

**Economics 441/541-001:
International Monetary Theory and Policy (Winter 2010)**

Course Time: MW 12:00 – 13:50

Place: Shattuck Hall 242

Instructor:	Hiro Ito, Associate Professor of Economics
Office:	Cramer Hall 241-F
Email:	ito@pdx.edu
Phone:	x5 – 3930
Office Hours:	MW 14:00-15:00, or by appointment

1. Course Objective

This course examines the behavior of international financial markets, the balance of payments, exchange rates, and the interactions between international financial markets and domestic economic activity. Topics covered in this course include the structure of international financial markets; the role of central banks in open macro settings; the interdependency of macroeconomies in the world and policy coordination; exchange rate systems; policy analysis for open economies; the mechanism of financial crises; and the role of the International Monetary Fund.

It is required that students have taken EC201 and EC202 before enrolling in this course. EC473 is *strongly recommended*, but not a prerequisite. Students enrolling in this course should be comfortable with algebraic and graphical analysis. For those who want to brush up on the material taught in EC202 (or EC473), it is highly recommended to read the supplemental textbooks shown below.

2. Course Material

The required textbook for this course is:

Krugman, Paul and Maurice Obstfeld, *International Economics – Theory and Policy*. Addison Wesley (**KO**). Older editions will be workable, though it is students' responsibility to work on the right material as in the most recent edition of the textbook available at the PSU Bookstore.

If you desire or need to brush up your introductory or intermediate macro, the following standard textbooks are suitable.

<Introductory macro>

William J. Baumol and Alan S. Blinder, *Macroeconomics – Principles and Policy*, Ninth Edition. Thomson South-Western (**BB**).

<Intermediate macro>

Olivier Blanchard, *Macroeconomics* 3rd Edition, Prentice-Hall (**B**).

If you are interested in exploring more advanced material, you are highly encouraged to read Feenstra and Taylor's [*International Economics*](#) .

Other reading materials such as journal and magazine articles are occasionally distributed in class or posted on my website http://web.pdx.edu/~ito/E441_syllabus_w10.htm/ .

It is suggested that students develop the habit of reading newspapers and journals such as *The Financial Times* and *The Economist*.

3. Classroom Policy and Attendance

I expect you to be a responsible citizen in the classroom. Please be considerate of others while in class. Please turn off your cell phone, or anything that makes a sound.

Class attendance is checked. The attendance check sheet is circulated in the first five minutes of each class session. *Do not come in late; if you come later than the first five minutes of a class session, it will be considered that you missed the class.* Also, do not leave the room in the middle of the class. It's merely distracting to others, and not helpful for yourself. If you must miss class, come in late, or leave early, you should inform me in advance. Please come to class prepared to stay for the full class period.

4. Grading

There will be one midterm and one final exams. Your grade will be determined as follows:

<Undergraduate>

10%	Class attendance and participation
25%	Weekly homework assignments
30%	First midterm
35%	Final Exam

<Graduate>

15%	Weekly Homework Assignments
30%	First midterm
40%	Final Exam
15%	4-page paper

I will not provide "Incomplete" under any circumstances. An exception may be made only if a student provides adequate documentation providing a valid University-excuse. The final grade will be based on the grade records available with me as of the end of the final exam. ***I will provide no extra credit or make-up assignments for those who want to improve their grades, either.***

Homework Assignments

There will be at most seven problem sets through the term. Each problem set is distributed in class or posted on the course website. Problem sets are due at the *beginning* of the lecture. *Points will be reduced if the problem sets are submitted at the end of the lecture or any later day.* The problem sets will be graded either “check plus” ($\sqrt{+}$; 10 points), “check” ($\sqrt{}$; 8 points), “check minus” ($\sqrt{-}$; 6 points), or “late, but submitted within three days after the due” (4 points). Any assignments submitted four days or more after the due date will not receive any grade (zero point), but may be considered when the final grade is determined, i.e., you are always better off to turn in an assignment than to skip it.

Exams

There will be no makeup exam. If you miss your exam without informing me prior to the exam date ***and*** without a proof regarding the nature of the emergency, you will get a zero on the exam. ***This is not negotiable.***

Exams will be based on the material discussed in the lecture. Working on the weekly homework assignment will help you prepare for the exams.

Information on Grades

I will not give you any information regarding your grade through email because of security and privacy reasons. You can consult with me in person about your grade standing, but I may not give you specific advice on what you can do to improve your grade.

Class Participation

Attending classes and participating in class discussions are highly important and help you do well on the exams. In a case where a student is on the border line between one grade and another, I will consider class participation in deciding which way to push the grade.

Lectures

In the winter term of 2010, we are fortunate to have Joshua Aizenman of the University of California, Santa Cruz and Barry Eichengreen of the University of California, Berkeley as speakers for the Economics Department’s lecture series. Both Professors Aizenman and Eichengreen are prominent economists in the field of international economics. Dr. Aizenman will give a lecture on February 5th (Friday, 3-4:30pm) and Dr. Eichengreen on February 19th (Friday, 3-4:30pm). **Both lectures are required and I will check the attendance.** In this term, we will be inviting job candidates for the position in energy economics, and you are strongly encouraged to attend although your attendance will not be checked. We will host have several in-house lecture series as well, which, of course, you are encouraged to attend.

5. Course Policies

Affirmative Action

Portland State University supports equal opportunity for all, regardless of age, color, disability, marital status, national origin, race, religion or creed, sex or gender, sexual or gender identity, sexual orientation, veteran status, or any other basis in law.

Disability Resources at PSU

Students with accommodations approved through the Disability Resource Center are responsible for contacting the faculty member prior to, or during, the first week of term to discuss accommodations. Students who believe they are eligible for accommodations but who have not yet obtained approval should contact the DRC immediately. While it is a university policy that you must be registered at the Center in order to get some sort of accommodation, it is important to keep in mind that I am more than glad to work with you. Even if you inform me of your need to get accommodation after an exam, I will not be able to consider it in grading your exam. PSU policies on accommodations can be found in the Disability Resource Center Handbook (<http://www.ess.pdx.edu/iasc/drc/handbook.pdf>).

Academic Honesty

Academic honesty is expected and required of students enrolled in this course. Suspected academic dishonesty in this course will be handled according to the procedures set out in the *Student Code of Conduct*.

Swine Flu

We will strictly follow PSU's "guideline on flu season 2009-10," which states:

- A. *Students will not be penalized for illness-related absences and will be provided with opportunity to make up missed assignments.*
- B. *Faculty will not require a physician's note for student absences. If faculty are concerned that student absences might not be justified they should contact the Dean of Students.*
- C. *Faculty are responsible for communicating basic information available from Student Health and Counseling Services (SHAC) regarding prevention and control of flu to their class on, at least, a weekly basis. Information and recommendations will be updated regularly on the SHAC site <http://www.shac.pdx.edu/>.*

6. Paper Assignment (for graduate students)

Graduate students are assigned to write a short paper (4 double spaced pages or less, not counting bibliography, graphs and tables) on the topic you choose from the list shown below. This is not supposed to test the originality of your research. Rather, you should think of a setting where you are asked by your boss or colleague (who is relatively familiar with economics) at a workplace to report an economic event. Your paper should explicitly incorporate one or more of the economic models developed in class to analyze the economic problem you select, and use data available online or at the library to support your argument. The more theoretical analyses and the more data you present, the higher the grade of your paper can be. A very useful source of information and analysis is *The Economist*, *The Financial Times*, *Bloomberg.com*, *IMF's International Financial Statistics (IFS)*, and *World Bank's World Development Indicator (WDI)*. Both IFS and WDI are available online through PSU's library website. **The paper is due at the time of the final examination.**

List of topics:

- The Icelandic crisis
- Mexican's Tequila crisis of 1994
- EMU crisis in 1992
- The Brazilian situation with comparison to the 1980s and 1990s
- The debt issue in Greece and the Euro system
- The crisis in Latvia
- The crisis in Ukraine

For the term paper, you MAY NOT use any information from Wikipedia or any other online encyclopedia. We will follow the University rule on plagiarism; if you commit plagiarism, you will lose the grade for the assignment.

7. Class schedule and reading assignments

The class schedule and reading assignments shown below are subject to change, although the dates for the midterm and final exams will not change. *The class proceeds under an assumption that you have read the assigned chapters and attempted to understand the material before the class period. Class discussion will supplement (but not substitute) your reading of the textbook.* However, you should not feel shy about asking questions in class if you have questions or something you want me or the class to clarify about the material. It is important to raise issues and discuss them in class. I will do my best to encourage for you to do so. You should also make the most use of my office hours to consult with me on the course material.

Important Dates:

- | | |
|-----------------------|---|
| Jan. 4 (Mon.) | Class Cancelled |
| Jan. 25 (Mon.) | Martin Luther King, Jr. Birthday – No Class |
| Feb. 5 (Fri.) | Joshua Aizenman Lecture (3 – 4:30pm) |
| Feb. 10 (Wed.) | Midterm exam (70 minutes) |
| Feb. 19 (Fri.) | Barry Eichengreen Lecture (3 – 4:30pm) |
| Mar. 18 (Thu.) | Final exam (90 minutes; comprehensive), <u>12:30 – 14:20(!)</u>. Graduate students must submit the term paper. |

The readings with an asterisk are required, and those with § are required for graduate students. “CW” means that the paper/article is available on the course website.

Week 1

January 4 (Monday) – Class Cancelled

Introduction and review of macroeconomics

<for review> BB: Ch. 7,8,10,12,13 & 17; B: Ch. 18

***KO: Ch. 12 National Income Accounting and the Balance of Payments**

*Cavallo, M. (2004) "Exchange Rate Movements and the U.S. International Balance Sheet,"
FRBSF Economic Letter. (CW)

Week 2

***KO: Ch. 7 p. 155 – 157, 170 – 173. International Borrowing and Lending, from the view of intertemporal trade**

§KO: Ch. 7 (whole chapter)

***KO: Ch. 13 Exchange Rates and the Foreign Exchange Market: An Asset Approach**

B: Ch. 19

Week 3

No class on January 18 (Monday): Martin Luther King's Day

***KO: Ch. 13 continued**

***KO: Ch. 14 Money, Interest Rates, and Exchange Rates**

B: Ch. 20

§Frankel, J. and K. Froot (1990). "Chartists, Fundamentalists, and Trading in the Foreign Exchange Market," *American Economic Review*, pp.181 – 185. (CW)

§Frankel, J. and A. Rose (1994). "A Survey of Empirical Research on Nominal Exchange Rates," *NBER Working Paper* #4865. (CW)

Week 4

***KO: Ch. 15 Price Levels and the Exchange Rate in the Long Run**

§Cubmy, R. (1996). "Forecasting Exchange Rates and Relative Prices wit the Hamburger Standard: Is What You Want What You Get With McParity?" *NBER Working Paper* #5675. (CW)

***KO: Ch. 16 Output and the Exchange Rate in the Short Run**

Week 5

February 5 (Fri., 3 – 4:30pm): Joshua Aizenman Lecture

***KO: Ch. 16 continued**

Week 6

February 10 (Wed.) Midterm Exam (Ch. 7, 12-16)

***KO: Ch. 17 Fixed Exchange Rates and Foreign Exchange Intervention**

B: Ch. 21

§Krugman, P. (1979). "A Model of Balance-of-Payments Crises," *Journal of Money, Credit and Banking*, Vol. 11, No.3, pp.311-325. (CW)

§Glick and Hutchison (1989). "Exchange Rates and Monetary Policy," *Economic Review*, Federal Reserve Bank of San Francisco, Vol. 2. (CW)

Week 7

February 19 (Fri., 3 – 4:30pm): Barry Eichengreen Lecture

***KO: Ch. 18 The International Monetary System, 1870 – 1973**

§Nurkse, R. (1945). "Conditions of International Money Equilibrium," *Essays in International Finance*, No. 4 (Spring). (CW)

***KO: Ch. 19 Macroeconomic Policy and Coordination under Floating Exchange Rates**

§Krugman, P. (1993). "What Do We Need to Know About the International Monetary System?" *Essays in International Finance*, No. 4 (July). (distributed)

Week 8

***KO: Ch. 19 continued**

***KO: Ch. 20 Optimum Currency Areas and the European Experience**

*Spiegel, M. (2004) "Monetary and Financial Integration: Evidence from the EU," *FRBSF Economic Letter*. (CW)

Eichengreen, B. A. Rose, and C. Wyplosz (1994). "Speculative Attacks on Pegged Exchange Rates: An Empirical Exploration with Special Reference to the European Monetary System," *NBER Working Paper #4898*. (CW)

Week 9

***KO: Ch. 21 The Global Capital Market: Performance and Policy Problems**

§Dooley, M., D. F. Landau, and P. Garber (2004). "The Revised Bretton Woods System: The Effects of Periphery Intervention and Reserve Management on Interest Rates and Exchange Rates in Center Countries," *NBER Working Paper #10332*. (CW)

Aizenman, J. and N. Marion (2003). "Foreign Exchange Reserves in East Asia: Why the High Demand?" *FRBSF Economic Letter*. (CW)

***KO: Ch. 22 Developing Countries: Growth, Crisis, and Reform**

§Aizenman, J. (2003). "Reforming the Global Financial System," Global Policy Brief, Center for Global, International, and Regional Studies, UCSC. (CW)

§Aizenman, J., M.D. Chinn, and H. Ito (2008). "Assessing the Emerging Global Financial Architecture: Measuring the Trilemma's Configurations over Time." NBER Working Paper Series, #14533.

*Fischer, Stanley (1998). "Lessons from a Crisis," *The Economist* (October 10). (CW)

Edwards, Sebastian (2004). "Financial Openness, Sudden Stops and Current Account Reversals," *NBER Working Paper #10277*. (CW)

§Kaminsky, Graciela L. and Carmen M. Reinhart (1999). "The Twin Crises: The Causes of Banking and Balance-Of-Payments Problems" *American Economic Review*, Vol. 89, No. 3 (June), pp. 473-500.

§Rodrik, D. (2000). "How Far Will International Economic Integration Go," *Journal of Economic Perspective* (Winter). (CW)

Rogoff, Kenneth (1999). "International Institutions for Reducing Global Financial Instability," *NBER Working Paper #7265*. (CW)

Week 10

The "savings glut" argument

*Codon, Max (2007). "The International Current Account Imbalances: A Sceptical View," *Economic Affairs*, 2007, vol. 27, issue 2, pages 44-48.

*Ito, Hiro (2008). "U.S. Current Account Debate, With Japan then, with China now," mimeo, Portland State University (CW).

*Chinn, Menzie (2005). "Getting Serious about the Twin Deficits," *Council Special Reports* No. 8 (CW).

*Valderrama, D. (2008). "Are Global Imbalances Due to Financial Underdevelopment in Emerging Economies?" *FRBSF Economic Letter*. Number 2008-12, April 11.

Review

The final exam will be held at 12:30 – 14:20 on March 18th, Thursday.

8. Useful WWW Sources

- IMF publications <http://www.imf.org/>
- BIS publications <http://www.bis.org/>
- The World Bank Group <http://www.worldbank.org/> or <http://www.ifc.org/>
- Central bank websites <http://www.bis.org/cbanks.htm>
- Comprehensive blogs organized by Prof. N. Roubini, NYU
<http://www.stern.nyu.edu/globalmacro/>
- US Economic Data (St. Louis Fed) <http://research.stlouisfed.org/fred2/>
- National Bureau of Economic Research (for working papers and data)
<http://www.nber.org/>
- Econbrowser, blog by Prof. Menzie Chinn, U of Wisconsin, Madison and James Hamilton, UCSD
<http://www.econbrowser.com/>
- Businomics, blog by Dr. Bill Conerly, an Oregon CEA
<http://businomics.typepad.com/>