

Syllabus

INTB 336 - International Money and Finance

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Course Web site: In Drexel Learn - <https://learn.dcollege.net>

Lecture time: Tuesdays & Thursdays 4 – 5:50PM in GHall 406.

Office hours: Tuesdays & Thursdays 2 – 3PM in GHall 1045.

COURSE DESCRIPTION

This course covers fundamental issues in international money and finance and open economy macroeconomics. We will learn about balance of payments, foreign exchange rates, interest and purchasing power parity, and financial crises. We will also deal with the effects of fiscal and monetary policy in an open economy. The course treatment will be mainly theoretical. However, we will frequently refer to features of the international financial markets data, and we will use examples, case studies, readings, videos and policy applications to illustrate the findings of the theory and/or to try to bridge the gap between the predictions of theoretical models and real world developments.

LEARNING OBJECTIVES AND GOALS

Having completed this course, the student should be able to:

- 1) Explain the market mechanism through which the equilibrium interest rate is determined in an open economy.
- 2) Explain the market mechanism through which the equilibrium exchange rate is determined in a flexible exchange rate system.
- 3) Explain how fixed exchange rate regimes work.
- 4) Discuss the effects of fiscal policy in an open economy, including those on interest rates, exchange rates, capital flows, the trade balance and the current account.
- 5) Discuss the effects of monetary policy in an open economy, including those on interest rates, exchange rates, capital flows, the trade balance and the current account.
- 6) Explain how these effects differ across types of exchange rate regime.

PRE-REQUISITES

ECON 201 and ECON 202

REQUIRED COURSE MATERIALS (one of the following two books).

Krugman, Obstfeld and Melitz, “International Economics: Theory and Policy”, 9th edition.
(KOM1)

Krugman, Obstfeld and Melitz, “International Finance: Theory and Policy”, 10th edition.
(KOM2)

Three copies of KOM-1 are available on reserves at Hagerty Library.

Additional readings from both newspapers and academic journals will be assigned during the term. They will be required material for exams and they will be posted in the course website.

GRADING POLICY AND COURSE RULES

- 1) Your course grade will be computed as follows: Homework assignments (10%), 2 midterm exams (30% each), final term paper (30% = 20% for the paper itself and 10% for the in-class presentation). Please notice that active class participation is considered for a potential bump-up at the end of the term. By “active” participation I do not just mean attending lectures. I mean posing interesting questions, answering questions, actively and respectfully debating in class, and engaging with the rest of the class and all course materials.
- 2) There are 5 homework assignments. You can drop the one with the lowest grade.
- 3) Homework is due in class at the beginning of the lecture time. Late homework will not be accepted. If an assignment is submitted late, it will then automatically become your dropped assignment.
- 4) Assignments should be hard copies. Electronic versions by email won’t be accepted.
- 5) The midterm exams might be combinations of multiple choices, short answers, mathematical questions and questions on the extra readings.
- 6) Some of the homework assignments and the midterm exams include extra credit points.
- 7) Homework due dates will be assigned during the term based on the timing of lectures.
- 8) There will be 2 short extra credit projects for 1 or 2 points each added to your final average.
- 9) The final term paper will be written as a part of a group project. I will divide the class in groups of 3 students each. Each group will do research and write a paper on one of the topics listed in the course outline. Papers should be 10 pages long in total including references and one title-abstract page (size 12 font, 1.5 line spacing, standard margins).

Each group will present their work during the last three lectures of the term. The presentation schedule will be announced by week 4 and posted on the course website.

10) Your final grade is based on the following scale (out of a maximum of 100%):

98 % and above:	A+
94 – 97 %:	A
90 – 93 %:	A–
86 – 89 %:	B+
82 – 85 %:	B
79 – 81 %:	B–
75 – 78 %:	C+
70 – 74 %:	C
67 – 69 %:	C–
64 – 66 %:	D+
60 – 63 %:	D
below 60 %:	F

The above cutoff points might be lowered but they will not be raised.

11) Drexel University Policies: In order to protect and maintain a superior learning environment at LeBow College of Business, all students must review and adhere to Drexel University’s Academic Honesty Policy.

For details, see: http://drexel.edu/studentaffairs/community_standards/studentHandbook/
Forms of academic dishonesty include plagiarism, fabrication, cheating, and academic misconduct. Students are responsible for the authenticity of material submitted both for individual and group work. The Hagerty Library offers a brief online tutorial for recognizing and avoiding plagiarism at:

<http://www.library.drexel.edu/resources/tutorials/plagiarism/plagiarism.html>

Drexel University policies on dishonesty, disabilities and related topics may be found at the following links:

http://drexel.edu/studentaffairs/community_standards/studentHandbook/

http://www.drexel.edu/studentlife/community_standards/studentHandbook/general_information/code_of_conduct.asp

<http://drexel.edu/~media/Files/oed/PDF/Non-Discrimination-Reasonable%20Accommodation%20of%20Individuals%20with%20Disabilities%20Policy.ashx>

COURSE OUTLINE

National income accounting and the Balance of Payments

- National accounts: GNP, GDP and their components
- Savings, investment, the current account and net foreign wealth
- Balance of Payments accounts: the current account, the financial account and the capital account. Double-entry system.
- Official reserve assets or international reserve assets.

Textbook chapter: chapter 13 - KOM-1 or chapter 2 – KOM-2.

Exchange Rates and the Foreign Exchange Market: An Asset Approach

- Definition of exchange rates.
- Appreciation and depreciation.
- Foreign exchange markets: participants.
- Spot and forward rates.
- The demand for foreign currency deposits and uncovered interest parity (UIP).
- Determination of the equilibrium exchange rate according to the asset approach.
- Effects of changes in domestic and foreign rates, and in expected appreciation.
- Covered interest parity (CIP).

Textbook chapter: chapter 14 - KOM-1 or chapter 3 – KOM-2.

Money, Interest Rates and Exchange Rates

- The money market: supply, demand and equilibrium interest rate.
- Simultaneous equilibrium in the money market and the foreign exchange market.
- Effects of changes in domestic and foreign money supply.
- Short-run and long-run effects: exchange rate overshooting.

Textbook chapter: chapter 15 - KOM-1 or chapter 4 – KOM-2.

MIDTERM EXAM #1

Price Levels and the Exchange Rate in the Long Run

- Law of One Price.
- Purchasing Power Parity: Absolute PPP and relative PPP.
- Monetary approach to the determination of exchange rates: short-run and long-run.
- The Fisher effect.
- Shortcomings of PPP.
- The real exchange rate approach to exchange rate determination.

Textbook chapter: chapter 16 - KOM-1 or chapter 5 – KOM-2.

Output and the Exchange Rate in the Short Run

- Equilibrium in goods markets – derivation of the DD schedule.
- Equilibrium in asset markets – derivation of the AA schedule.
- The short-run equilibrium nominal exchange rate and output: Putting the DD and AA schedules together.
- Effects of temporary changes in monetary policy.
- Effects of temporary changes in fiscal policy.
- Effects of permanent changes in monetary policy.
- Effects of permanent changes in fiscal policy.
- Macroeconomic policies and the current account.
- Value effect, volume effect and the J-curve.
- Pass-through from the exchange rate to import prices.

Textbook chapter: chapter 17 - KOM-1 or chapter 6 – KOM-2.

Fixed Exchange Rates and Foreign Exchange Intervention

- Foreign exchange market intervention by central banks
- Sterilization
- Response to increase in Y
- Devaluations and revaluations
- Effectiveness of MP and FP under fixed ER
- Financial crises and capital flight / what happens when countries run out of international reserves?
- Types of fixed exchange rate systems-Currency boards – dollarization.

Textbook chapter: chapter 18 - KOM-1 or chapter 7 – KOM-2.

International Monetary Systems

- Arguments for floating exchange rates
- Macroeconomic interdependence under a floating exchange rate

Textbook chapter: chapter 19 - KOM-1 or chapter 8 – KOM-2.

MIDTERM EXAM #2

TERM PAPER on the following topics
(see chapters 20-22 in KOM-1 or chapters 9-11 in KOM-2)

- 1) **GROUPS 1 and 2:** Link between banking crises and sovereign debt crises within a closed economy: which drives which? Related to liability dollarization and the problem of the “original sin”.
- 2) **GROUPS 3 and 4:** International contagion of crises – The global financial crisis - Related to liability dollarization and the problem of the “original sin”.
- 3) **GROUPS 5 and 6:** Lessons from past East Asian crises of the 1990’s.
- 4) **GROUPS 7 and 8:** Lessons from the Russian crisis of 1998.
- 5) **GROUPS 9 and 10:** Lessons from past Latin American crises of the 1990’s and early 2000’s.
- 6) **GROUPS 11 and 12:** The European sovereign debt crisis.

IMPORTANT DATES

1st midterm exam: Thursday April 30th.

2nd midterm exam: Tuesday May 26th.

Homework due dates: Announced in class. If you miss class, please make sure to check with me or classmates about announced due dates. Late assignments will not be accepted.

Term paper (due on BbLearn during finals week): Wednesday June 10th. Late papers will not be accepted.