

**DEPARTMENT OF ECONOMICS
INTERNATIONAL FINANCE**

Syllabus Spring 2016

Professor: Dr. Caroline Betts
Office Hours: Tuesday 11– 12.00pm, or by appointment (please arrange *all* office hour appointments with me in advance by email)
Office: Kaprielian 316c
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TA: TBA

COURSE GOALS AND OVERVIEW

The course provides students with a foundation in the modern theory of international finance. We use primarily algebraic and diagrammatic techniques to analyze key theoretical models, and also present contemporary empirical evidence, and discuss econometric and other quantitative techniques used to evaluate evidence and the performance of the theories. Specifically, the course analyzes how and why aggregate economies interact with each other through world markets in goods, services, and assets, including currencies. There is special emphasis on foreign exchange markets, alternative exchange rate and financial market regimes, and foreign exchange and related international financial crises. The course begins by reviewing recent evidence on “globalization”; the dramatic growth in trade in goods, services, and assets over the past four decades. It provides some historical perspective to this growth, discusses measurement of trade and growth, and summarizes alternative theoretical explanations for globalization. It analyzes, from an institutional and theoretical perspective, international currency markets and the determination of exchange rates, and the trade in international goods, asset and capital markets which gives rise to currency markets. The course reviews case studies of alternative currency market regimes, including single currency areas, and of international financial crises, and investigates some modern theories of currency crises. There will be two lectures per week, regular class discussions of current events, and some TA discussion sessions to review assignment material.

EVALUATION

Students will complete four assignments throughout the semester which will be graded and returned. Answers will either be provided in TA discussion sessions or in answer guides that will be made available to students via the TA. In addition there will be a midterm examination, held on **Thursday February 25th** in class time (2.00pm - 3.50pm in GFS 118), and a final examination on **Thursday May 5th** (2.00pm

- 4.00pm in GFS 118). The material covered on the final exam is not cumulative relative to the midterm exam.

Finally, each student will prepare a short research project and present the results in a **ten minute** class time presentation. The research project will involve an original study of some current event or issue in international financial markets or international trade using a minimum of two original sources. The student will both present the study in class, and submit a hard copy of the research project. The total class time allocated to the presentations and their discussion will be roughly five class sessions.

The exact breakdown of the evaluation of each student's work in the course is as follows, and no exceptions will be made to this grading scheme:

Assignments (four)	:	20%
Midterm	:	30%
Research Project	:	20%
Final Exam	:	30%

TEXTBOOKS AND READINGS

The required textbook for the course is Paul Krugman, Maurice Obstfeld, and Marc Melitz *International Economics: Theory and Policy* (10th edition), where we use primarily only the second half of the book concerning international finance topics which is also published separately as Paul Krugman, Maurice Obstfeld, and Marc Melitz *International Finance: Theory and Policy* (10th edition). Below I reference the chapters from *International Economics* but will provide the chapter references for *International Finance* in class. Readings from the Economist and Wall Street journal will be assigned as current events become relevant throughout the semester, and are typically available online.

DISABILITIES

Students requesting academic accommodations based on a disability are required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP when adequate documentation is filed. Please be sure that this letter is delivered to me as early in the semester as possible.

ACADEMIC INTEGRITY WARNING

The Department of Economics and this instructor in particular will be vigilant for suspected violations of academic integrity and very strict in enforcement of sanctions including recommending dismissal from the university. For details on the rules and guidelines see SCAMPUS. As a result, students should avoid even the

slightest suspicion by bringing no notes to exams, sitting far from other students and keeping their eyes strictly focused on their own exams.

COURSE OUTLINE

I. Introduction to International Trade and Finance

World Trade Facts
Measurement of International Trade and Openness
Overview of Theories, Definitions and Crucial Concepts
Open Economy Macroeconomics
Balance of Payments Accounting

References: Krugman, Obstfeld and Melitz Chapters 1, 2, 13

II. The Foreign Exchange Market

The foreign exchange market
Fixed vs. Flexible Exchange Rates
Forward Contracts
Futures Contracts
Options in Foreign Exchange

References: Krugman, Obstfeld and Melitz Chapter 14

III. International Money and Capital Markets

Uncovered Investments
Covered Investments
Efficiency and Tests of Inefficient Markets

References: Krugman, Obstfeld and Melitz Chapter 14 and Appendix

IV. Exchange Rate Determination

Nominal Exchange Rate Determination
Producer vs. Consumer Pricing
Real Exchange Rate Determination
Purchasing Power Parity

References: Krugman, Obstfeld and Melitz Chapters 15, 16

V. Open Economy Macroeconomic Equilibrium

Overview of macroeconomic equilibrium in an open economy

Monetary and Fiscal Policy in an open economy

References: Krugman, Obstfeld and Melitz, Chapter 17

VI. Exchange Rate Regimes and Balance of Payments Crises

Fixed vs. Flexible Exchange Rate Regimes

Collapsing Exchange Rate Regimes and Balance of Payments Crises

Single Currency Areas and the Euro

References: Krugman, Obstfeld and Melitz Chapters 18, 19, 20