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.

Web Page

The course has a web page. The URL is

http://www.colorado.edu/Economics/courses/boileau/4423/econ4423.html

The page will be the main vehicle for disseminating information about the course.
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

<table>
<thead>
<tr>
<th>Week</th>
<th>Date</th>
<th>Time</th>
<th>Location</th>
<th>%</th>
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</thead>
<tbody>
<tr>
<td>Assignment 1</td>
<td>5</td>
<td>11 February</td>
<td>12:00</td>
<td>ECON 117</td>
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<tr>
<td>Term Test 1</td>
<td>6</td>
<td>20 February</td>
<td>12:00</td>
<td>ECON 117</td>
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<tr>
<td>Assignment 2</td>
<td>10</td>
<td>18 March</td>
<td>12:00</td>
<td>ECON 117</td>
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<tr>
<td>Term Test 2</td>
<td>12</td>
<td>3 April</td>
<td>12:00</td>
<td>ECON 117</td>
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<tr>
<td>Assignment 3</td>
<td>16</td>
<td>29 April</td>
<td>12:00</td>
<td>ECON 117</td>
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<tr>
<td>Final Exam</td>
<td>Finals</td>
<td>4 May</td>
<td>4:30–7:00 pm</td>
<td>ECON 117</td>
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Note: Students who may need academic accommodations should discuss options with the professor no later than 23 January.

Required Text


Advanced Texts


Course Outline

1. Introduction
1.1 International Finance
1.2 Exchange rates

2. The Balance of Payments
2.1 National Income Accounting
2.2 The Balance of Payments
Krugman and Obstfeld: Chapter 12.

3. The Foreign Exchange Market
3.1 The Foreign Exchange Market
3.2 Interest Rate Parity
Krugman and Obstfeld: Chapter 13.


4. The Money Market
4.1 The Demand for Money
4.2 The Money Market
Krugman and Obstfeld: Chapter 14.


5. The Exchange Rate in the Long Run

5.1 Purchasing Power Parity
5.2 The Real Exchange Rate

Krugman and Obstfeld: Chapter 15.

6. The Exchange Rate in the Short Run

6.1 The Aggregate Output Market
6.2 Macroeconomic Policy

Krugman and Obstfeld: Chapter 16.

7. Exchange Rate Regimes

7.1 Fixed Exchange Rates
7.2 Balance of Payments Crisis

Krugman and Obstfeld: Chapter 17.
8. The International Monetary System

8.1 The Gold Standard
8.2 The Bretton Woods System
Krugman and Obstfeld: Chapter 18.

9. Macroeconomic Policy and Coordination

9.1 The Case for and Against Floating Exchange Rates
9.2 Macroeconomic Policy Coordination
Krugman and Obstfeld: Chapter 19.


10. Optimum Currency Areas

10.1 The Theory of Optimum Currency Areas
10.2 The European Monetary Union
Krugman and Obstfeld: Chapter 20.


11. The International Capital Market

11.1 Risk Sharing and Diversification
11.2 International Banking
Krugman and Obstfeld: Chapter 21.


12. Developing Countries

12.1 Wealth and Growth

Krugman and Obstfeld: Chapter 22.


12.2 Income Distribution