GOALS

The course analyzes international economic and financial data and events using the tools of economic theory. The goals of the course are

i) to familiarize students both with relevant international data and current events

ii) to introduce students to a body of simple theoretical models and concepts which serve as tools for organizing our thoughts about, and formally analyzing, current data and events in the world economy

iii) to foster greater student understanding of how the world economy works and to encourage students to develop ideas regarding appropriate policy prescriptions.

OVERVIEW

The course presents the central issues, theories, and policy recommendations which comprise the economics of international finance. We study the operation of foreign exchange and other international financial markets, how currency exchange rates and the prices of other internationally traded assets are determined, and how alternative monetary and fiscal policies, and different exchange rate regimes, affect macroeconomic outcomes in individual economies. The course emphasizes the theoretical and policy issues arising from recent financial crises in Asia and Latin America, from the introduction of a single currency area in Europe, and from dollarization in Latin America. This semester, we will follow economic and political events in Argentina over the past several years rather closely.

STRUCTURE

There are two lectures per week, on Tuesday and Thursday from 2.00pm-3.50pm. These
lectures are based on the textbooks mentioned below, and on journal and financial press articles. Active and constructive class participation is encouraged. There will be four assignments through the semester, which involve analytical problem solving, and some data and policy analysis. There is a midterm examination on Tuesday October 9th in class time from 2.00pm-3.50pm, and a final examination on Thursday December 11th from 11.00am until 1.00pm. Finally, each student makes a ten minute class presentation using a projector and transparencies. The presentation must pertain to some contemporary issue or event in world financial markets or world trade. Please note that:

*Students are expected to read assigned articles from economic and financial publications such as the Wall Street Journal and the Economist, and to be familiar with current events in the world economy.*

**EVALUATION**

Your final grade in the class will be determined as the following weighted average of your work throughout the semester

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
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<tbody>
<tr>
<td>Class Presentation</td>
<td>10%</td>
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<tr>
<td>Assignments</td>
<td>20%</td>
</tr>
<tr>
<td>Midterm Exam</td>
<td>35%</td>
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<tr>
<td>Final Exam</td>
<td>35%</td>
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**TEXTBOOKS**

There is one required textbook for this class. It is *International Finance and Open Economy Macroeconomics* (second ed.) by Francisco Rivera-Batiz and Luis Rivera-Batiz. There is also an optional text, for an additional, more concise presentation, *International Money and Finance* (seventh ed.) by Michael Melvin.

**PRE-REQUISITES**

The pre-requisite for this class is ECON 305, Intermediate Macroeconomic Theory, or its equivalent, and hence MATH 118x or MATH 125. A strong background in microeconomic theory is also very helpful.

**STUDENTS WITH DISABILITIES**

Students requesting academic accommodations based on a disability are required to register with the Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from the DSP when adequate documentation is filed. Please be sure the letter is delivered to me (or to my TA) as early in the semester as possible. DSP is open Monday-Friday, 8.30am-5.00pm. The office is in Student Union 301, and their telephone number is (213) 740-0776.
COURSE POLICIES

i) All parts of the course must be completed for a “complete” final grade to be assigned.

ii) There will be no changes to the weighting system at any time or for any reason.

iii) Assignments are due at the beginning of class, on the due date printed on the assignment. Late assignments will be heavily penalized as follows:

   Assignments submitted late, but on the due date before 5.00pm, will be penalized 10% of the total number of assignment points. Assignments submitted the first day following the due date will be penalized 50% the total number of assignment points. Assignments submitted the second day following after the due date or later will not be graded.

iv) “Makeup” exams for students are only offered on an exceptional basis (illness supported by a doctor’s note, serious family illness, etc.).

v) Students are expected to attend all classes, unless exceptional circumstances prevent it. In such cases, I should be notified be telephone or email prior to the beginning of class.

COURSE OUTLINE AND TEXTBOOKS READINGS

0. Introduction to the World Economy

   Motivation for trade in goods from static trade theory
   Heckscher-Ohlin / Ricardo and comparative advantage
   Motivation for trade in goods from inter-temporal theory
   Growth of trade in goods relative to GDP
   Growth of trade in financial assets, financial market integration

* Introduction, Rivera-Batiz and Rivera-Batiz

1. International Payments and Exchange

   Balance of payments accounts
   Current account, capital account, trade balance
   Fixed Exchange Rates and balance of payments
   International Investment Position

* Chapters 9-11, Rivera-Batiz and Rivera-Batiz
  Chapter 2, Melvin

2. The Growth of Trade and Regional Trade Blocs

   The law of one price, traded goods, non-traded goods
   Tradability of goods and the size of trade
Growth in trade/GDP
Concentration of trade vis. partners and trade blocs

Chapter 22, Rivera-Batiz and Rivera-Batiz

3. LDC Debt and Debt Crises

Trade in financial assets and debt
Default - historical and contemporary experience
Tequila effects and the East Asian Crisis

Chapter 12 in Rivera-Batiz and Rivera-Batiz

4. The Foreign Exchange and Forward Markets

Institutions of the spot and forward markets
Spot and forward exchange rate transactions
Futures and Options
Market efficiency
Fixed vs. Flexible Exchange Rates
Government Intervention and Exchange Rate Management

* Chapters 1 and 2, Rivera-Batiz and Rivera-Batiz
  Chapters 1 and 3, Melvin

5. International Money and Capital Markets

Efficient investment in short-term credit instruments
Expectations, beliefs and the market
International flows of funds and institutions

* Chapters 4, 5 and 6, Rivera-Batiz and Rivera-Batiz
  Chapters 4, 5 and 6, Melvin

6. LDC Foreign Exchange and Currency Crises

Currency Boards vs. Fixed Exchange Rates
Exchange Rate Based Inflation Stabilization Plans in Latin America

* Web Page of Nouriel Roubini, NYU Stern School of Business
* Chapters 3 and 12, Rivera-Batiz and Rivera-Batiz
Chapter 3 Melvin

7. Theories of Exchange Rate Determination

Back to the law of one price and tradability of goods
Producer vs. Consumer pricing and monopolistic competition
Absolute and Relative Purchasing Power Parity
Betts-Kehoe decomposition and empirical results
Transactions costs

Chapters 8 and 10, Melvin

8. European Monetary Union and Dollarization

* Chapters 21-22, Rivera-Batiz and Rivera-Batiz
* Chapter 3, Melvin