Course Description

This course reviews selected topics from both international finance and open-economy macroeconomics. From international finance, we will discuss international financial markets and their operations. From open-economy macroeconomics, we will discuss macroeconomic policies and their implications. Obviously, most of our time will be devoted to further our understanding of “exchange rates.”

Here are some stylized facts:

1. Real and nominal exchange rates are highly correlated.
2. Changes in both real and nominal exchange rates are persistent.
3. Forward exchange rates are poor and biased predictors of future spot exchange rates.
4. International differences in interest rates are large and persistent.
5. Portfolios are not internationally diversified.
6. The extent of international consumption risk-sharing is less than expected.
7. Savings and investment are highly correlated.
8. The trade balance and the current account are countercyclical.
9. Business cycles are correlated across countries.
Evaluation

The assessment for this class consists of three assignments, two tests, and one final examination. The tests and final are closed notes and closed books. No make-up tests will be given. The schedule and grade distribution is

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<td>7</td>
<td>21 February</td>
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<td>7</td>
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<td>29 April</td>
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<td>4 May</td>
<td>13:30–16:00</td>
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Note: Students who may need academic accommodations should discuss options with the professor no later than 21 January.

Required Text


Advanced Texts


Course Outline

Part 1: Introduction to International Finance

1. Introduction
   Feenstra and Taylor: Chapter 1.

Part 2: Exchange Rates

2. The Foreign Exchange Market
   Feenstra and Taylor: Chapter 2 and Chapter 11.2.

3. The Monetary Approach in the Long Run
   Feenstra and Taylor: Chapter 3 and Chapter 11.1.

4. The Asset Approach in the Short Run
   Feenstra and Taylor: Chapter 4.

Part 3: The Balance of Payments

5. Income, Wealth, and the Balance of Payments
   Feenstra and Taylor: Chapter 5.

7. Output, Exchange Rates, and Macroeconomic Policies in the Short Run
   Feenstra and Taylor: Chapter 7.

6. The Gains from Financial Globalization
   Feenstra and Taylor: Chapter 6.

Part 4: Policy Issues

8. Fixed versus Floating
   Feenstra and Taylor: Chapter 8.

9. Exchange Rate Crises
   Feenstra and Taylor: Chapter 9.