

ECON4423: International Finance

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Course Description

This course reviews selected topics from both international finance and open-economy macroeconomics. From international finance, we will discuss international financial markets and their operations. From open-economy macroeconomics, we will discuss macroeconomic policies and their implications. Obviously, most of our time will be devoted to further our understanding of “exchange rates.”

Here are some stylized facts:

1. Real and nominal exchange rates are highly correlated.
2. Changes in both real and nominal exchange rates are persistent.
3. Forward exchange rates are poor and biased predictors of future spot exchange rates.
4. International differences in interest rates are large and persistent.
5. Portfolios are not internationally diversified.
6. The extent of international consumption risk-sharing is less than expected.
7. Savings and investment are highly correlated.
8. The trade balance and the current account are countercyclical.
9. Business cycles are correlated across countries.

Evaluation

The assessment for this class consists of three assignments, two tests, and one final examination. The tests and final are closed notes and closed books. No make-up tests will be given. The schedule and grade distribution is

	Week	Date	Time	Location	%
Assignment 1	5	10 February	12:00	ECON 119	5
Term Test 1	6	17 February	12:00	ECON 119	25
Assignment 2	10	17 March	12:00	ECON 119	5
Term Test 2	13	7 April	12:00	ECON 119	25
Assignment 3	16	28 April	12:00	ECON 119	5
Final Exam	Finals	1 May	7:30–10:00 pm	ECON 119	35

✎ : Students who may need academic accommodations should discuss options with the professor no later than 25 January.

Required Text

Krugman, P. and M. Obstfeld, *International Economics: Theory and Policy*. New York: Addison Wesley.

Advanced Texts

Frankel, J. and A. Razin (1996) *Fiscal Policies and the World Economy*, Cambridge: The MIT Press.

Grossman, G. and E. Helpman (1991) *Innovation and Growth in the Global Economy*, Cambridge: The MIT Press.

Grossman, G. and K. Rogo (1995) *Handbook of International Economics*, vol. 3, Amsterdam: North-Holland.

Jones R. and P. Kennen (1985) *Handbook of International Economics*, vol. 1 and 2, Amsterdam: North-Holland.

Obstfeld, M. and K. Rogo (1996) *Foundations of International Macroeconomics*, Cambridge:

5. Purchasing Power Parity

5.1 Purchasing Power Parity

8. International Monetary System

8.1 The Gold Standard

8.2 The Bretton Woods System

Krugman and Obstfeld: Chapter 18.

9. Macroeconomic Policy Coordination

9.1 The Case for and Against Floating Exchange Rates

9.2 Macroeconomic Policy Coordination

Krugman and Obstfeld: Chapter 19.

Feldstein, M. (1988) Distinguished Lecture on Economics in Government: Thinking about International Economic Coordination, *Journal of Economic Perspectives* 2, 3–13.

Rogoff, K. (1985) Can International Monetary Policy Coordination Be Counterproductive? *Journal of International Economics* 8, 199–217.

10. Optimum Currency Areas

10.1 The Theory of Optimum Currency Areas

10.2 The European Monetary Union

Krugman and Obstfeld: Chapter 20.

Bean, C. (1992) Economic and Monetary Union in Europe, *Journal of Economic Perspectives* 6, 31–52.

Levin, J.H. (2000), *A Guide to the Euro*, Boston: Houghton Mifflin.

11. International Financial Markets

11.1 Risk Sharing and Diversification

11.2 International Banking

Krugman and Obstfeld: Chapter 21.

Devries, C. (1994) Stylized Facts of Nominal Exchange Rate Returns, in F. van der Ploeg (ed.) *The Handbook of International Macroeconomics*, Oxford: Basil Blackwell Ltd, 506–534.

Feldstein, M. and C. Horioka (1980) Domestic Saving and International Capital Flows, *Economic Journal* 90, 314–329.

Froot, K. and R. Thaler (1990) Anomalies: Foreign Exchange, *The Journal of Economic Perspectives* 4, 179–192.

Lewis, K. (1995) Puzzles in International Financial Markets, in G. Grossman and K. Rogoff (eds.) *Handbook of International Economics*, vol. 3, Amsterdam: North-Holland.

— *12.1 Wealth and Growth*

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