

Economics 476
William H. Phillips, Fall 2011
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Office: 124 Morton
Hours: TTh 11:00-12:00
Wed. 2:00-4:00

International Finance and Open Economy Macro

Texts: ***International Macroeconomics***, by Feenstra, Robert C. and Taylor, Alan M., (New York: Worth Publishers, 2011). 2nd Edition.

You can also paste the web address below into your browser, which will take you to the CourseSmart page for getting the online e-text.

Feenstra, Robert C.; Taylor, Alan M., International Macroeconomics 2e,
http://www.coursesmart.com/9781429241038?_professorview=false&_instructor=2903093

This is the 2nd edition paperback text for International Macro only, which in the online e-text subscription costs \$62.95.

Another option is to get the CourseSmart online e-text for the hardback International Economics, 2nd edition, which includes both International Trade and International Macroeconomics. I am using the International Trade in my ECON 475 class that I teach this semester (I anticipate that I will be teaching 2 sections of ECON 475 in spring 2012, so if you take both my ECON 475 and ECON 476 classes, then this one e-text would cover both courses).

Feenstra, Robert C.; Taylor, Alan M., International Economics Second Edition,
http://www.coursesmart.com/9781429231183?_professorview=false&_instructor=2903093

This combined online e-text subscription costs \$87.50.

You should get in the habit of browsing the following web sites:

<http://www.forexblog.org> (concentrates on analyzing exchange rate movements)
<http://www.newsneconomics.com> (Rebecca Wilder's weblog)

I will often point to a particular article from one of these or other sites to read for an upcoming class. The kind of articles found there will be the basis of your short paper assignment later in the course. We will only use the international macro related articles of these sites for this class, not those that deal with purely domestic macro topics.

Course Outline

I. The Global Macroeconomy

- Exchange rate markets
- Global Payment balances
- Government regulations and monetary management

Reading: Feenstra and Taylor, chapter 1.
Krugman, Paul "Taking On China," *New York Times* (March 15, 2010). [On Blackboard under Course Documents.](#)

II. Exchange Rates

A. Exchange Rate Essentials

- appreciation/depreciation
- bilateral/multilateral
- spot/derivatives
- arbitrage/interest parity

Reading: Feenstra and Taylor, chapter 2.
Menkhoff, Lukas, and Taylor, Mark, "The Obstinate Passion of Foreign Exchange Professionals: Technical Analysis," *Journal of Economic Literature*, 45(December 2007), sections 1-2(pp. 936-40) and 5-6(pp. 953-72). [On Blackboard in Course Documents](#)

B. The Long Run Monetary Approach

- purchasing power parity
- real exchange rates
- money market equilibrium
- inflation and interest rates

Reading: Feenstra and Taylor, chapter 3.

First Quiz (15% of course grade) at a date to be determined

C. Deviations from Purchasing Power Parity

- nontraded goods
- Balassa-Samuelson Model

Reading: Feenstra and Taylor, chapter 11.1 (pp. 442-53)

D. The Short Run Asset Approach

- exchange rates/interest rates
- overshooting
- fixed exchange rates/trilemma

Reading: Feenstra and Taylor, chapter 4.
Taylor, Alan M., and Taylor, Mark P., "The Purchasing Power Parity Debate," *Journal of Economic Perspectives*, 18(Fall 2004), 135-58. [On Blackboard in Course Documents.](#)

III. The Balance of Payments

A. National and International Accounts

- Product, expenditure, income
- Asset transactions
- Accounting identity implications
- External wealth

Readings: Feenstra and Taylor, chapter 5.

Cooper, Richard, "Global Imbalances: Globalization, Demography, and Sustainability," *Journal of Economic Perspectives* 22 (Summer 2008), 93-112. [On Blackboard in Course Documents.](#)

B. Incentives for Financial Globalization

- Long Run Budget Constraint
- Consumption smoothing
- Gains from Efficient Investment and Risk Diversification
- Foreign Aid incentive problems

Readings: Feenstra and Taylor, chapter 6.

Easterly, William, and Pftuze, Tobias, "Where Does the Money Go? Best and Worst Practices in Foreign Aid," *Journal of Economic Perspectives*, 22(Spring 2008), 29-52. [On Blackboard in Course Documents.](#)

C. Open Economy Macroeconomics

- Trade Balance and the Real Exchange Rate
- Expenditure Switching and the J Curve
- IS-LM-FX Model

Reading: Feenstra and Taylor, chapter 7.

FIRST EXAM(35% of grade): Tuesday, November 1st

IV. Exchange Rate Policy

A. Exchange Rate Regime Choice

- Exchange Rate Regime history
- Symmetry and Integration
- Benefits and Costs of Fixed Exchange Rates
- Original Sin

Reading: Feenstra and Taylor, chapter 8.

List of 1st, 2nd, 3rd choice articles from Weblogs on Thursday, Nov 10th
(choose weblog articles that have not been discussed in class)

B. Exchange Rate Crises

- Crisis history
- Mechanics of Pegging
- Crisis models: fiscal dominance/contingent commitment
- Crisis policies

Reading: Feenstra and Taylor, Chapter 9.

C. Debt and Default

- Sovereign debt
- Default Model
- Cost of Default
- Debt Relief

Readings: Feenstra and Taylor, Chapter 11.3(pp. 467-86).

Arslanalp, Serkan, and Henry, Peter Blair, "Debt Relief," *Journal of Economic Perspectives*, 20(Winter 2006), 207-20. [On Blackboard in Course Documents.](#)

Short Paper (15% of grade) Due Tuesday, Nov. 29th

D. The Euro

- Optimum Currency Area
- European Central Bank and Convergence Criteria
- Eurozone Crisis: Breakup, muddle-through, or new fiscal model?

Readings: Feenstra and Taylor, Chapter 10.

Lane, Philip R., "The Real Effects of European Monetary Union," *Journal of Economic Perspectives*, 20(Fall 2006), 47-66. [On Blackboard in Course Documents.](#)

**Final Exam (35% of grade): Tuesday, Dec. 6th,
2pm-5pm**

EVALUATION:

You will have four graded assignments this semester. The first is a quiz following the basics of Purchasing Power Parity. It will be worth 15% of your grade. The first exam, after section III of the course, is worth 35%. The final exam is also worth 35% of your grade. **NO MAKE-UP EXAMS WILL BE GIVEN WITHOUT PRIOR NOTICE AND APPROVAL. IF YOU HAVE NOT RECEIVED A RESPONSE TO YOUR LAST-MINUTE EMAIL REQUEST, YOU NEED TO SHOW UP FOR THE EXAM.**

The other graded assignment(15%) is a two page paper evaluating an article selected from one of the weblogs listed at the beginning of the syllabus. The topic will require you to draw on class models, readings and discussion to assess the strengths and weaknesses of the article's arguments. Note that by Nov 10th, you will need to submit a list of three articles, in order of preference, that you propose to evaluate on your paper. I will give you the approved topic in class by Nov. 15th. The selected articles need to be relevant to the material in the class, rather than domestic macro or international trade topics. Choose articles that have not been discussed in class. The paper(hard copy) is due Tuesday, Nov. 29th, delivered personally to me (you assume all risk of e-mailed papers, or papers left under my door, etc.).