

Economics 592 - International Monetary Theory and Policy

Course Syllabus - Fall 2010

Course	Economics 592	Mon/Wed: 2:00-3:15 P.M.
Instructor	Dr. Hisham Foad	Music Building 265
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Office Hours	Monday 3:30-4:30 Tuesday 1:30-3:30 Thursday 10:00-12:00 *Other times by appointment	

Overview

Economic Globalization has become a fact of life. International trade is ubiquitous and economies have become so interconnected that events and policies in one part of the world have global effects. The goal of this course is to explore the unique challenges and opportunities posed by this increased pace of economic globalization from a macroeconomic perspective. The course will develop the theoretical tools necessary to analyze such issues as trade imbalances, exchange rate fluctuations, monetary and fiscal policy from an international perspective, the choice of exchange rate regime, the merits of a single currency area, the role of international financial institutions, the root causes of financial crises, and international development policies.

Learning Outcomes

Success in this course is contingent on your ability to master the following learning outcomes. You should periodically review this list as the semester proceeds and check off those that you have mastered. I will also review these outcomes in class as we cover them.

- Define the “International Economics Trilemma”
- Discuss the implications for increased financial integration on exchange rate and monetary policy
- Explain why some countries run trade deficits.
- Intelligently discuss the problems created by these trade imbalances and what policies can be done about them.
- Analyze why some currencies get stronger while others get weaker using supply and demand analysis.
- Assess the argument for and against having an undervalued/overvalued currency.
- Compare the costs and benefits of different exchange rate regimes.
- Synthesize the arguments for and against a single global currency.

- Discuss the historical roles played by the IMF and World Bank in global development.
- Evaluate whether these IFI's still relevant, especially given the success of microcredit programs.
- Investigate the patterns international capital flows have taken over the past forty years. Why has capital crossed those specific borders and not others?
- Compare direct and portfolio investment flows. Assess the unique roles played by each in financial crises and in development.
- Investigate the root causes of past and future financial crises.
- Evaluate different policies aimed at limiting exposure to these crises?
- Explain how and why the current financial crisis spread so rapidly from the US across the world.
- Discuss the Washington Consensus policy recommendations for economic development. Compare these policy recommendations with contemporary heterodox approaches.

Readings

The main textbook for this course is *International Economics: Theory and Policy*, 8th Edition by Paul Krugman and Maurice Obstfeld. We will pretty much just be using the second half of the book (chapters 12-22), though the first half is an excellent reference for anyone interested in international trade. The 7th edition of the book is also acceptable. The bookstore has a custom version of the textbook that only includes the second half and is considerably cheaper than the full book. That said, it will have limited resale value so you should look at all your options before buying the book.

In addition to the textbook, I will regularly assign articles from academic journals. The majority of these articles come from general interest journals such as the *Journal of Economic Perspectives* and should be accessible to anyone with a basic understanding of economics. A full list of articles is listed in the tentative course outline at the end of the syllabus, though I reserve the right to add and subtract readings as the semester proceeds.

Finally, it is important that you keep up with current events as they pertain to the lectures. I ask that you regularly (i.e. at least once a week) read through the contents of either *The Economist*, *The Financial Times*, or *The Wall Street Journal*, paying particular attention to articles that deal with international economics. We will be discussing current events regularly in class and you will have no basis for discussion if you haven't kept up with the news. As an added incentive, nearly all extra credit questions on quizzes and exams will be lifted from the news headlines.

Exams

There will be three closed-book midterms and a comprehensive final. Each midterm is self-contained (i.e. not cumulative), covering only material discussed in class up to that point. The final will cover the material from the entire semester. The exams are tentatively scheduled for the following dates:

Exam I	October 4th
Exam II	November 1st
Exam III	December 6th
Final Exam	December 15th (1-3PM)

The final exam is optional. If you are satisfied with your exam grade after the third exam, you may choose not to take the final. However, if you do decide to take the final, then I will compute your exam average with this score, even if it lowers your average.

If you do not choose to take the final, your exam average will be computed as unweighted average of your scores on exams I, II, and III. If you do take the final, then your exam average will be computed as an unweighted average of your scores on exams I, II, III, and the comprehensive final.

If you miss an exam with a valid excuse, the weight of this exam will be added to the final (i.e. you have to take the final if you miss any of the first three exams).

Quizzes

We will have an announced quiz in class once per week covering the material discussed up to that point (i.e. you will only be quizzed on material you've already seen). The quizzes will be short (10 minutes) and provide you with an incentive to keep up with the material.

Grading

Grading in this course will be computed with the following weights:

Quizzes	28%
Exams	72%

For example, a student with an 92 average on quizzes and an 85 average on the exams would have their final score computed as:

$$92 * 0.28 + 85 * 0.72 = 25.76 + 61.2 \approx 87 \text{ (B+)}$$

I employ a standard grading scale in which 80-82 is a B-, 83-86 is a B, 87-89 is a B+ and so forth. In determining a grade distribution, I aim for an average score across the class of a 78 and a standard deviation of 10 points. If the average or standard deviation differs greatly from these targets on any one assignment, then I will utilize a curve. However, I will never curve your grade downward, only up. Thus, if the average is well above a 78 there will be no downward curve and you should be proud of your collectively fine performance!

Attendance

While attendance is not mandatory, it is highly recommended. Past experiences indicate that there is a strong and positive correlation between attendance and exam scores. The lectures will cover material not in the textbook, and you can save yourself a lot of time and frustration by showing up and paying attention in class. Furthermore, you will miss out on the weekly quiz if you skip class.

I encourage you to ask questions and participate in class discussions. While I am happy to lecture for the full class period, you may find this format less appealing. Engaging in discussions and asking questions will not only liven up the class, but also help you comprehend economics as more than just graphs and numbers.

Blackboard

This course has a dedicated site on Blackboard to which I will regularly post lecture notes, homework assignments, articles, and make announcements. It is your responsibility to regularly check the conference. You may also use it as a discussion forum outside of class and office hours. Please let me know as soon as possible if you have any trouble accessing the site.

Academic Integrity

I consider academic dishonesty to be a serious offense, and follow a zero tolerance policy in this regard. You can do very well in this course if you are willing to put in the work, and any benefit you may perceive from cheating is far outweighed by the penalty not only to your academic performance, but your personal integrity as well. All students should familiarize themselves with the SDSU Standards for Student Conduct available at <http://csrr.sdsu.edu/conduct1.html>

I also ask that you be courteous to your fellow classmates and the class itself. Please arrive to class promptly and turn off your cell phones. Refrain from talking when your classmates or I have the floor. If you have a question or a point to make, raise your hand and I will call on you. I will not tolerate rudeness toward your classmates and anyone guilty of this will be asked to leave that class period. I reserve the right to lower your grade if you are consistently showing up late to class or leaving early. If you need to leave class early, please let me know *beforehand*. A student who leaves class early on a quiz day without first clearing their early departure with me will receive a zero for that quiz.

Accommodating Disabilities

If you have or acquire any sort of disability that may require accommodation, feel free to discuss it with me at your convenience. If you want to find out what services are available on campus, contact Student Disability Services, Suite 3100, Calpulli Center, (619) 594-6473.

Tentative Course Outline ****Subject to Change****

Introduction

1. Blanchard, Olivier (2009). Sustaining a Global Recovery. *Finance and Development*, 46(3)
2. Fischer, Stanley (2003). Globalization and its Challenges. *American Economic Review*, 93(2), 1-30.
3. Rodrik, Dani (2000). How Far will International Economic Integration Go? *Journal of Economic Perspectives*, 14(1), 177-186.

National Income Accounts and the Balance of Payments

*** KO, Chapter 12***

4. Greenspan, Alan (2007). Balance of Payments Imbalances. 2007 Per Jacobsson Lecture. Available at <http://www.perjacobsson.org/lectures.htm>
5. Mann, Catherine (2002). Perspectives on the U.S. Current Account Deficit and Sustainability. *Journal of Economic Perspectives*, 16(3), 131-52
6. Obstfeld, Maurice (2005). America's Deficit, The World's Problem. Center for International and

Development Economics Research Working Paper Series, No. C05-144

7. Summers, Lawrence (2004). The U.S. Current Account Deficit and the Global Economy. 2004 Per Jacobsson Lecture. Available at <http://www.perjacobsson.org/lectures.htm>

Exchange Rates and Money

*** KO, Chapters 13-14***

8. Froot, Kenneth and Richard Thaler (1990). Anomalies: Foreign Exchange. *Journal of Economic Perspectives*, 4(3), 179-192

9. Rogoff, Kenneth (2002). Dornbusch's Overshooting Model after Twenty-Five Years. *IMF Staff Papers*, 49, 1-35

Purchasing Power Parity (Long Run Exchange Rates)

*** KO, Chapter 15***

10. Rogoff, Kenneth (1996). The Purchasing Power Parity Puzzle. *Journal of Economic Literature*, 34(2), 647-668

11. Obstfeld, Maurice and Kenneth Rogoff (2000). The Six Major Puzzles in International Macroeconomics: Is There a Common Cause? NBER Working Paper No. 7777

12. Taylor, Alan M. and Mark P. Taylor (2004). The Purchasing Power Parity Debate. *Journal of Economic Perspectives*, 18(4), 135-158

Exchange Rates and Output (Short Run Exchange Rates)

*** KO, Chapter 16***

13. Goldberg, Pinelopi and Michael Knetter (1997). Goods Prices and Exchange Rates: What have we Learned? *Journal of Economic Literature*, 35(3), 1243-1272

Different Exchange Rate Regimes

*** KO, Chapters 17 and 19 ***

Fixed Exchange Rates and Government Intervention

14. Feldstein, Martin (1988). Thinking about International Economic Coordination. *Journal of Economic Perspectives*, 2(2), pp.3-13

The Case for Flexible Exchange Rates

15. Friedman, Milton (1968) "The Case for Flexible Exchange Rates" in *Readings in International Economics*, 1968, R.E. Caves and H.G. Johnson (eds.) Homewood, Illinois: Richard D. Irwin for the American Economic Association

16. Obstfeld, Maurice and Kenneth Rogoff (1995). The Mirage of Fixed Exchange Rates. *Journal of Economic Perspectives*, 9(4), 73-96

The Case for Fixed Exchange Rates

17. Reinhart, Carmen (2000). The Mirage of Floating Exchange Rates. *American Economic Review*, 90(2), 65-70

18. Williamson, John (1985). On the System in Bretton Woods *American Economic Review*, 79(2),

74-79

The Case for Fewer Currencies

19. Alesina, Alberto and Robert Barro (2001). Dollarization. *American Economic Review*, 91(2), 381-385
20. Dornbusch, Rudi (2001). Fewer Monies, Better Monies. *American Economic Review*, 91(2), 238-42
21. Rogoff, Kenneth (2001). Why Not a Global Currency? *American Economic Review*, 91(2), 243-247

The Case for a Pragmatic Approach

22. Calvo, Guillermo and Frederic Mishkin (2003). The Mirage of Exchange Rate Regimes for Emerging Market Countries. *Journal of Economic Perspectives*, 17(4), 99-118
23. Frankel, Jeffrey (1999). No Single Currency Regime is Right for All Countries or at All Times. *Essays in International Finance*, No. 215

Optimum Currency Areas

*** KO, Chapter 20 ***

24. Alesina, Alberto and Roberto Perotti (2004). The European Union: A Politically Incorrect View. *Journal of Economic Perspectives*, 18(4), 27-48
25. Eichengreen, Barry (1993). European Monetary Unification. *Journal of Economic Literature*, 31(3), 1321-57
26. Foad, Hisham (2007). The Road to Maastricht San Diego State Economics Working Paper
27. Rose, Andrew and Eric van Wincoop (2001). National Money as a Barrier to International Trade: The Real Case for Currency Union. *American Economic Review*, 91(2), 386-390

International Financial Institutions

30. Blinder, Alan (1999). Eight Steps to a New Financial Order. *Foreign Affairs*, 78(5), 50-63
31. Camdessus, Michael (2005). International Financial Institutions: Dealing with New Global Challenges. 2005 Per Jacobsson Lecture, Available at <http://www.perjacobsson.org/lectures.htm>
32. Krueger, Anne (1998). Wither the World Bank and IMF? *Journal of Economic Literature*, 36(4), 1983-2020
33. Stiglitz, Joseph (2000). The Insider: What I Learned at the World Economic Crisis. *The New Republic*, April 17th, 2000
- replies by Rudi Dornbusch, Alice Amsden, and other. *The New Republic*, May 29th, 2000.

International Capital Flows

*** KO, Chapter 7, pp 160-170 and Chapter 21 ***

34. Calvo, Guillermo, Leonardo Liederman, and Carmen Reinhart (1996). Inflows of Capital to Developing Countries in the 1990's. *Journal of Economic Perspectives*, 10(2), 123-139
35. Claessens, S. M. Dooley, and A. Warner (1995). Portfolio Capital Flows: Hot or Cold? *World Bank Economic Review*, 9, 153-174
36. Prasad, Ewar and Shang-Jin Wei (2005). The Chinese Approach to Capital Inflows: Patterns and Possible Explanations. *IMF Working Paper Series*, No. 05/79

Financial Crises

*** KO, Chapter 22 ***

37. Feldstein, Martin (2002). Argentina's Fall: Lessons from the Latest Financial Crisis. *Foreign Affairs*, March/April 2002
38. Frankel, Jeffrey (2000). The Asian Model, the Miracle, the Crisis, and the Fund. In *Currency Crises*, Paul Krugman ed., pp.327-337. ***On Course Reserve***
39. International Monetary Fund (2009). World Economic Outlook, April 2009.
40. International Monetary Fund (2009). World Economic Outlook, September 2009
41. Roubini, Nouriel (2004). *Bailouts or Bail-ins: Responding to Financial Crises in Emerging Markets*. Washington: Institute for International Economics.
42. Rubin, Robert (2003), *In an Uncertain World*. New York: Random House. Chapter 1 Mexican Crisis), Chapters 8-9 (Asian Crisis), and Chapter 10 (Russian Crisis). ***On Course Reserve***
43. Summers, Lawrence (2000). "International Financial Crises: Causes, Prevention, and Cures." *American Economic Review*, v.90:2, pp1-16

International Development Policy

*** KO, Chapter 22 ***

44. Bhagwati, Jagdish (1998). The Capital Myth: The Difference between Trade in Widgets and Dollars. *Foreign Affairs*, May/June 1998
45. Edwards, Sebastian (1999). How Effective are Capital Controls? *Journal of Economic Perspectives*, 13(4), 65-84
46. Reinhardt, Carmen (2004). Serial Default and the Paradox of Rich-to-Poor Capital Flows. *American Economic Review*, 94(2), 53-58
47. Rogoff, Kenneth (1992). Dealing with Developing Country Debt in the 1990's. *The World Economy*, 15, 475-486
48. Sachs, Jeffrey (1990). A Strategy for Efficient Debt Reduction. *Journal of Economic Perspectives*, 4(1), 19-29

Important Dates

Please take note of these important dates for both this class and the Fall 2010 Academic Semester:

August 30th	First class meeting
September 6th	Labor Day - no class
September 13th	Last day to drop classes
September 15th	Last day to add classes or change grading basis
	Last day to apply for December 2010 Graduation
October 4th	Exam I
November 1st	Exam II
November 26th	Thanksgiving Holiday - no class
December 6th	Exam III
December 8th	Last class meeting
December 15th	Final Exam (1-3PM)

Useful Links

blackboard.sdsu.edu

Check daily for announcements, lecture notes, assigned articles, and practice exams.

wps.aw.com/aw_krgmnobstf_interecon_8

Companion website to the textbook. Useful reference material as well as online quizzes for each chapter

infodome.sdsu.edu

SDSU Library. Good starting point to track down development information.

pwt.econ.upenn.edu/php_site/pwt_index.php

Penn World Tables. Good source of macroeconomic data that is comparable across countries.

www.bea.gov

U.S. Bureau of Economic Analysis. Good balance of payments data for the U.S.

www.imf.org

International Monetary Fund. Portal to a lot of useful data and articles relevant to international finance. The Article IV consultation reports are useful for country-specific reports.

fx.sauder.ubc.ca

Good website to access exchange rate data (click "database retrieval") and charts (click "plot interface").