

EC 476: International Finance and Open Economy Macroeconomics

Spring 2019

Class Schedule

Tuesday, Thursday 2:00-3:20 pm, Tyler Hall 133

Contact Information

Professor: Matt Klepacz

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Office: Tyler 257

Office Hours: Tuesday 11:00-12:00 pm, Wednesday 3:00-5:00 pm

Teaching Assistant

Julia Boge

Office Hours: Monday 7:00-9:00 pm, Tyler 121

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Course Material

Required Textbook. International Economics, 10th Edition, by Paul Krugman, Maurice Obstfeld, and Marc Melitz. Pearson, 2015. (ISBN: 0133423648)

Optional Textbooks. International Macroeconomics, 4th Edition, by Robert Feenstra and Alan Taylor. Worth, 2017. (ISBN:1319061729)

International Macroeconomics, 2016 Edition, by Stephanie Schmitt-Grohe, Martin Uribe, and Michael Woodford

Course Description

This course will provide a discussion of international topics of macroeconomic interest. It includes topics such as the balance of payments, interest parity, determination of output and exchange rates in the open economy, purchasing power parity, systems of exchange rates, financial crises, and the international monetary systems. Relevant articles from scientific journals beyond textbook readings will be included.

Learning Objectives:

Students should be able to achieve the following course objectives:

- Understand national income accounting and the balance of payments accounts
- Know how to model foreign exchange markets and understand equilibrium via interest parity
- Understand price stickiness and its macroeconomic implications
- Demonstrate the relationship between monetary policy and foreign exchange markets
- Define the law of one price and purchasing power parity and how they relate to the long-run exchange rate

- Analyze how determinants of AD affect the short-run exchange rate
- Compare fixed and floating exchange rate regimes and understand the policy trilemma
- Have a historical perspective on international monetary systems including the gold standard and the IMF
- Discuss the benefits and costs of financial globalization

Prerequisites

EC 304 (Intermediate Macroeconomic Theory). More generally, students should be familiar with the concepts of supply and demand, monetary and fiscal policy, and have extensive practice using equations, graphs, and tables to analyze economic situations. Students are also expected to be experts working with functions, their graphical representation, and the solution of simultaneous equations. Consistent study habits coupled with an eagerness to learn and ask questions will help to achieve the learning objectives.

Course Website

All course material will be posted on Blackboard.

Course Grade

Midterm Exam	35%
Final Exam	40%
News Review Assignment	15%
Problem Sets (4)	10%

Grading Policy

Grade changes will only be considered the week after an assignment is returned. You can and should monitor your official grades on Blackboard for mistakes.

Problem Sets

A physical copy of your problem set is due at the beginning of class on the dates listed below. Assignments turned in less than 24 hours late will be accepted with a one mark deduction. Assignments turned in more than 24 hours late will not be accepted. I encourage you to work together on the problem sets, and you may turn in your work with up to 4 names. I will not assign groups nor will I police them. Problem sets are graded on effort as well as accuracy. Re-grading of any sort will only be considered the week after the assignment is returned.

The purpose of the problem sets is to help you learn and understand the material. There are many resources available to help you learn and I encourage you to use them if you are having a hard time with the material. However plagiarism, e.g. copying, is not acceptable and is a violation of the honor code and will be treated as such.

There are four possible grades for each problem set:

PS Grade	Criteria	Percentage PS Score
Check Plus	All questions solved and correct	100%
Check	All questions solved with some errors	90%

Check Minus	Incomplete or many errors	50%
Zero	Not turned in	0

Important Dates

Add/ Drop Deadline: 1/28/2019
News Review 1 Due: 2/21/2019
Midterm Exam: 2/28/2019
Withdrawal Deadline: 3/28/2019
News Review 2 Due: 4/18/2019
Final Exam: 4/30/2019 2:00-5:00 pm

Exams

Exams are closed book. The midterm exam will be given in class on the date listed above. Students who are unable to take the exam on this date must provide a valid reason and documentation for the absence, as far in advance as possible. A makeup exam will then be scheduled. In the event that you have questions regarding the grading of an exam, you have one week from the day it is returned to resubmit it to me with questions.

Please note that anything discussed in class or any topic in the assigned reading from the textbook can be on the exams. There may be material presented in class that is not in your textbook, so make sure that you have a full set of notes from which to study. The exam questions will test your ability to understand and recall basic principles. They will also test your understanding of applications of theories, tools, and models. This means that you must learn to analyze hypothetical and “real world” problems that you encounter for the first time. A key difficulty with the exam is that you need to know what model to apply to the problem, meaning you must understand the assumptions underlying them.

News Review Assignment

For this assignment, you will need to be reading and following current events related to international finance. The goal of these assignments is to have you staying up to date on the world economy and bettering your understanding of how we can view events from a macroeconomic perspective. You must find, read, and briefly discuss a newspaper article with an emphasis on how we can better understand the event using the tools and models we learn in this class. Two articles must be read over the course of the semester. You are encouraged to talk to me as well as your peers about articles and current events, but collaboration is not permitted in writing this assignment. The first one is due on February 21 and the second one is due April 18. More information and detailed instructions are available on Blackboard.

Academic Conduct

The College of William & Mary has had an honor code since at least 1779. Academic integrity is at the heart of our community, and we are all responsible for upholding the ideals of honor and integrity. I will report all suspected instances of academic dishonesty to the honor system. Additional information is available at www.wm.edu/studenthandbook and includes your responsibilities as a student and the full Code. Your full participation and observance of the Honor Code is expected.

Phone Policy

No cell phone usage is allowed during lecture. As shown by Arnold L. Glass and Mengxue Kang in **“Dividing attention in the classroom reduces exam performance.”** *Educational Psychology*, 2018, they have negative learning effects for both the user and other students.

Student Accessibility Services

William & Mary accommodates students with disabilities in accordance with federal laws and university policy. Any student who feels s/he may need an accommodation based on the impact of a learning, psychiatric, physical, or chronic health diagnosis should contact Student Accessibility Services staff at [757-221-2509](tel:757-221-2509) or at sas@wm.edu to determine if accommodations are warranted and to obtain an official letter of accommodation. For more information, please see www.wm.edu/sas.

Note, it is the student's responsibility to discuss accommodations and accommodation logistics with faculty. Students requesting and approved for testing accommodations need to give 48 hours of notice prior to the exam. There is limited space in the Watson lab and I encourage you to book space early in the semester.

Tentative Course Outline

This is a tentative outline and subject to change. Additional readings and materials will be posted to Blackboard. Relevant changes will be noted in class. The class is divided into two halves. Chapters 13-18 introduce the basic markets and models we need to know to analyze international macroeconomic phenomena. Chapters 19-22 then apply these models to historical and modern issues.

Exchange Rates: Basics

Syllabus/Introduction Jan. 17

National Income Accounting and the Balance of Payments

Chapter 13 Jan. 22, Jan. 24

Additional Reading: GDP Plus- <https://fxdiebold.blogspot.com/search/label/GDPplus>, Beyond GDP? Welfare across Countries and Time - Jones and Klenow (2016)

Homework 1: Assigned 1/22, due 2/5

Exchange Rates and the Foreign Exchange Market Chapter 14 Jan. 29, Jan. 31

Monetary Policy and Exchange Rates Chapter 15 Feb. 5, Feb. 7

Additional Reading: Carry Trades and Global Foreign Exchange Volatility- Menkoff et al. (2012)

Homework 2: Assigned 2/7, due 2/19

Exchange Rates: Long Run vs Short Run

Price Levels and the Long Run Chapter 16 Feb. 12, Feb. 14, Feb. 19

Output and the Short Run Chapter 17 Feb. 21, Feb. 26, March 12

Additional Readings: Chronicles of a Deflation Unforetold-Velde (2006)

***Midterm Feb. 28

Spring Break March 5, March 7

International Macroeconomic Policy

Homework 3: Assigned 3/12, due 3/26

Financial Globalization Chapter 20 March 12, March 14

Additional Readings: An International Look at the Growth of Modern Finance- Phillipon and Reshef (2013), Slicing Up Global Value Chains- Erumban et. al (2014), Why Some Times are Different: Macroeconomic Policy and the Aftermath of Financial Crises- Romer and Romer (2018)

Guest Lecture: Ann Owen- Gender and Bank Boards March 19

Additional Readings: The Performance Effects of Gender Diversity on Bank Boards- Owen and Temesvary

Fixed Exchange Rates Chapter 18 March 21, March 26, March 28

Additional Readings: The Distributional Consequences of Large Devaluations- Cravino and Levchenko (2016)

International Price System March 28

Additional Readings: The International Price System- Gopinath (2015)

International Monetary Systems: Historical Overview Chapter 19 April 2, April 4

Additional Readings: International Monetary Relations: Taking Finance Seriously- Obsfeldt and Taylor (2017), The IMF's Unmet Challenges- Eichengreen and Woods (2015), Rounding the Corners of the Policy Trilemma: Sources of Monetary Policy Autonomy- Klein and Shambaugh (2015), Dilemma not Trilemma: The Global Financial Cycle and Monetary Policy Independence- Rey (2015)

Homework 4: Assigned 11/7, due 11/28

Oil Shocks April 9

Additional Readings: Forty Years of Oil Price Fluctuations: Why the Price of Oil May Still Surprise Us- Baumeister and Kilian (2014)

Optimum Currency Areas/Euro Crisis Chapter 21 April 11, April 16, April 18

Additional Reading: The European Sovereign Debt Crisis – Lane (2012)

Developing Countries/ International Uncertainty Chapter 22 April 23, April 25

Additional Reading: Fluctuations in Uncertainty– Bloom (2014)

***Final Exam Tuesday, April 30, 2:00-5:00 pm

References:

- Baumeister, Christiane and Lutz Kilian. "Forty Years of Oil Price Fluctuations: Why the Price of Oil May Still Surprise Us," *Journal of Economic Perspectives*, 2016, 30(1):139-160.
- Bloom, Nicholas. "Fluctuations in Uncertainty," *Journal of Economic Perspectives*, 2014, 28(2):153-176.
- Cravino, Javier and Andrei Levchenko. "The Distributional Consequences of Large Devaluations," *American Economic Review*, 2018, 108(1), 82-108.
- Eichengreen, Barry and Ngaire Woods. "The IMF's Unmet Challenges," *Journal of Economic Perspectives*, 2015, 30(1):29-52.
- Erumban, Abdul Azeez, Bart Los, Marcel P. Timmer, Robert Stehrer, and Gaaitzen J. de Vries. "Slicing Up Global Value Chains," *Journal of Economic Perspectives*, 2014, 28(2):99-118.
- Gopinath, Gita. "The International Price System," Harvard Working paper, 2015.
- Jones, Charles and Peter Klenow. "Beyond GDP? Welfare across Countries and Time," *American Economic Review*, 2016, 106(9): 2426-2457.
- Klein, Michael and Jay Shambaugh. "Rounding the Corners of the Policy Trilemma: Sources of Monetary Policy Autonomy," *American Economic Journal: Macroeconomics*, 2015, 7(4): 33-66.
- Lane, Philip R. "The European Sovereign Debt Crisis," *Journal of Economic Perspectives*, 2012, 26(3):49-68.
- Menkhoff, Lukas, Lucio Sarno, Maik Schmeling, and Andreas Schrimpf. "Carry Trades and Global Foreign Exchange Volatility," *Journal of Finance*, 2012, 681-718.
- Obstfeld, Maurice and Alan M. Taylor. "International Monetary Relations: Taking Finance Seriously," *Journal of Economic Perspectives*, 2017, 31(3):3-28.
- Owen, Ann and Judit Temesvary. "The Performance Effects of Gender Diversity on Bank Boards." MPRA Paper No. 80078, University Library of Munich, Germany.
- Owen, Ann and Judit Temesvary. "Gender Diversity on Bank Board of Directors and Performance." Bank of England blog post. August 16, 2018. <https://bankunderground.co.uk/2018/08/16/gender-diversity-on-bank-board-of-directors-and-performance/>
- Philippon, Thomas and Ariell Reshef. "An International Look at the Growth of Modern Finance," *Journal of Economic Perspectives*, 2013, 27(2):73-96.
- Rey, Helene. "Dilemma not Trilemma: The Global Financial Cycle and Monetary Policy Independence." NBER Working Paper 21152, May 2015.
- Romer, Christina and David Romer, "Phillips Lecture- Why Some Times Are Different: Macroeconomic Policy and the Aftermath of Financial Crisis." *Economica*, 2018, 85: 1-40.

Velde, Francois. "Chronicles of a Deflation Unforetold," *Journal of Political Economy*, 2009, 117(4), 591-634.