours:

I will be available on Mondays and Wednesdays from 1:30pm-2:30pm and immediately following class.
Course Outline and Reading List

I. The Role of International Financial Markets

KO Ch. 22, pp. 634-642
*The Economist*, October 7, 1995, pp. 15-16 and Survey pp. 3-5

A. Current-Account Determination: Trade over Time (or, Intertemporal trade under certainty)

KO Ch. 13
Torsten Persson, Parts One and Two, unpublished lecture notes
KO Ch. 7 pp. 155-158 and Appendix to Ch. 7

B. International Risk Diversification (or, asset trade with uncertainty)

Supplemental Notes
KO Ch. 22 pp. 634-639

II. The Market for Foreign Exchange

A. Basic Concepts and Empirical Observations

KO Ch. 14, pp. 332-344

B. Exchange Rate Determination in Equilibrium

KO Ch. 16

C. The Foreign Exchange Market: An Asset Approach

KO Ch. 14 and Appendix

III. Short-Run Macroeconomic Policy and Exchange Rate Behavior

KO Ch. 15, 17
IV. Alternative Exchange Rate Systems

KO Ch. 18

A. The International Monetary System: A Historical Perspective

KO Ch. 19

B. The European Monetary System

KO Ch. 21

V. Global Capital Markets

KO Ch. 22
The Economist, October 7, 1995, pp15-16 and Survey pp. 3-38

VI. The "Debt Crisis" in Developing Countries

KO Ch.23