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 it the problem sets, it might negatively affect your course grade, but only marginally.

A required textbook for the class is

Other required and recommended readings are listed in the **reading list**.

**Lecture Plan.**

**Current account**

- Introduction
- Balance of payments
- Intertemporal approach to CA: 2-period small open economy

- 2-country world
- A model with investment

- Dynamic CA models: deterministic and stochastic
- Empirics on CA model
- 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

- Monetary model of exchange rate determination

February 1. Lecture 7.
- Exchange rate stabilization and target zones
- Liquidity models
February 3. Lecture 8. 
Mundell-Fleming model
Exchange rate "overshooting"

New Open Economy Macroeconomics (NOEM)
Basics

Closed vs. Open economy

February 15. Lecture 11. 
International transmission
International policy coordination
LOP vs. LCP

February 17. Lecture 12. 
Nominal rigidities
Sectoral shocks and non-traded goods
International price discrimination - modelling

Financial frictions versus goods markets imperfections
International spillovers

Empirical performance of NOEMs

Asset trade
March 1. Lecture 15. 
International asset trade: theories.

March 3. Midterm (in class)
March 22. Lecture 16. 
International asset trade: empirical analysis.
Risk-sharing
Consumption correlation puzzle
Portfolio home bias puzzle

Financial crises
March 24. Lecture 17. 
The logic of currency crises: first vs. second generation models
The coordination problem in the theory of currency crises

March 29. Lecture 18. 
Financial crises: debt, banking, currency: theory

March 31. Lecture 19. 
Financial crises: debt, banking, currency: evidence
International financial contagion: theory

April 5. Lecture 20. 
International financial contagion: empirical challenges
...and evidence

International financial architecture
April 7. Lecture 21. 
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"

Student presentations
April 19, 21