

# International Finance (Econ 4423)

University of Colorado, Spring 2013

Course meets Tuesday and Thursday, 12:30-1:45 pm in Helles 267

Professor: Bill Craighead

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Office hours: Tuesdays 2:00-3:00; Wednesdays 1:00-2:30 pm; and by appointment

International Finance examines the macroeconomic implications of openness – the ability of countries to borrow from and lend to each other. It is sometimes referred to as open-economy macroeconomics. Important issues include determinants of the value of a country's money relative to others' (i.e., exchange rates), the choice of fixed versus floating exchange rates, and international exchange rate and debt crises.

The required textbook for the course is *International Macroeconomics* (2<sup>nd</sup> ed.) by Robert Feenstra and Alan Taylor (Worth Publishers). The textbook is well-written and provides many interesting illustrations and it will be an excellent complement to class lectures. The course will not closely follow the textbook, however, so reading it will be a poor substitute for class attendance. Other readings will be available via library reserve or Desire2Learn (D2L).

The prerequisite for the course is Econ 3080 (Intermediate Macroeconomic Theory) and, by extension, calculus. The course will assume some familiarity with economic concepts and the lectures, problem sets and exams will make use of algebra and calculus.

Approximately 4-7 problem sets will be assigned during the semester. Students may work together, but must turn in individually separate assignments. Late assignments will not be accepted and no extensions will be granted. Each student's lowest problem set grade will be dropped from the final grade calculation.

Final grades will be calculated as a weighted average of the grades for problem sets (15%) two in-class midterm exams (25% each) and a comprehensive final exam (35%). Midterm exams will not be given late; in the event of a serious illness, family emergency or university-sponsored travel, students may ask, in advance, for permission to take exams early or to have weight added to the final exam grade in place of the midterm. In the event of a perceived mistake in grading, a written explanation should be attached to the exam and submitted within 5 business days after the exams are returned to the class. The final exam is scheduled for Tuesday, May 7 at 1:30 pm.

The use of computers, mobile telephones and other portable electronic devices – *including for text-messaging* – is *not* permitted in class.

Students who qualify for accommodations because of a disability should submit a letter from disability services within the first two weeks of the semester.

Students are expected to cooperate in upholding academic integrity and maintaining an appropriate learning environment by adhering to the University of Colorado, Boulder honor code and classroom behavior policy.

The syllabus and course outline are subject to revisions, which will be announced in class.

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Course Outline and Reading List

“FT” refers to Feenstra and Taylor, *International Macroeconomics*, 2<sup>nd</sup> ed (Worth)  
Readings marked (o) are optional

I. Introduction

FT ch. 1

II. The Balance of Payments

a. Balance of Payments Accounting

FT ch. 6

*The Economist*, “Exports to Mars,” Nov. 12, 2011

R. Hausmann and F. Sturzenegger, “‘Dark Matter’ Makes US Debt Disappear,” *Financial Times*, Dec. 7, 2005

*The Economist*, “America’s Dark Materials,” Jan. 19, 2006

(o) C. Bach, “A Guide to the US International Transactions Accounts and the US International Investment Position Accounts,” *Survey of Current Business*, Feb. 2010

(o) R. Hausmann and F. Sturzenegger, “Why the US Current Account Deficit is Sustainable,” *International Finance*, Aug. 2006

b. The Benefits of Financial Globalization

FT ch. 7

(o) G. Alessandria, “Trade Deficits Aren’t as Bad as You Think,” *Philadelphia Fed Business Review*, Q1 2007

(o) K. Sill, “The Gains from International Risk-Sharing,” *Philadelphia Fed Business Review*, Q3 2001

(o) R. Hall and C. Jones, “Why Do Some Countries Produce So Much More Output per Worker than Others?” *Quarterly Journal of Economics*, February 1999

c. The US Current Account Deficit

W. Buffett and C. Loomis, “America’s Growing Trade Deficit is Selling the Nation Out from Under Us,” *Fortune*, Nov. 10, 2003

B. Bernanke, “The Global Savings Glut and the US Current Account Deficit,” Speech, April 14, 2005

III. Foreign Exchange

a. Introduction to Exchange Rates

FT ch. 2

b. The Long-Run: Real Exchange Rates and Purchasing Power Parity

FT ch. 3.1-3.3, 11.1

M. Pakko and P. Pollard, “Burgernomics: A Big Mac Guide to Purchasing Power Parity,” *St. Louis Fed Economic Review* Nov./Dec. 2003

*The Economist*, “Beefed-Up Burgernomics,” June 30<sup>th</sup> 2011

c. The Short-Run: Interest Rates and Exchange Rates

FT ch. 5, 11.2

F. Norris, "Switzerland's Battle to Suppress the Franc Exacts a Price," *New York Times*, June 22, 2012

N. Gregory Mankiw, "The Trilemma of International Finance," *New York Times*, July 10, 2010

d. China's Foreign Exchange Intervention

J. Fallows, "The \$1.4 Trillion Question," *Atlantic Monthly*, Jan.-Feb. 2008

P. Krugman, "Taking on China," *New York Times*, Mar. 14, 2010

J. Stiglitz, "No Time for a Trade War," *Project Syndicate*, April 6, 2010

D. Leonhardt, "As China's Currency Rises, U.S. Keeps Up Its Pressure," *New York Times*, Feb. 15, 2012

IV. Exchange Rates and Macroeconomic Policy in a Short-Run Model

FT ch. 7

V. Exchange Rate Regimes

FT ch. 8

J. Grant, "How to Make the Dollar Sound Again," *New York Times*, Nov. 13, 2010.

J. Frankel, "Gold: A Rival to the Dollar," *Jeff Frankel's Weblog*, Nov. 9, 2010

G. Bowley, "As Dollar's Value Falls, Currency Conflicts Rise," *New York Times*, Oct. 20, 2010

*The Economist*, "Beyond Bretton Woods 2," Nov. 6, 2010

B. Eichengreen, "Why the Dollar's Reign is Near an End," *Wall Street Journal*, March 2, 2011

VI. Exchange Rate Crises

FT ch. 9, 11.3

P. Krugman, *The Return of Depression Economics and the Crisis of 2008* (Norton, 2009) chs. 4 & 5

VII. Capital Controls and the Costs of Financial Globalization

J. Bhagwati, "The Capital Myth: The Difference Between Trade in Widgets and Dollars," *Foreign Affairs*, May/June 1998

K. Forbes, "Capital Controls: Mud in the Wheels of Market Efficiency," *Cato Journal*, Winter 2005

*The Economist*, "Tide Barriers," Oct. 6, 2012

VIII. The Euro

FT ch. 10

M. Higgins and T. Klitgaard, "Saving Imbalances and the Euro Area Sovereign Debt Crisis," *Current Issues in Economics and Finance* vol. 17 (2005) #5.

J. Shambaugh, "The Euro's Three Crises" *Brookings Papers on Economic Activity*, Spring 2012

P. Krugman, "Can Europe Be Saved?" *New York Times Magazine*, Jan. 16, 2011