

Course Outline

Department of Economics
School of Business and Economics

ECON 4560-3
International Macroeconomics and Finance (3,0,0)

Calendar Description

Students explore the determination of exchange rates in an open economy and policies that governments may adopt to influence their movement. Topics include balance of payments; foreign exchange markets; interaction of the money, interest rates and exchange rates (previous phrase is unclear); exchange rates in the long run, including purchasing power and interest rate parity; exchange rates in the short run; fixed exchange rates and foreign exchange intervention; history of the international monetary system; macroeconomic policy under floating exchange rates; and performance of global capital markets and policy issues.

Educational Objectives/Outcomes

After completing this course, students should be able to:

1. Describe issues in international macroeconomics and finance.
2. Analyze how macroeconomic policy of one country affects other countries.
3. Demonstrate how financial markets, financial institutions and monetary policy work.
4. Identify factors causing exchange rates to fluctuate.
5. Explain how exchange rates fluctuation affects other macroeconomic variables.
6. Discuss the functions of the international monetary and financial system.
7. Evaluate purchasing power parity and law of one price.
8. Describe the implications of Trilemma on macroeconomic policy.

Prerequisites

ECON 2330 or ECON 3330 or equivalent; ECON 2950

Co-requisites

Texts/Materials

Paul R. Krugman and Maurice Obstfeld, International Macroeconomics: Theory and Policy, 7th Edition, Pearson Addison-Wesley, 2006.

Student Evaluation

Participation	0-20%
Assignments/quizzes	0-20%
Project/paper	0-25%
Midterm(s)	30-60%
Final exam	0-50%

Course Topics

1. National Income Accounting and the Balance of Payments
 - National income accounts
 - National income accounts and the open economy
 - Balance of payments accounts
 - Current accounts
 - Capital accounts
 - Financial accounts
 - Statistical discrepancy
 - Official reserve transactions
2. Exchange Rates and Foreign Exchange Markets: An Asset Approach
 - Exchange rates and international transactions
 - Foreign exchange market
 - Demand for foreign currency assets
 - Equilibrium in the foreign exchange market
 - Interest rate, expectations, and equilibrium
3. Money, Interest Rates, and Exchange Rates
 - Money
 - Demand for money by individuals
 - Aggregate demand for money
 - Equilibrium interest rate: the interaction of the money supply and demand
 - Money supply and the exchange rate in the short run
 - Money, the price level, and Exchange Rates in the long run
 - Inflation and exchange rate dynamics
4. Price Level and the Exchange Rate in the Long Run
 - Law of one price
 - Purchasing power parity (PPP)
 - Long run exchange rate model and the law of one price
 - Explaining the problem with PPP
 - Beyond the PPP: a general mode of long run exchange rates
 - International interest rate differences and the real exchange rate

- Real interest rate parity

5. Output and the Exchange Rate in the Short Run

- Determination of aggregate demand in an open economy
- Equation of aggregate demand
- How output is determined in the short run
- Output market equation in the short run
- Asset market equation in the short run
- Short run equation for an open economy
- Temporary change in monetary and fiscal policy formulation
- Inflation bias and the other problems of policy formulation
- Permanent shift in monetary and fiscal policy
- Macroeconomic policy and the current account
- Gradual trade flow adjustment and current account dynamics

6. Fixed Exchange Rate and Foreign Exchange Intervention

- Why study fixed exchange rates?
- Central bank's intervention and the money supply
- How the central bank fixes the exchange rate?
- Stabilization policies with a fixed exchange rate
- Balance of payment crisis and capital flight
- Managed floating and sterilized intervention
- Reserved currencies in the world monetary system
- Gold standard system

7. International Monetary System 1870 – 1973

- Macroeconomic policy goal in an open economy
- International macroeconomic policy under gold standard, 1870-1914
- Origins of the gold standard
- External balance under the gold standard
- Interwar years, 1918-1939
- Bretton Woods system and the IMF
- Analyzing policy options under the Bretton Woods System
- External balance problem of the USA
- World Wide inflation and the transition to floating exchange rates

8. Macroeconomic Policy and Coordination under Floating Exchange Rate

- Case for floating exchange rates
- Case against floating exchange rates
- Macroeconomic interdependence under a floating exchange rate

- What has been learned since 1973?

9. Global Capital Market: Performance and Policy Problem

- International capital market and gains from trade
- International banking and the international capital market
- Regulating international banking
- How well has the international capital market performed?

Methods for Prior Learning Assessment and Recognition

As per TRU policy

Attendance Requirements – Include if different from TRU Policy

As per TRU policy

Special Course Activities – Optional

Use of Technology – Optional