

Econ 3620:

International Monetary Theory and Policy

Lectures: MWF 2:30 - 3:20PM, Baker Lab, room 119

Office hours: MW 3:30 - 5:00PM, Uris Hall, room 452

This class focuses on such international economics subjects as current account, international good prices and patterns of trade, exchange rate determination, open economy monetary and fiscal policy, international capital markets, financial crises. This course will have a fair amount of theoretical models, but the task is to get as quickly as possible to analyzing real world situations.

The course's roadmap is as follows. First, we want to learn national income and balance of payments accounting (trade and financial flows) and analyze observed data patterns. An example of a data pattern that we will be interested in is the declining U.S. current account.

Second, we want to learn how does the exchange rate market works and how exchange rates are determined. Here we will take the so-called asset approach to exchange rate determination.

Third, we will develop a model for evaluation of monetary and fiscal policies in an open economy. In particular we want to know what their effects are in the short-run and in the long-run, how the domestic policies are transmitted abroad, and how the availability of policy instruments is affected by the choice of the exchange rate regime. A sample question we will try to answer after learning this material is: "Should have China adopted a flexible exchange rate regime?"

Fourth and final, we want to take a look at the international capital markets, the international portfolio diversification problem and financial crises. Here we will study the international non-diversification puzzle, and some important financial crises, like the one in Mexico in 1994.

The course will be intervened with case studies that will be determined as we proceed.

Each week I will assign a homework and post a solution a week later. Your grade in this class will consist of your performance on two midterm exams (25+25%, September 28th and November 2nd) and a final exam (25%), homework grade (15%) and class participation (10%).

The main text-book for this class is:
P.Krugman and M.Obstfeld, “*International Economics: Theory and Policy*,”
8th ed., Addison-Wesley. (KO)
(Seventh edition can be also used.)

Other texts used are:
– “International Economics, Globalization, and Policy: A Reader,” 2nd edition, by Philip and Sharmila King
– “Macroeconomics” by Olivier Blanchard

Topics covered from the book are:

1. National Income Accounting and the Balance of Payments
(KO 12)
2. Exchange Rates and the Foreign Exchange Market
(KO 13,14)
3. Price Levels, the Exchange Rate and Patterns of Trade
(KO 15,16 + notes)
4. Fixed Exchange Rates and Foreign Exchange Intervention
(KO 17)
5. International Macroeconomic Policy
(KO 18,19,20 + notes)
6. The Global Capital Market
(KO 20)
7. Financial Crises
(KO 21 + notes)

I will assign extra reading as we go along.