



Department of Economics and Finance

ECON*6320
International Finance
Fall 2013



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Office Hours: Mondays and Wednesdays, 4:00-5:00 pm and by appointment

It is your responsibility as a student to be aware of and to abide by the University's policies regarding academic misconduct, e-mail communication, maintaining copies of out of class assignments, what to do when you cannot meet a course requirement and the drop date for this semester. To better understand these policies, visit:

<http://www.uoguelph.ca/economics/node/1115>

COURSE OUTLINE

Textbooks:

There is no required book for this course. The *recommended* textbook is

Foundations of International Macroeconomics
M. Obstfeld and K. Rogoff
MIT Press, Cambridge, MA. 1996

Another textbook helping you to refresh your background knowledge about International Finance is

International Economics: Theory and Policy
P. Krugman and M. Obstfeld
Pearson Education, 7th Edition, 2005.

The two textbooks are reserved at the department library for your access. Note that the department library is closed from 12:00PM to 2:00PM.

Course Objectives:

This course will focus on the following major issues in international finance:

- (1) evolution of the current account over time using the intertemporal approach;
- (2) determination of exchange rates;
- (3) exchange rate regimes and their effects on macroeconomic variables and welfare;
- (4) currency crises.

Students are expected to develop a thorough understanding of these issues and to form a thoughtful personal perspective on them.

Course Requirements:

The final mark will be determined by a weighted average of scores on four assignments, a midterm, and a final exam. The weights will be:

Assignments	20%
Midterm Exam (Oct 14, 2013 in class)	30%
Final Exam (TBA, during the exam session)	50%

Course Outline:

1. Introduction

- a. Balance of Payments
- b. National Income Accounting

Readings:

- Nelson C. Mark, 2001, International Macroeconomics and Finance, Chapter 1.
- P. Krugman and M. Obstfeld, 2005, International Economics: Theory and Policy, Chapter 12.

2. The Intertemporal Approach to the Current Account

(1) Intertemporal Trade and the Current Account Balance

- a. A Small Open Endowment Economy Model
- b. A Model with Investment
- c. A Model with Government
- d. Two large economies with interest rate endogenously determined

(2) Dynamics of Small Open Economies

- a. Small Economy with Many Periods
- b. Dynamics of the Current Account

Readings:

- Obstfeld and Rogoff, 1996, Foundations of International Macroeconomics, Chapter 1, 2.

3. The Determination of Exchange Rates

- a. Purchasing Power Parity (PPP)
- b. Uncovered Interest Parity (UIP)
- c. Monetary Approach to Exchange Rates
- d. Equilibrium Approach to Exchange Rates

Readings:

- Richard C. Lyons, 2003, The Microstructure Approach to Exchange Rates, Chapter 6.
- Obstfeld and Rogoff, 1996, Foundations of International Macroeconomics, Chapter 8, Section 8.2, Chapter 9, Section 9.2.
- Taylor, Alan and Mark Taylor, 2004, The Purchasing Power Parity Debate, Journal of Economic Perspectives, Vol. 18, No. 4, pp135-158.
- Froot, K and K. Rogoff, 1995, Perspectives on PPP and Long-run Real Exchange Rates. In Handbook of International Economics, edited by G. Grossman and K. Rogoff. Amsterdam: Elsevier Science.
- Kenneth Rogoff, 2002, Dornbusch's Overshooting Model after Twenty-Five Years

4. Exchange Rate Regimes

Readings:

- Robert A. Mundell, A Theory of Optimal Currency Areas, 1961, American Economic Review, Vol. 51, No. 4, 657-665.
- Obstfeld, M. and K. Rogoff, 1995, The Mirage of Fixed Exchange Rates, The Journal of Economic Perspectives, Vol. 9, No. 4, 73-96.
- Calvo, G. and F. Mishkin, 2003, The Mirage of Exchange Rate Regimes for Emerging Market Countries.
- Calvo, G. and C. Reinhart, 2002, Fear of Floating, Quarterly Journal of Economics, Vol. CXVII, Issue 2, 379-408.
- Nelson C. Mark, 2001, International Macroeconomics and Finance, Chapter 8, Section 8.1.

5. Currency Crises

- a. The First Generation Currency Crisis Model
- b. The Second Generation Currency Crisis Model
- c. The Third Generation Currency Crisis Model

Readings:

- Jeanne, Olivier D., 2000, Currency Crises: A Perspective on Recent Theoretical Developments, Princeton Special Papers in International Economics 20, 2000.
- Flood, Robert, Peter Garber, 1984, Collapsing Exchange-rate Regimes: Some Linear Examples, Journal of International Economics, 17, 1-13.
- Obstfeld, Maurice and K. Rogoff, 1996, Models of Currency Crisis with Self-Fulfilling Features, European Economic Review 40, 1037-47.
- Morris, Stephen and Hyun Song Shin, 1998, Unique Equilibrium in a Model of Self-Fulfilling Currency Attacks, American Economic Review 88, 587-97.
- Chang, Roberto and Andres Velasco, 2001, “A Model of Financial Crises in Emerging Markets,” Quarterly Journal of Economics, 116, 489-517.
- Chari, V.V. and Patrick Kehoe, 2003, “Hot Money,” Journal of Political Economy, 111, 1262-1292.
- Nelson C. Mark, 2001, International Macroeconomics and Finance, Chapter 11.

Course Evaluation:

You will be asked to complete an evaluation of this course at some time during the last two weeks of the semester. **The evaluation for this course will be done in class.** The Department of Economics policy regarding the conduct and use of these evaluations will be found at

<http://www.uoguelph.ca/economics/academics/courses/course-evaluation>