

University of Colorado
Department of Economics

Econ 4423: International Finance
Professor Stephen Ross Yeaple
Syllabus

Office: Econ 206

Class: TR, 12:30-1:45

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Office Hours: TR 11-12, W 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, by Robert Feenstra and Alan Taylor, 1th edition, Worth Publishers, 2008.
- 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. When 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	10%
Homework One	5%
Exam One (tentatively March 6)	30%
Homework Two	5%
Exam Two (tentatively May 1)	30%
Take-Home Final (due May 8 th)	20%

There will be NO make-ups for either exam. 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. Instructions for the take-home final can be found below.

Course Outline

1. Introduction

Readings: FT, Chapter 12

2. The foreign exchange market. Exchange rates, market structure, arbitrage relationships.

Readings: FT, Chapter 13

3. The monetary approach to exchange rates. Purchasing power parity, Real exchange rates, Real interest rates, supply and demand for money.

Readings: FT, Chapter 14

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

4. The financial approach to exchange rates. Interest rate parity, overshooting, fixed exchange rates, the Trilemma.

Readings: FT, Chapter 15

5. 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: FT, Chapter 16

BOP handout

Hausmann and Sturzenegger, "U.S. and Global Imbalances: Can Dark Matter Prevent the Big Bang," 2005

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

6. The gains from financial globalization. Intertemporal trade. Consumption smoothing. Efficient investment. Financial diversification. What are the sources of "global imbalances?"

Readings: FT, Chapter 17

FT, Chapter 22, pp. 940-951.

7. Open Economy Macroeconomics. A Keynesian model. Stabilization policies.

Readings: FT, Chapter 18

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

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

Readings: FT, Chapter 19.

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

The Economist, "Misleading Misalignments," July 2007.

9. Exchange Rate Crises. What are exchange rate crises and why are they so destructive? What is the cause of exchange rate crises? Old-style versus new style models.

Readings: FT, Chapter 20.

FT, Chapter 22, pp. 956-977.

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

10. Issues in global capital markets. How efficient are global capital markets? What are the implications of China's peg to the U.S. dollar? Should China change its policies?

Readings: FT, Chapter 22, pp. 911-939.

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

Instructions for the Take-Home Final

Due May 8th, 10:30 a.m. in my office

Choose a country other than the United States that has its own currency and whose exchange rate with the U.S. dollar has varied over the five-year period, 2001-2006. Write a paper that explicitly addresses the following requirements.

1. Provide a graph showing how the country's exchange rate with the U.S. dollar has varied month to month over the five-year period.
2. Has relative purchasing power parity held over this five year period?
3. How has the real exchange rate changed over this five year period?
4. Can changes in the exchange rate be attributed to any particular macroeconomic forces over this period?
5. Was there any noticeable link between the exchange rate and the current account balance?

Your paper is not to exceed eight typed, double-spaced pages, including tables and references. Exposition counts! Please proofread your paper,

A key source of information on exchange rates and other macro-economic variables is International Financial Statistics, published by the International Monetary Fund. This publication is available at the library both in a hard copy format and online through the library's webpage. You are free to use additional sources in your paper as long as they are cited and listed as references. Sometimes the International Monetary Fund (www.imf.org) or the World Bank (www.worldbank.org) publishes commentaries on developments in a country.

University policies

Campus policy regarding disabilities requires that faculty adhere to the recommendations of Disability Services. In addition, campus policy regarding religious observances requires that faculty make every effort to reasonably and fairly accommodate all students who, because of religious obligations, have conflicts with scheduled examinations, assignments or required attendance. Any student eligible for and needing academic adjustments or accommodations because of disability or religious practice should arrange to meet with me immediately. Those with disabilities should immediately submit a letter from Disability Services describing appropriate adjustments or accommodations.¹

Students and faculty share responsibility for maintaining an appropriate learning environment. All are subject to the University's policies on Sexual Harassment and Amorous Relationships.² Students who fail to adhere to appropriate behavioral standards may be subject to discipline. Faculty have the professional responsibility to treat students with understanding, dignity and respect, to guide classroom discussion and to set reasonable limits on the manner in which students express opinions.³ I am happy to discuss any issues of individual or group treatment in office hours or by appointment.

¹ University policies regarding disabilities are available at <http://www.colorado.edu/disabilityservices>. Disability Services can be contacted by telephone at 303-492-8671, or in person at Willard 322. University policies regarding religious practice are available at http://www.colorado.edu/policies/fac_relig.html.

² University policies regarding Sexual Harassment and Amorous Relationships are available at <http://www.colorado.edu/odh/>. The Office of Discrimination and Harassment can be reached by telephone at 303-492-2127. The Office of Judicial Affairs can be reached at 303-492-5550.

³ University policies regarding classroom behavior are available at <http://www.colorado.edu/policies/classbehavior.html> and at http://www.colorado.edu/studentaffairs/judicialaffairs/code.html#student_code