



General Course Information

Instructor: Mei Li

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Office Location MacKinnon 745

Office Hours Tuesdays and Thursdays, 11:30AM-12:30PM

Department/School Economics & Finance

Class Schedule: Lectures: 10:00AM-11:20 AM, Tuesdays and Thursdays
MCKN, Room 059

Course Description

This course will cover several important topics in international finance, including the intertemporal approach to the current account, exchange rate determination, alternative exchange rate regimes, and currency crises. In particular, several theories on exchange rate determination, such as the Uncovered Interest Parity, the Purchasing Power Parity and its variations, the monetary approach to exchange rates, and the equilibrium approach to exchange rates, are introduced. The first-, second-, and third- generation currency crisis models are also studied. Students are expected to develop a thorough understanding of these issues and to form a thoughtful personal perspective on them.

Indicative Content

1. Introduction

- 1) Balance of Payments
- 2) 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, 135-158.
- 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.

4. Exchange Rate Regimes

Readings:

- Robert A. Mundell, A Theory of Optimal Currency Areas, 1961, American Economic Review, Vol. 51, No. 4.
- 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, The Journal of Economic Perspectives, Vol. 17, No. 4, 99-118
- Calvo, G. and C. Reinhart, 2002, Fear of Floating, Quarterly Journal of Economics, Vol. CXVII, Issue 2, 379-408.

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:

- 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 (April 1996), 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.
- Mei Li and Frank Milne, 2014, The Role of a Large Trader in a Dynamic Currency Attack Model, *Journal of Financial Intermediation*, 23 (4), 590-620.

Course Assessment

			Due Date/ location
Assessment 1:	15%	Three assignments	In class
Assessment 2:	20%	Individual Essay	TBA
Assessment 3:	20%	Midterm Exam	In class
Assessment 4:	45%	Final Exam	TBA
Total	100%		

The individual essay should be on a topic related to course materials. The essay could be a critical survey of the theories studied in the course, an application of these theories to a real world event, or the combination of both.

Course Resources

Recommended Texts:

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

This textbook is reserved at the department library for your access. Note that the department library is closed from 12:00PM to 2:00PM.

There is no required textbook for this course. The lecture notes, which are based on several books and various papers, will be the most important resource that you should rely on for this course.

Course Policies

Grading Policies

<https://www.uouelph.ca/registrar/calendars/undergraduate/current/c08/c08-grds-proc.shtml>

Course Policy regarding use of electronic devices and recording of lectures

Electronic recording of classes or the use of cameras (including cell phones and iPads) in class is expressly forbidden without consent of the instructor. When recordings are permitted they are solely for the use of the authorized student and may not be reproduced, or transmitted to others, without the express written consent of the instructor.

University Policies

Academic Consideration

When you find yourself unable to meet an in-course requirement because of illness or compassionate reasons, please advise the course instructor in writing, with your name, id#, and e-mail contact. See the academic calendar for information on regulations and procedures for

Academic

Consideration:

<http://www.uouelph.ca/registrar/calendars/undergraduate/current/c08/c08-ac.shtml>

Academic Misconduct

The University of Guelph is committed to upholding the highest standards of academic integrity and it is the responsibility of all members of the University community, faculty, staff, and students to be aware of what constitutes academic misconduct and to do as much as possible to prevent academic offences from occurring.

University of Guelph students have the responsibility of abiding by the University's policy on academic misconduct regardless of their location of study; faculty, staff and students have the responsibility of supporting an environment that discourages misconduct. Students need to remain aware that instructors have access to and the right to use electronic and other means of detection. Please note: Whether or not a student intended to commit academic misconduct is not relevant for a finding of guilt. Hurried or careless submission of assignments does not excuse students from responsibility for verifying the academic integrity of their work before submitting it. Students who are in any doubt as to whether an action on their part could be construed as an academic offence should consult with a faculty member or faculty advisor.

The Academic Misconduct Policy is detailed in the Undergraduate Calendar:

<https://www.uouelph.ca/registrar/calendars/undergraduate/2015-2016/>

Accessibility

The University of Guelph is committed to creating a barrier-free environment. Providing services for students is a shared responsibility among students, faculty and administrators. This relationship is based on respect of individual rights, the dignity of the individual and the University community's shared commitment to an open and supportive learning environment. Students requiring service or accommodation, whether due to an identified, ongoing disability or a short-term disability should

contact the Centre for Students with Disabilities as soon as possible.

For more information, contact CSD at 519-824-4120 ext. 56208 or email csd@uoguelph.ca or see the website: <http://www.uoguelph.ca/csd/>

Course Evaluation Information

Please refer to the <https://www.uoguelph.ca/economics/course-evaluation>

Drop date

The last date to drop one-semester courses, without academic penalty, is Nov, 6th, 2015. For regulations and procedures for Dropping Courses, see the Academic Calendar:

<https://www.uoguelph.ca/registrar/calendars/undergraduate/current/>