

**Yale University**  
**International Finance**  
**Econ 724b. Spring 2005. Galina Hale**

The class will cover International Finance and International Monetary Economics. Exchange rate determination, recent development in open economy macroeconomics, currency and financial crises, models of current account, international capital markets and contagion. We will cover theory, empirical evidence and policy issues.

The following combinations of exams and paper are allowed to pass the class:

Midterm + Final

Paper proposal (accepted) + Final (insurance policy if you decide half-way not to work on the paper anymore - not encouraged)

Paper proposal (accepted) + Paper

You are not allowed to submit a paper unless your paper proposal has been accepted. **Paper and proposal** requirement and deadlines are described on course web site.

There will be problem sets for you to better master the course material. You are required to submit them on time, however they will not be graded. Use the answer key provided to check your answers. If you do not turn in the problem sets, it might negatively affect your course grade, but only marginally.

A required textbook for the class is

M. Obstfeld and K. Rogoff "Foundations of International Macroeconomics", MIT Press, 1996 (OR) . Other required and recommended readings are listed in the **reading list** .

### **Lecture Plan.**

#### **Current account**

January 11. Lecture 1.	Introduction Balance of payments Intertemporal approach to CA: 2-period small open economy
January 13. Lecture 2.	2-country world A model with investment
January 18. Lecture 3.	Dynamic CA models: deterministic and stochastic Empirics on CA model
January 20. Lecture 4.	CA and policy issues: open-economy OGM. Feldstein-Horioka puzzle and capital mobility

#### **Exchange rates**

January 25. Lecture 5.	PPP puzzle Bachus-Smith puzzle Mussa puzzle Exchange rate "disconnect" puzzle
January 27. Lecture 6.	Monetary model of exchange rate determination
February 1. Lecture 7.	Exchange rate stabilization and target zones Liquidity models

February 3. Lecture 8.

## **New Open Economy Macroeconomics**

February 8. Lecture 9.

February 10. Lecture 10.

February 15. Lecture 11.

February 17. Lecture 12.

February 22. Lecture 13.

February 24. Lecture 14.

### **Asset trade**

March 1. Lecture 15.

### **March 3. Midterm (in class)**

March 22. Lecture 16.

### **Financial crises**

March 24. Lecture 17.

March 29. Lecture 18.

March 31. Lecture 19.

April 5. Lecture 20.

### **International financial architecture**

April 7. Lecture 21.

April 12. Lecture 22.

April 14. Lecture 23.

### **Student presentations**

Mundell-Fleming model  
Exchange rate "overshooting"

### **(NOEM)**

Basics

Closed vs. Open economy

International transmission

International policy coordination

LOP vs. LCP

Nominal rigidities

Sectoral shocks and non-traded goods

International price discrimination - modelling

Financial frictions versus goods markets imperfections

International spillovers

Empirical performance of NOEMs

International asset trade: theories.

International asset trade: empirical analysis.

Risk-sharing

Consumption correlation puzzle

Portfolio home bias puzzle

The logic of currency crises: first vs. second generation models

The coordination problem in the theory of currency crises

Financial crises: debt, banking, currency: theory

Financial crises: debt, banking, currency: evidence

International financial contagion: theory

International financial contagion: empirical challenges  
...and evidence

Financial stability and the choice of exchange rate regime

Credibility and fear of floating

Sovereign debt problems: theory and policy

Debt repurchase debate

Reputation for repayment debate

Preventing financial crises

Minimizing costs of financial crises

Capital controls: theory and evidence

Dollarization and "original sin"

April 19, 21