

## **EC 476: International Finance and Open Economy Macroeconomics**

**Fall 2018**

### **Class Schedule**

Monday, Wednesday 2:00-3:20 pm, Morton Hall 37

### **Contact Information**

Professor: Matt Klepacz

Email: mtklepacz@wm.edu

Office: Tyler 257

Office Hours: Tuesday 3:00-5:00 pm, Wednesday 12:00-1:00 pm

### **Course Material**

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

**Optional Textbooks.** International Macroeconomics, 4<sup>th</sup> 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	30%
Final Exam	35%
Economic Analysis Paper	25%
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	80%
Zero	Not turned in	0%

## Important Dates

Add/ Drop Deadline: 9/7/2018

Midterm Exam: 10/10/2018

Economic Analysis Paper Due: 11/19/2018

Withdrawal Deadline: 10/26/2018

Final Exam: 12/14/2018 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.

## Economic Analysis Paper

For this assignment, you will need to learn about and analyze a foreign economy using the tools we learn in the class. The goal of this assignment is to have you analyze the current state of an economy and to articulate it clearly. Particular attention should be paid to the role of international macroeconomic linkages. The paper should be between two and three pages. Collaboration is not permitted on this assignment. Further information about the assignment will be available on Blackboard on October 17.

## 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](http://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](mailto: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](http://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 Aug. 29

National Income Accounting and the Balance of Payments

Chapter 13 Sep. 3, Sep. 5

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 9/3, due 9/17*

Exchange Rates and the Foreign Exchange Market Chapter 14 Sep. 10, Sep. 12

Monetary Policy and Exchange Rates Chapter 15 Sep. 17, Sep. 19

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

*Homework 2: Assigned 9/19, due 10/3*

#### **Exchange Rates: Long Run vs Short Run**

Price Levels and the Long Run Chapter 16 Sep. 24, Sep. 26, Oct. 1

Output and the Short Run Chapter 17 Oct. 3, Oct. 8, Oct. 17

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

\*\*\*Midterm Oct. 10

Fall Break Oct. 15

#### **International Macroeconomic Policy**

*Homework 3: Assigned 10/17, due 10/31*

International Price System

Oct 17

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

Fixed Exchange Rates

Chapter 18

Oct. 22, Oct.24, Oct. 29

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

International Monetary Systems: Historical Overview

Chapter 19

Oct.31, Nov.5

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)

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

Oil Shocks

Nov. 7

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

Financial Globalization

Chapter 20

Nov.12, Nov.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)

*Economic Analysis Paper Due: 11/19*

Optimum Currency Areas/Euro Crisis

Chapter 21

Nov. 19, Nov. 26, Nov. 28

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

Thanksgiving Break

Nov. 21

Developing Countries/ International Uncertainty

Chapter 22

Dec. 3, Dec. 5

Additional Reading: Fluctuations in Uncertainty– Bloom (2014)

\*\*\*Final Exam Friday, December 14, 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.

Philippon, Thomas and Ariell Reshef. "An International Look at the Growth of Modern Finance," *Journal of Economic Perspectives*, 2013, 27(2):73-96.

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.