SYLLABUS

All this information and much more – on the web site:

This course discusses monetary equilibrium and policies of an open economy as well as global financial markets. We will focus on equilibrium exchange rates in short and long run, exchange rate policies, financial crises, international financial policy coordination. We will discuss developed and developing countries and use analytical tools to analyze recent events and issue: international financial crises, creation of the Euro, US current account deficit, various aspects of globalization. You will also learn about the functioning of the international financial markets and about international banking. After two terms of introductory economics and ECON 154a or b.

This class meets on TuTh 11:30-12:45
Instructor: Galina Hale galina.hale@yale.edu 432-3562
Office hours: Th 2-4pm in 28 Hillhouse, room 308

There will be
eight problem sets (20% of the final grade),
two 25-minute quizzes (10% of the final grade each) 2/1 and 3/31,
one 75-minute midterm (30% of the final grade) 2/22 and a
non-cumulative 75-minute final (30% of the grade) 5/9 at 9am.

It might sound like too much, but it will allow you to do much less studying during the finals and takes the stress off the exams. It also encourages you to work throughout the semester without falling behind, which is the best way to learn the material in this class. Class participation will also affect your grade at the margin. You are allowed to work on problem sets together but each student is supposed to write his or her own original answers. Identical answers will be marked down.

READINGS

There is a required textbook and some additional articles. You are also required to be informed of the current events in the international financial markets. This can be achieved by reading Financial Times, Wall Street Journal, International Herald Tribune or New York Times on daily basis and The Economics on a weekly basis. All these should be available in the library. Most important news will be posted on the Main page.

Required text: Paul R. Krugman and Maurice Obstfeld "International Economics: Theory and Policy", 6th edition. (KO) Chapters 1, 12-22 (Including Appendixes). It is available for purchase at Yale bookstore or at Amazon (best price at amazon.co.uk). Please do not use earlier editions as many changes have been made in most recent edition. You can buy a used book, however, the publisher has issued a (small) update for this year, which comes along with a new book. If you buy a used book, please check with me regarding the material you will have to read from the update, available at the library.

The book comes with the password to the web site where additional materials can be found. These are not required, but can prove useful - you can practice on quiz questions, for example.
Additional readings (those are useful for the class and some are required - see Lecture Plan below):


We will be working with the data available on the World Wide Web: links are provided on the course web site.

LECTURE PLAN

If we fall behind or run ahead, the schedule will be updated. However, the order of material covered and the readings will not be altered. Readings with (*) are required. Please read ahead!

I. Introduction

I.1. Balance of Payments and Open economy macroeconomics (L1. 1/11)
   * KO ch.12
   Please review National Income accounts from your Macro course

I.2. Assets, exchange rates and global financial markets

   I.2.a. Exchange rates, relative prices and asset prices (L2. 1/13 Problem set 1 out)
   * KO ch.13 pp.324-341 and ch.21 pp. 636-647

   I.2.b. Equilibrium exchange rate, interest parity, efficiency of global capital markets (L3. 1/18 )
   * KO ch.13 pp.341-356, ch.21 pp.655-662

II. Open economy macroeconomics

II.1. Money, Interest rate and Exchange rate - a model set-up (KO ch.14)

II.1.a. Money market equilibrium and exchange rates with fixed prices (L4. 1/20 P.s.1 due. P.s. 2 out)
* KO ch.14 pp.357-373

II.1.b. Money and exchange rates with flexible prices and overshooting (L5. 1/25 )
* KO ch.14 pp.373-384

II.1.c. Inflation and exchange rates: empirical evidence (L6. 1/27 P.s. 2 due)
* KO ch.14 pp.375-379

II.2. Open economy equilibrium in a long run (KO ch.15)

II.2.a. Purchasing Power Parity and Exchange rates (L7. 2/1 Quiz 1 on I, II.1)
* KO ch.15 pp.388-399, 430-432

II.2.b. Empirics and problems of PPP, nominal and real exchange rates (L8. 2/3 P.s. 3 out)
* KO ch.15 pp.400-415
* The Economist, April 24, 2003 "McCurrencies" (photocopy available in class during L7)

II.2.c. Beyond PPP: general model and real interest rate parity (L9. 2/8)
* KO ch.15 pp.411-424

II.3. Open economy equilibrium in a short run (KO ch.16)

II.3.a. Current account and aggregate demand in an open economy (L10. 2/10 P.s.3 due. P.s. 4 out)
* KO ch.16 pp.433-445, 475-476
KO ch.16 Appendix III pp.477-480 (very useful if you are familiar with international trade theory)

II.3.b. Asset market and open economy equilibrium (L11. 2/15)
* KO ch.16 pp.445-454
KO ch.16 Appendix I pp.470-474 (very useful if you are familiar with IS-LM model)

II.3.c. Macroeconomic policy in an open economy (L12. 2/17 P.s. 4 due.)
* KO ch.16 pp.455-466

2/22 Review of the material up to now

2/24 Midterm exam (covers I and II)
III. Exchange rate regimes and exchange rate policy debate

III.1. Exchange rate regimes and foreign exchange intervention (L13. 3/1 P.s. 5 out.)
* KO ch.17 pp.481-493, 505-511,522-524
  Obstfeld, M. "Exchange Rates and Adjustment: Perspectives from the Open Economy
  Macroeconomics", NBER WP 9118.

III.2. Currency crises (L14. 3/3)
* KO ch.17 pp.502-505,527-530

III.3. How to choose Exchange rate regime?
   III.3.a. Policy goals and limitations: external/internal balances and policy trilemma (L15. 3/22 P.s. 5 due, P.s. 6 out)
* KO ch.18, ch.21 p.643, ch.22 pp.699-701
  Edwards, Sebastian (1990) "How Effective Are Capital Controls?" NBER Working Paper 7413
* Obstfeld, Maurice, Jay C. Shambaugh and Alan M. Taylor (2003) "The Trilemma in History:
  Tradeoffs among Exchange Rates, Monetary Policies, and Capital Mobility"

   III.3.b. Exchange rate regimes: options, pros and cons (L16. 2/24)
* KO ch.17 pp.494-501, 511-517 ch.19 pp.568-577
  5191
* Frankel, J. (2003) "Experience of and Lessons from Exchange Rate Regime in Emerging Economies"
  NBER WP 10032
  WP 9809.
  Frankel, Jeffrey. (2003) "A Proposed Monetary Regime for Small Commodity-Exporters": Peg the
  Export Price".

III.4. Optimum currency areas and the Euro (L17. 3/29 P.s.6 due)
* KO ch.20
  on dollarization and independent currency unions", NBER WP 9514. Only introduction is required.

IV. International financial architecture and globalization debate

IV.1. International financial crises
   IV.1.a. International financial crises: currency, debt and banking - empirics (L18. 3/31 Quiz 2 on III.)
* KO ch.22 pp.665-698

   IV.1.b. International financial crises: currency, debt and banking - analysis (L19. 4/5 P.s. 7 out.)
during L18).
Perspectives, 13(4), pp. 3-20.
   * Handout (Romer, Advanced Macro, 2nd edition, pp.576-582) - available in class during L18.

IV.1.c. Origins of the crises: credibility and "original sin" (L20. 4/7)
   * Calvo, G. and C. Reinhart "Fear of Floating", NBER WP 7993

IV.2. Global capital markets: problems and solutions

IV.2.a. International coordination and domestic policies (L21. 4/12 P.s. 7 due, P.s. 8 out.)
   * KO ch.19 pp. 582-597, 601-603, ch.22 pp.698-702

IV.2.b. International financial institutions and sovereign debt problems (L22. 4/14.)
   * KO ch.18 pp. 546-551, 556-564
   * Krueger, Anne (2002) "Preventing and Resolving Financial Crises: The Role of Sovereign Debt Restructuring"

IV.3. International bank regulations and banking around the world (L23. 4/19 P.s. 8 due.)
   *KO ch.21 pp.643-654

L24. 4/21 Catch-up and review - prepare your questions!

5/9  9-10:15am.  Final (covers III and IV)