

ECONOMICS 399
INTERNATIONAL FINANCE
Fall 2016

Instructor: Olena Staveley-O'Carroll, omlykhayl@holycross.edu

Class meeting times:
Section 1: TR 12:30–1:45 pm, Stein 118B
Section 2: TR 2:00–3:15 pm, Stein 118B

Prerequisites:
Economics 256 (Macroeconomics)
Economics 249 (Statistics)

Required texts:
International Economics: Theory and Policy, 10th Edition
by Krugman, Obstfeld, and Melitz
The Return of Depression Economics and the Crisis of 2008
by Paul Krugman

Course material will be posted on Moodle.
Office hours: MW 9:30–noon and 1:30–4:30 pm, and by appointment in Stein 540

COURSE DESCRIPTION AND OBJECTIVES
The twenty-first century is an age of unprecedented globalization, in which countries can no longer ignore the international implications of national policies. This course is devoted to the study of large-scale economic interactions among interdependent economies. We start by learning the principles of national income accounting and review several basic financial instruments. Then we turn to asset and goods markets to study exchange rate determination in the short and long run. Bringing these markets together, we build and analyze a short-run model of the open economy. Finally, we use versions of this model to study topics such as international aspects of fiscal and monetary policies, effects of different exchange rate regimes on economic stability, financial crises, and the patterns of cross-border capital flows.

The course is developed with three broad objectives in mind:

1. You will use various economic theories to understand the forces behind short- and long-term exchange rate fluctuations.
2. You will collect, plot (using Excel), and analyze economic and financial data to test the theoretical predictions regarding the behavior of international currencies.
3. You will learn to think critically and to use economic models and data to (a) evaluate the impact of financial markets on economic and social welfare, and (b) write professional briefs with policy/investment recommendations based on your understanding of the material.

To be successful in this course you should expect to devote no less than 10–14 hours each week in-class, reading and studying the material, and preparing assignments.

ATTENDANCE
Your time is limited, and you must decide how to best allocate this scarce resource between classes, studying, and other activities. Therefore, attendance is not required; however, the opportunity cost of skipping a class is an increased probability of missing important material not covered in the textbook and a lower overall course grade. It is your responsibility to catch up on whatever material you missed by not attending a lecture. Moreover, since I do not accept late assignments, you should make

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arrangements to turn them in prior to the due date. There are no make-up exams; should an emergency prevent you from taking the midterm exam, your final exam grade will be re-weighted accordingly.

**ANNOUNCEMENTS**
I will maintain a mailing list that I will use to communicate with the whole class. While all announcements will be made first and foremost during class, you should check your HC email regularly to keep informed about reminders and clarifications.

**ADDITIONAL READINGS**
Throughout the course, I will post readings on the Moodle that will supplement the main text and will help in understanding the economic theory we cover during the lectures. Reading these articles is **not optional**. I expect everyone to be able to participate when we discuss them in class, and I will assume you have read them when I write problems sets and exams.
You are also encouraged to regularly peruse publications such as *the Economist*, *the New York Times*, *the Wall Street Journal*, and *the Financial Times* to keep informed about current economic events.

**GRADING**
Your grade for the course will be determined by your performance on problem sets, two exams, a group debate, and a term paper.

- **Homeworks** can be done in groups. However, each student is expected to turn in his/her individual work to get full credit. Please don’t copy and paste each other’s answers – be creative! Otherwise, I will take points off your work, and the one from which you copied it.

- **Exams** will include multiple choice questions, short and long answer essay questions, and numerical and graphing problems which will emphasize the material covered in class, as well as assigned readings.

- **Debates** will be prepared and presented by groups of four to five students. Each group will examine one of the two topics: the role of IMF in international currency crises, and the impact of financial traders on the stability of global markets. The groups will have to debate each other in class on the pros and cons of their assigned topic. Each debate will take the entire class period. The document *Debates and Paper*, available on Moodle, offers more information on the length and structure of the debates.

- **Term paper** is an individual project, and is a 5–6 page report on the behavior of a single currency over the August–November period. You will pick a currency in the beginning of the semester, keep track of its ups and downs, and explain the economic and political factors that influenced its trajectory. You will also prepare a policy recommendation for the country’s central bank on the optimal exchange rate regime (fixed vs. floating). See the document *Debates and Paper*, available on Moodle, for detailed information about the paper structure and grading.
Extra credit assignments can boost your overall grade. You may take advantage of up to three such opportunities. Each extra credit paper will add up to 20 points to one of your homeworks (even if you ace it and get 100 points). Each extra credit report is a one-page (typed, double-spaced) analysis of a recent article that relates to the topics covered in class.

I will grade your report on your ability to explain real world issues using the theories and terminology developed during lectures, and on the clarity of your exposition.

Please do not summarize the reading in your report; instead, you must attach a copy of the article with your submission. Suggested outline of the project looks as follows:

- “This article relates to [chapter A, the issue of B covered in lecture C, assigned reading D, theory E, etc.] because it addresses…”
- “The main thesis of the article seems to [directly apply, support, extend, contradict] the material covered in class, since…”
- “Reading this article helped me to better understand [topic A, real world issue B] by…”

You may pick articles from credible sources such as newspapers and magazines mentioned above or from academic journals. You may not use articles which are assigned as class readings.

The deadlines for the three extra credit papers are as follows:
- Extra credit 1: September 29
- Extra credit 2: October 27
- Extra credit 3: November 29

Project Weighting and Important Dates

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Weight</th>
<th>Date (Format: MM/DD, HH:MM)</th>
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<tbody>
<tr>
<td>Homeworks</td>
<td>20%</td>
<td>October 25</td>
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<tr>
<td>Midterm exam</td>
<td>20%</td>
<td>November 17</td>
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<tr>
<td>Paper</td>
<td>10%</td>
<td>December 6 and 8</td>
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<tr>
<td>Debate</td>
<td>15%</td>
<td>01: 12/14, 8:00 am</td>
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<tr>
<td>Final exam</td>
<td>35%</td>
<td>02: 12/16, 11:30 am</td>
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Final Grade Calculator, an Excel file available on Moodle, will help you track your current and/or expected progress during the semester.

Academic Honesty

All students are expected to comply with the College’s Academic Honesty Policy, which can be found here: [http://catalog.holycross.edu/node/1381#AHP](http://catalog.holycross.edu/node/1381#AHP).

The penalty for scholastic dishonesty (including, but not limited to, receiving or giving help on exams, plagiarizing, or sabotaging another student’s work) in this course will be failure (grade of zero) on the entire assignment or exam.
**Lecture Schedule**

This schedule is approximate and subject to change. All chapters refer to the Krugman, Obstfeld, and Melitz textbook. All readings (posted on Moodle and marked below as R1, R2, etc.) should be completed **before** the lectures for which they are assigned; the last pages of the syllabus provide additional details.

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<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Chapter/Assignment</th>
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<tbody>
<tr>
<td>Sept. 1</td>
<td>Introduction (1)</td>
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<td>Sept. 6</td>
<td>Introduction to the Forex Market (14)</td>
<td>Ch. 14 (pp.342–352), R2</td>
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<tr>
<td>Sept. 8</td>
<td>Basic Financial Instruments</td>
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<tr>
<td>Sept. 13</td>
<td>National Income Accounting, BoP (13)</td>
<td>Ch. 13, R1, Hmwk 1, paper topic</td>
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<td>Sept. 15</td>
<td>Returns on Foreign Investments (14)</td>
<td>Rest of Ch. 14</td>
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<tr>
<td>Sept. 20</td>
<td>Forex Equilibrium (14)</td>
<td>R3, Hmwk 1 due, Hmwk 2</td>
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<tr>
<td>Sept. 22</td>
<td>Money and Demand for Money (15)</td>
<td>Ch. 15</td>
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<tr>
<td>Sept. 27</td>
<td>Money Supply and Exchange Rates in SR (15)</td>
<td>Hmwk 2 due</td>
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<tr>
<td>Sept. 29</td>
<td>Money Supply and Exchange Rates in LR (15)</td>
<td>Debate groups, Extra 1 due</td>
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<tr>
<td>Oct. 4</td>
<td>LoOP and PPP (16)</td>
<td>Ch. 16, R4</td>
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<td>Oct. 6</td>
<td>Exchange Rates in the LR (16)</td>
<td>R5, Hmwk 3</td>
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<tr>
<td><strong>FALL BREAK</strong></td>
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<td>Oct. 18</td>
<td>U.S. International Financial Imbalances</td>
<td>R6, R7, Hmwk 3 due</td>
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<tr>
<td>Oct. 20</td>
<td>Aggregate Demand in Open Economy (17)</td>
<td>Ch. 17</td>
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<td>Oct. 25</td>
<td><strong>Midterm</strong></td>
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<tr>
<td>Oct. 27</td>
<td>Asset Market and AA-DD Equilibrium (17)</td>
<td>Extra 2 due</td>
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<td>Nov. 1</td>
<td>Monetary and Fiscal Policy (17)</td>
<td>Hmwk 4</td>
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<td>Nov. 3</td>
<td>Stabilization with Fixed Exchange Rates (18)</td>
<td>Ch. 18, start working on paper</td>
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<td>Nov. 8</td>
<td>BoP Crises (18)</td>
<td>R8, Hmwk 4 due</td>
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<td>Nov. 10</td>
<td>Internal and External Balances (19)</td>
<td>Ch. 19</td>
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<td>Nov. 15</td>
<td>Exchange Rate Arrangements (19)</td>
<td>R9, Hmwk 5</td>
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<td>Nov. 17</td>
<td>Developing Countries (22)</td>
<td>Ch. 22, R10, R11, Paper due</td>
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<tr>
<td>Nov. 22</td>
<td>Developing Countries (22)</td>
<td>Hmwk 5 due</td>
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<tr>
<td><strong>THANKSGIVING BREAK</strong></td>
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<tr>
<td>Nov. 29</td>
<td>Optimum Currency Areas and the Euro (21)</td>
<td>Ch. 22, R12, R13, Extra 3 due</td>
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<tr>
<td>Dec. 1</td>
<td>Optimum Currency Areas and the Euro (21)</td>
<td>Presentation slides due via email</td>
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<tr>
<td>Dec. 6</td>
<td><strong>Group Debate: IMF and currency crises</strong></td>
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<tr>
<td>Dec. 8</td>
<td><strong>Group Debate: currency traders</strong></td>
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Outline of Readings by Chapter

Optional/additional readings are marked with an asterisk. All other readings are mandatory. Readings should be completed before the lectures for which they are assigned.

Chapter 1. Introduction

Chapter 13. National Income Accounting and the Balance of Payments


Chapter 15. Money, Interest Rates, and Exchange Rates

Chapter 16. Price Levels and the Exchange Rate in the Long Run

Special Topics: The U.S. Current Account Deficit

Chapter 17. Output and Exchange Rate in the Short Run

Chapter 18. Fixed Exchange Rates and Foreign Exchange Intervention
8. Institute of Modern Russia (July 27, 2015). Russia’s Currency Reserves: More than Enough or Alarming Low?
   * Menzie Chinn and Jeffrey Frankel (2007). Will the Euro Eventually Surpass the Dollar as Leading International Reserve Currency? In Richard Clarida
Chapter 19. International Monetary Systems

Chapter 22. Developing Countries: Growth, Crisis, and Reform

Chapter 21. The European Experience