

University of Colorado

Department of Economics

Econ 4423: International Finance

Professor Stephen Ross Yeaple

Syllabus

Office: Econ 206

Class: 1:00-1:50

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Office Hours: Mon. 11-12, Wed. 2-3

Course Description

This course presents International Economics theory and applies it towards gaining an understanding of recent events and current policy issues. The theory presented in this course covers a broad range of topics including exchange rate determination, monetary and fiscal policy in an open economy, balance of payments crises, the choice of exchange rate systems, and international debt. The insights provided by these theoretical frameworks will enable us to discuss topics such as the US current account deficit and global financial imbalances, the Chinese exchange rate regime, proposed changes in the international financial architecture, the single currency in Europe, the Asian and Argentine financial crises, global financial imbalances, and the role of international factors on a nation's employment, wage and economic performance.

Prerequisites

Econ. 3080 Intermediate Macroeconomic Theory is a prerequisite to the course.

Course Materials

The course material consists of:

- Textbook: International Economics: Theory and Policy, by Paul Krugman and Maurice Obstfeld, 7th edition, Addison-Wesley, 2005.
- Articles are posted on the course webpage, are required reading and are fair game on exams. ***I will add more recent news articles*** during the class. If I do, I will announce this in class and post an announcement on the course website. The articles are short, and

hopefully interesting. Many are controversial, partisan, and contradictory to each other. I give these to you, not to convince you of any point of view. I want you to read these critically and decide whether you agree or disagree, and why.

Evaluation

Class Participation	5%
Homework One	5%
Midterm One (tentatively Sept. 28)	25%
Homework Two	5%
Midterm Two (tentatively Nov. 2)	25%
Homework Three	5%
Final Exam	30%

There will be NO make-up exams for either midterm. Given a valid excuse (e.g. documented illness) all of the weight of the missed exam will be assigned to the other exam. Homework assignments will be handed out roughly two weeks before an exam and will be due roughly a week before the exam. Participation includes regular attendance and an effort to engage in classroom discussions.

Course Outline

1. *The foreign exchange market.* Exchange rates, market structure, arbitrage relationships.

Readings: KO, Chapter 13.

2. *The economic approach to exchange rates.* Purchasing power parity, Real exchange rates, Real interest rates, supply and demand for money.

Readings: KO, Chapter 15.

KO, Chapter 14, pp. 338-343.

Taylor and Taylor, "The Purchasing Power Parity Debate," 2004.

3. *The financial approach to exchange rates.* Interest rate parity, overshooting, tradeoff between risk and return.

Readings: KO, Chapter 14, pp. 343-368.

4. National Income Accounting and the Balance of Payments. How do international transactions interact with the domestic economy? Current accounts and international trade in assets. Measuring external debt.

Readings: KO, Chapter 12.

BOP handout.

Hausmann and Sturzenegger, “U.S. and Global Imbalances: Can Dark Matter Prevent the Big Bank,” 2005.

Higgins, Klitgaard, and Tille, “The Income Implications of Rising U.S. International Liabilities,” 2006.

5. The determinants of the current account. Intertemporal trade. The current account and the real exchange rate.

Readings: KO, Chapter 7, pp. 168-171 and the appendix to Chapter 7.

KO, Chapter 16, pp. 435-437 and pp. 464-466.

Higgins, Klitgaard, and Lerman, “Recycling Petrodollars,” 2006.

Goldberg and Dillon, “Why a Weak Dollar May Not Close the U.S. Trade Deficit,” 2007.

6. Open Economy Macroeconomics with Flexible and Fixed Exchange Rate regimes. How do real and monetary shocks affect the economy under alternative regimes? Currency crises.

Readings: KO, Chapter 16

KO, Chapter 17

KO, Chapter 22, pp. 609-633.

Pesenti and Tille, “The Economics of Currency Crises and Contagion,” 2000.

7. Fixed versus floating? What tradeoffs do countries face in their choice of their exchange rate regime?

Readings: KO, Chapter 18.

KO, Chapter 19.

8. *Fixed versus Floating: applications.* What are the implications of China's peg to the U.S. dollar? Should China change its policies? Should the UK adopt the euro?

Readings: Prasad, Rumbaugh, and Wang, "Putting the Cart before the Horse?" 2005.

Frankel, "On the Renminbi: the Choice between Adjustment under a Fixed or Floating Regime," 2006.

The Economist, "Misleading Misalignments," July 2007.

KO, Chapter 20.

9. *Issues in global capital markets.* How efficient are global capital markets? How should financial regulation be coordinated as globalization proceeds?

Readings: KO, Chapter 21.

Froot and Thaler, "Anomalies: Foreign Exchange," 1990.

Rogoff, "Rethinking capital controls: When should we keep an open mind?"

Reinhart and Rogoff, "Serial Default and the 'Paradox' of Rich-to-Poor' Capital Flows," 2004