

UNIVERSITY OF COLORADO

Department of Economics

**ECON4423: International Finance**

Outline Spring 2012

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**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

	Week	Date	Time	Location	%
Assignment 1	7	27 February	12:00	ECON 119	5
Term Test 1	7	2 March	12:00	ECON 119	25
Assignment 2	12	2 April	12:00	ECON 119	5
Term Test 2	13	6 April	12:00	ECON 119	25
Assignment 3	16	4 May	12:00	ECON 119	5
Final Exam	Finals	9 May	16:30–19:00	ECON 119	35

**Note:** Students who may need academic accommodations should discuss options with the professor no later than 27 January.

## Required Text

Feenstra, R. and A. Taylor (2008) *International Macroeconomics*, New York: Worth Publishers.

## Advanced Texts

Frankel, J. and A. Razin (1996) *Fiscal Policies and the World Economy*, Cambridge: The MIT Press.

Grossman, G. and E. Helpman (1991) *Innovation and Growth in the Global Economy*, Cambridge: The MIT Press.

Grossman, G. and K. Rogoff (1995) *Handbook of International Economics*, vol. 3, Amsterdam: North-Holland.

Jones R. and P. Kennen (1985) *Handbook of International Economics*, vol. 1 and 2, Amsterdam: North-Holland.

Obstfeld, M. and K. Rogoff (1996) *Foundations of International Macroeconomics*, Cambridge: The MIT Press.

van der Ploeg, F. (1994) *The Handbook of International Macroeconomics*, Oxford: Basil Blackwell Ltd.

## **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.

## University Policies

You should familiarize yourself with the following University of Colorado policies:

1. University policies regarding classroom behavior are available at  
<http://www.colorado.edu/policies/classbehavior.html>
2. University policies regarding disabilities are available at  
<http://www.colorado.edu/disabilityservices>.
3. University policies regarding religious practice are available at  
[http://www.colorado.edu/policies/fac\\_relig.html](http://www.colorado.edu/policies/fac_relig.html).
4. University policies regarding Sexual Harassment and Amorous Relationships are available at  
<http://www.colorado.edu/odh/>.
5. Information regarding the Honor Code Council is available at  
<http://www.colorado.edu/policies/honor.html>  
<http://www.colorado.edu/academics/honorcode/>.