

International Finance –EC 480
Fall 2006

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Course description

The aim of this course is to familiarize you with the main ideas that economists currently debate and to understand the functioning of modern international macroeconomics (also called International Finance). In order to achieve these aims we will study the behavior of several key variables in international macroeconomics: interest rates, exchange rates, the current account, the balance of payments, etc. This is an international economics policy class. The objective of the course is to build your economic structure by way of theoretical models. These models will be then used to analyze policy making. We will also closely look at how the implementation of these policies worked over time and countries, by focusing on as many applications as possible.

Textbook

Required: “International Economics: Theory and Policy”, Krugman and Obstfeld, Seventh Edition, August 2005, Addison-Wesley. (KO)

Recommended: The Economist, Financial Times magazines (available on line).
When interesting articles appear, the link to them will be posted in Blackboard.

Prerequisites

We will use a lot of algebra and geometry, so competence in both is required.
EC 202 (Principles of Macroeconomics), EC 313 (Intermediate Macroeconomics).
Econometrics.

Grades

There will be two midterms worth 25% of your grade each and a final (**cumulative**) worth 35%. There will also be regularly assigned problem sets worth 15% of your class grade. The latter will not be accepted (and given credit for) past the due date, which will always be on the announced date **in class only**. Brief answers will be provided, and you are more than welcome to come to office hours to review them more thoroughly. For fairness, problem sets turned in after the professor starts to discuss the answers will be given only partial credit.

The dates of the examinations (all of them to be held in class) are as follows:

- Midterm I: Tuesday, October 17th
- Midterm II: Thursday, November 16th
- Final: Wednesday, December 6th (review session: Thursday, November 30th)

No student will be permitted to leave within the first 30 minutes of the start of a given exam and no student will be given an exam 30 minutes following the commencement

of a given exam. You will not be allowed to leave the classroom during any exam—if you do so, your exam will be considered terminated at the time you leave the classroom.

No makeup exams will be given for any reason. If any one of the examinations is missed, a typewritten and signed petition fully explaining and documenting why the exam was missed must be submitted prior to the writing of the exam in question. If the petition is approved, then the weight of the missed exam will be added to the original weight of the final exam. The alternative is to have a score of zero points for the missed exam. **An excused absence is one supported by official documentation bearing proof of university business, serious injury or illness, or a death in the family.** Those students taking this course pass/fail must earn a “C-” in the course in order to receive a passing grade.

Lecture Notes

I will post my lecture notes on Blackboard for you to print out if you so choose. I will post all the announcement on it too (including problem sets questions and due dates).

Extra Credit

Extra credit is available under the following rules. Up to a maximum of 3%, one percentage points will be awarded for the submission of any article from the popular press (Wall Street Journal, New York Times, Time, Newsweek, Business Week, The Economist, etc.) that you can make relevant to the class. This relevance will be demonstrated with an original, typewritten paragraph of your thoughts on the article. Note that such articles will not be accepted after the second midterm. The extra credit is added to your weighted average grade points (midterms, final exam, and problem sets), prior to draw the class grade curve. The class grade will be totally curved, so it is only your performance with respect to the class that matters for your grade, not its absolute value—this is to control for potentially more difficult/easier examinations than the standard norm of this class.

Cell phone use

I reserve the right to award points to students assisting me in the control of cell phone usage during lectures. I also reserve the right to withhold extra credit from those who use a cell phone in class in any way. If there is a legitimate reason for you to be within reach during class times, please see me prior to using your phone. All cell phones must be turned off during examination periods.

Grade Appeals

Any requests for re-grading on an exam must be submitted in writing within *one week* of when the exam is handed back. If you do not pick up your exam when it is handed back, you still must make any re-grading request within a week of when the exam was originally handed back. A re-grading request should include an argument for why you feel your answer was correct. I reserve the right to re-grade the entire question when a request to re-grade part of a question is made.

Academic Integrity

You may have a pen or pencil, a ruler or straightedge, and a nonprogrammable hand-held calculator at your desk while taking an exam. Any other forms of assistance or sources of information are prohibited unless specifically authorized. Any violations of academic integrity involving an exam will result in a failing grade for the course. In addition, an incident report will be filed with the University's Hearing Board. The submission of all exams will require the presentation of a valid UO ID card without exception. All cell phones must be turned off during examination periods. It is also a violation of Oregon state law to create and offer to sell part or all of an assignment to another person (ORS 165.114) or to falsify the authorship of a work product (ORS 165.037).

Students with Special Needs

If you have a documented disability and anticipate needing accommodations in this course, please make arrangements to meet with me soon. Please request that the Counselor for Students with Disabilities send a letter verifying your disability.

Reading List

- 1) National Income Accounting and the Balance of Payments. KO, Ch 12.
- 2) Exchange Rates and the Foreign Exchange Market: An Asset Approach. KO, Ch 13.
- 3) Money, Interest Rates, and Exchange Rates. KO, Ch 14.
- 4) Price Levels and the Exchange Rate in the Long Run. KO, Ch 15
- 5) Output and Exchange Rate in the Short Run. KO, Ch 16.
- 6) Fixed Exchange Rates and Foreign Exchange Intervention. KO, Ch 17.
- 7) Policy Issues I:
 - Current account imbalances and the current debate on the US current account
 - Fear of Floating (developing countries)
 - Sovereign Debt Default (past and present)
 - Capital controls
 - Sudden Stops (current account reversals)
 - Twin crises
 - European Union and Optimal Currency Areas
 - Stabilization Policies in Developing countries
 - China and the world economy
- 8) Policy Issues II: KO, Chapters 18, 19, 20, 21, 22 (selected topics, to be announced in class).