

Economics 4423 – International Finance-Fall 2009
TR 11-12:15 – ECON 117

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Hours: Tuesday 9-11

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Thursday 1:30-3:00

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Course administration and evaluation. Most of your reading for this course will come from our textbook, *International Macroeconomics*, by Feenstra and Taylor (Worth, 2008). 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. For example, the text was published before the current global economic crisis, and important aspects of this crisis must be understood from an international macroeconomic perspective.

In some cases the text readings will be updated or supplemented by short articles on current issues in international finance that are posted on the CULearn site for this course. Any student enrolled in this course is automatically registered on CULearn, and our site can be accessed at <http://culearn.colorado.edu>. I will also post abbreviated slides and notes to supplement my lectures, and I recommend that you download and bring to class those materials relevant to that week's class. You should not assume that the content of the lectures is fully covered in the posted notes.

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 a project 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.

The project will entail an analysis of the international macroeconomic environment and policies of a country that has experienced a significant financial crisis. As you will see from our text, there are many countries that meet this criterion. Your report will discuss the international macroeconomic environment faced by this country, its choice of exchange rate regime, the type of crisis that occurred (currency, banking, sovereign debt, etc.), the policies that led up to the crisis, the impact of the crisis on the economy of that country, the role of the IMF and other international financial institutions,

and the policies that were adopted to deal with the crisis and beyond. Your report must rely on the models presented in the course to analyze the crisis; it cannot be merely descriptive. Graphs will be useful to present the economic analysis of the crisis and also to characterize the movements of key variables during your country's crisis. I estimate that a good report would be about 6-8 double-spaced pages including graphs.

I encourage you to work on this project in teams of two, but you may choose to work on your own if you prefer. On November 5 each team should submit a note identifying the members of the team and the country/crisis you plan to analyze. Crises such as the Argentine crisis of 2000-2002 that are discussed in detail in the text cannot be chosen. However, this presentation of the Argentine crisis provides an excellent model for you to follow in your own report.

Your registration in this class is taken as your agreement with these policies. The prerequisite for this course is Econ 3080 (Intermediate Macroeconomics). If you anticipate you may not be able to meet these conditions or you do not meet the prerequisite, you are advised to drop the course before the drop deadline (see schedule at http://registrar.colorado.edu/students/regISTRATION/registration_packet/drop_add.html#deadlines).

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 Administrative Issues.

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 current global economic crisis certainly makes this a timely topic, but 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 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 macroeconomies 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 WebCT)

Dates	Topic	Readings	assignments
Weeks 1 & 2 (8/24 – 9/4)	Introduction; exchange rates & interest rates: interest parity	Chapters 1&2 Global Econ Imbalances	
Week 3 (9/7 – 9/11)	The long run monetary model; PPP; money demand & supply	Chapter 3 Burgernomics	
Weeks 4 & 5 (9/14 – 9/25)	The asset model: interest, exchange Rates in the short run.	Chapter 4	Problem set 1 Due 9/22
Weeks 6 & 7 (9/28 – 10/9)	National income & BOP accounts; International debt, saving, investment, & wealth. Financial globalization	Chapters 5 & 6 Dollar: Shrinkable, but Unsinkable	Exam 1 (10/1) Ch 1 - 4
Weeks 8 -10 (10/12 – 10/30)	Macro policies: IS-LM-FX model of Output, exchange rates, interest. J-curve & Marshall Lerner conditions	Chapter 7 India Stabilization Policy	Problem set 2 Due 10/22.
Weeks 11-12 (11/2-11/13)	Alternative exchange rate regimes; Gold standard; Bretton Woods.	Chapter 8 Setser: Bretton Woods 2	Project proposal (11/5) Exam 2 (11/3) Ch 5 - 7
Week 13 (11/16 – 11/20)	Exchange rate pegs & crises	Chapter 9 East Europe Raises Risks	
Weeks 14 & 15 (11/30 – 12/11)	Currency unions; the euro system. Extensions of basic topics: PPP, interest parity, Debt & default	Chapters 10 & 11 Euro during Crisis	Project due Due 12/8
Final exam. Saturday, 12/12, 7:30 – 10:00 p.m.			

Administrative Addendum

Accommodation of Disabilities.

If you qualify for accommodations because of a disability, please submit to me a letter from Disability Services in a timely manner so that your needs may be addressed. Disability Services determines accommodations based on documented disabilities. Contact: 303-492-8671, Willard 322, and <http://www.Colorado.EDU/disabilityservices>

Religious Observances

Campus policy regarding religious observances requires that faculty make every effort to reasonably and fairly deal with all students who, because of religious obligations, have conflicts with scheduled exams, assignments or required attendance. Please contact me early in the semester if you are aware of any conflicts between our course schedule and your needs for religious observances.

See full details at http://www.colorado.edu/policies/fac_relig.html

Classroom Behaviour

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, culture, religion, politics, sexual orientation, gender, gender variance, 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

Discrimination and Harassment

The University of Colorado at Boulder policy on Discrimination and Harassment, the University of Colorado policy on Sexual Harassment and the University of Colorado policy on Amorous Relationships apply to all students, staff and faculty. Any student, staff or faculty member who believes s/he has been the subject of discrimination or harassment based upon race, color, national origin, sex, age, disability, religion, sexual orientation, or veteran status should contact the Office of Discrimination and Harassment (ODH) at 303-492-2127 or the Office of Judicial Affairs 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://www.colorado.edu/odh>

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; 303-725-2273). 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://www.colorado.edu/academics/honorcode/>