

Economics 4423 – International Finance-Fall 2014  
TR 9:30-10:45 – HUMN 1B90

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Hours: Monday 3:00-5:00

Thursday 2:00-3:30

**Course administration and evaluation.** Most of your reading for this course will come from our textbook, *International Macroeconomics*, by Feenstra and Taylor (Worth, 2014 – third edition). This is an excellent text by two highly regarded international economists. These authors lucidly present an analytical framework for understanding international finance and open economy macroeconomics, and apply these models to interesting, important, and recent events in international macroeconomics. My goals in the lectures will be to work through similar analytical models and then to give further applications of these principles. I am particularly interested in understanding international financial crises, which seem to be hitting us with ever greater frequency and intensity.

In some cases the text readings will be supplemented by short articles on current issues in international finance that will be posted on the D2L site for this course. In some cases these postings will reflect current international events that we can analyze with course models and concepts during class discussion.

Your grade will be based on two midterm examinations and a mandatory final, each counting towards 25% of the final grade, two problem sets each counting towards 7.5% of your grade, and two very short analytical essays for the remaining 10%. The schedule of these assignments and exams is presented in the course outline below. Problem sets or essays submitted late, but within 24 hours of the due date will be penalized 20%. No problem sets or essays later than this will be accepted.

No make-up exams will be given for any reason. However, an optional portion of the final exam will be offered for anyone wishing to make up for a missed exam or for an unsatisfactory performance on a midterm exam. The optional and mandatory finals will both be given during the 2½ hour regularly scheduled final exam period. The mandatory part will be similar in length to the midterms. It will emphasize the material from the last third of the course, but certainly these topics will build upon earlier material. The optional final will be designed to require 1½ hours to complete, and it will cover material from the two midterm exams. If your score on the optional portion of the final is higher than your lowest midterm score, then this higher score will replace the lower one.

The two short papers will be analytical briefs, one page (single spaced) in length. I will describe the topics in detail closer to the dates these papers are due. You might be asked, for example, to analyze the causes of the Asian financial crisis of 1997-98, using concepts such as the current account, the curse of “Original Sin”, and the “Unholy Trinity of International Finance.” Your essay should combine concepts and models from the course with empirical data appropriate to the assigned topic.

The prerequisite for this course is Econ 3080 (Intermediate Macroeconomics). If you do not meet the prerequisite, but you are convinced that you are well prepared for the course based on other similar classes, please discuss this with me before deciding whether to stay in or to drop the class.

According to College rules incomplete grades (IF) can be given only under the following three conditions: (i) the student must initiate the request for an IF; (ii) an IF can be given only if the student cannot complete the course for reasons beyond his or her control (such as a medical emergency); and (iii) the student and the instructor must complete and sign an agreement stipulating the reasons for the incomplete and the conditions for completing the course.

Additional administrative issues governing disability needs, religious observances, honor code, etc. can be found in the final section of this syllabus covering students' rights and responsibilities in CU courses.

## **Course Topics**

With that out of the way, we can move on to more interesting matters of course content. International macroeconomics a fascinating, but challenging, field with important implications for both national economies and the world economy as a whole. The recent global economic crisis certainly makes this a timely topic, and you will see that turmoil in international financial markets has occurred again and again. Why do nations and the community of nations have such difficulty managing our international financial affairs? What causes these recurring crises? Can we design institutions or propose policies that could lessen the chance of future crises?

Before addressing these questions it is necessary to develop an analytical framework for understanding international financial relations and the macroeconomics of financially open economies. In the curriculum of this Department we distinguish between international trade in goods and services (the subject of 4413) and the exchange of financial assets across national boundaries, which is the focus of this course. Obviously these two topics are closely related: trade of a good generally requires financing of that transaction, and we will see explicitly that an imbalance in goods and services trade must be offset by an equal value of trade in financial assets. This connection is developed explicitly in the Balance of Payments accounts. Here we see, for example, that the United States runs a huge deficit in its trade in goods and services, which must be financed by the accumulation of debt to the rest of the world. What are the implications of these trade deficits for our long run solvency, for the future value of the dollar on foreign exchange markets, and on the role of the dollar as an international reserve currency? Why are countries, like China, willing to continue to loan hundreds of billions of dollars to the US, and will they continue to do so?

The international flow of financial assets, such as U.S. Treasury securities, and the trade in goods and services have impacts on the macroeconomics of the countries involved in these flows. This leads to a reexamination of macroeconomic principles from an open economy perspective. We must learn the fundamental linkages between exchange rates, national price levels (or rates of inflation), and interest rates. These three key variables are instrumental in transmitting macroeconomic shocks from one country to another. Consequently a country's exchange rate policy interacts with fiscal and monetary policies to influence output, prices and interest rates in both the short run and the long run. This naturally has implications for a country's choice between fixed and flexible exchange rates, and helps to understand the alternative exchange rate systems

that have been in place over the past 100 years: the gold standard, the Bretton Woods system, and the current mixed system. Our current mixture of exchange rate arrangements includes common currency areas, such as the euro area, to which Feenstra and Taylor have devoted an entire chapter. These are some of the issues and topics that will emerge from our study of international macroeconomics.

**Schedule, readings and assignments.** (Chapters refer to our text by Feenstra and Taylor. Other readings are on D2L)

Dates	Topic	Readings	assignments
Weeks 1 & 2 (8/25 – 9/5)	Introduction; exchange rates & interest rates: interest parity	Chapters 1&2 1_Current Account Imbalances	
Week 3 (9/8 – 9/13)	The long run monetary model; PPP; money demand & supply	Chapter 3 2_Hyperinflation in Brazil	
Weeks 4, 5 (9/15 – 9/26)	The asset model: interest, exchange Rates in the short run.	Chapter 4	Problem set 1 Due 9/23
Weeks 6 & 7 (9/29 – 10/10)	National income & BOP accounts; International debt, saving, investment, & wealth. Financial globalization	Chapters 5 & 6 (section 1) 3_Why the Dollar Endures	Exam 1 (10/2) Ch 1 - 5
Weeks 8 - 10 (10/13 – 10/31)	Macro policies: IS-LM-FX model of Output, exchange rates, interest. J-curve & Marshall Lerner conditions	Chapter 7 4_Latvian austerity success	Essay 1 due 10/14 Problem set 2 Due 10/23.
Weeks 11-12 (11/3-11/14)	Alternative exchange rate regimes; Gold standard; Bretton Woods.	Chapter 8 5_Bretton Woods 2 & Beyond	Exam 2 (11/4) Ch 6 - 8
Week 13 (11/17 – 11/21)	Exchange rate pegs & crises	Chapter 9 6_Ghana's currency crisis	Essay 2 due 11/20
Weeks 14-15 (12/1 – 12/12)	Currency unions; the euro system. Debt, default, and intn'l financial crises	Chapters 10 & 11 (sections 3-4) 7_800 Years of Financial Folly	
Final exam. Monday, December 15 1:30-4:00 p.m.			

## Addendum: Course Policies

### **(1) Accommodations for Disabilities:**

If you qualify for accommodations because of a disability, please submit to your professor a letter from Disability Services in a timely manner (for exam accommodations provide your letter at least one week prior to the exam) so that your needs can be addressed. Disability Services determines accommodations based on documented disabilities. Contact Disability Services at 303-492-8671 or by e-mail at [dsinfo@colorado.edu](mailto:dsinfo@colorado.edu). If you have a temporary medical condition or injury, see Temporary Medical Conditions: Injuries, Surgeries, and Illnesses guidelines under Quick Links at Disability Services website and discuss your needs with your professor.

### (2) Policy for religious observances

**Campus policy regarding religious observances requires that faculty make every effort to deal reasonably and fairly with all students who, because of religious obligations, have conflicts with scheduled exams, assignments or required attendance. In this class, I will attempt to accommodate individual needs for religious observances, as long as each student discusses with me in advance their individual needs.** See full details of CU's policies towards religious observances at [http://www.colorado.edu/policies/fac\\_relig.html](http://www.colorado.edu/policies/fac_relig.html)

A comprehensive calendar of the religious holidays most commonly observed by CU-Boulder students is at <http://www.interfaithcalendar.org/>

### (3) **Classroom Behavior** policy

**Students and faculty each have responsibility for maintaining an appropriate learning environment. Those who fail to adhere to such behavioral standards may be subject to discipline. Professional courtesy and sensitivity are especially important with respect to individuals and topics dealing with differences of race, color, culture, religion, creed, politics, veteran's status, sexual orientation, gender, gender identity and gender expression, age, disability, and nationalities. Class rosters are provided to the instructor with the student's legal name. I will gladly honor your request to address you by an alternate name or gender pronoun. Please advise me of this preference early in the semester so that I may make appropriate changes to my records.** See policies at <http://www.colorado.edu/policies/classbehavior.html> and at [http://www.colorado.edu/studentaffairs/judicialaffairs/code.html#student\\_code](http://www.colorado.edu/studentaffairs/judicialaffairs/code.html#student_code)

(4) Policies towards Discrimination and Harassment:

**The University of Colorado Boulder (CU-Boulder) is committed to maintaining a positive learning, working, and living environment. The University of Colorado does not discriminate on the basis of race, color, national origin, sex, age, disability, creed, religion, sexual orientation, or veteran status in admission and access to, and treatment and employment in, its educational programs and activities. (Regent Law, Article 10, amended 11/8/2001). CU-Boulder will not tolerate acts of discrimination or harassment based upon Protected Classes or related retaliation against or by any employee or student. For purposes of this CU-Boulder policy, "Protected Classes" refers to race, color, national origin, sex, pregnancy, age, disability, creed, religion, sexual orientation, gender identity, gender expression, or veteran status. Individuals who believe they have been discriminated against should contact the Office of Discrimination and Harassment (ODH) at 303-492-2127 or the Office of Student Conduct (OSC) at 303-492-5550. Information about the ODH, the above referenced policies, and the campus resources available to assist individuals regarding discrimination or harassment can be obtained at <http://hr.colorado.edu/dh/>**

(5) CU Honor Code:

**All students of the University of Colorado at Boulder are responsible for knowing and adhering to the academic integrity policy of this institution. Violations of this policy may include: cheating, plagiarism, aid of academic dishonesty, fabrication, lying, bribery, and threatening behavior. All incidents of academic misconduct shall be reported to the Honor Code Council ([honor@colorado.edu](mailto:honor@colorado.edu); 303-735-2273). Students who are found to be in violation of the academic integrity policy will be subject to both academic sanctions from the faculty member and non-academic sanctions (including but not limited to university probation, suspension, or expulsion). Other information on the Honor Code can be found at <http://www.colorado.edu/policies/honor.html> and at <http://honorcode.colorado.edu>**