

## EC 476: International Finance and Open Economy Macroeconomics

Spring 2020

### Class Schedule

Monday, Wednesday, 3:30-4:50 pm Tyler Hall 123

### Contact Information

Professor: Matt Klepacz

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Office: Tyler 257

Office Hours: Tuesday 3:00-5:00 pm, Wednesday 2:00-3:00 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 1	20%
Midterm Exam 2	20%
Final Exam	30%
Economic Analysis Paper	20%
Problem Sets (Best 4 out of 5)	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: 1/31/2020

Midterm Exam 1: 2/19/2020

Withdrawal Deadline: 3/23/2020

Midterm Exam 2: 4/6/2020

Economic Analysis Paper Due: 4/22/2020

Final Exam: 5/6/2020 9:00-12:00 pm

## **Exams**

All exams are closed book. The midterm exams 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.

The midterm exams are not cumulative, and will only cover the portion of the material prior to them. The final exam is cumulative.

Students have the option to replace their lowest midterm grade with the final exam grade if they do better. I will replace a student’s lowest midterm exam score with his or her final exam score if the final is better than the midterm. If the final exam score is lower than the lowest midterm score, then I will not make a replacement. This policy is an insurance policy to shield students from single disappointing midterm exam performances. It also rewards growth in understanding.

## **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 March 16.

## **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 broadly 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. 22
National Income Accounting and the Balance of Payments		
	Chapter 13	Jan. 27, 28
Additional Material: GDP Plus- <a href="https://fxdiebold.blogspot.com/search/label/GDPplus">https://fxdiebold.blogspot.com/search/label/GDPplus</a> , Beyond GDP? Welfare across Countries and Time - Jones and Klenow (2016)		
<i>Homework 1: Assigned 1/27, due 2/5</i>		
Exchange Rates and the Foreign Exchange Market	Chapter 14	Feb. 3, Feb. 5
Monetary Policy and Exchange Rates	Chapter 15	Feb. 10, Feb. 12
Additional Material: Carry Trades and Global Foreign Exchange Volatility- Menkoff et al. (2012)		
<i>Homework 2: Assigned 2/5, due 2/17</i>		
Catch Up/ Review		Feb. 17
***Midterm 1		Feb. 19

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

Price Levels and the Long Run Chapter 16 Feb. 24, Feb. 26, March 2

*Homework 3: Assigned 2/24, due 3/4*

International Price System March 4

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

Spring Break March 9, March 11

Output and the Short Run Chapter 17 March 16, March 18, March 23

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

Fixed Exchange Rates Chapter 18 March 25, March 30

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

*Homework 4: Assigned 3/16, due 3/30*

Catch Up/ Review April 1

\*\*\*Midterm 2 April 6

## **International Macroeconomic Policy**

International Monetary Systems: Historical Overview Chapter 19 April 8, April 13

Additional Material: 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 5: Assigned 4/8, due 4/27*

Financial Globalization Chapter 20 April 15, April 20

Additional Material: An International Look at the Growth of Modern Finance- Phillipon and Reshef (2013), Why Some Times are Different: Macroeconomic Policy and the Aftermath of Financial Crises- Romer and Romer (2018)

*Economic Analysis Paper Due: 4/22*

Optimum Currency Areas/Euro Crisis Chapter 21 April 22, April 27

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

Developing Countries/ International Uncertainty Chapter 22 April 29

Additional Material: Fluctuations in Uncertainty– Bloom (2014)

\*\*\*Final Exam Wednesday, May 6, 9:00-12:00 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.

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.

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.