

Economics 155 - INTERNATIONAL FINANCE - Prof. G. H. Borts (8/27/04)
Fall Semester 2004
Class meets MWF at 2 PM (G Hour)

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This course examines the following topics: foreign exchange markets; the interest rate parity theorem; exchange rates and inflation; purchasing power parity; balance of payments and national income accounting; concept and measurement of deficits; the determination of the exchange rate; fixed and free exchange rates; international monetary standards and macro-economic relationships; monetary systems and currency standards; bail-outs by the International Monetary Fund; currency areas; international capital movements and world debt. Particular focus will be placed on the financial experiences and economic policies of debtor countries.

Please buy the following textbook: P. Krugman and M. Obstfeld, International Economics, Theory and Policy, Sixth Edition, Addison-Wesley, 2003.

Required written work in the course will consist of three exams and a term paper. There will be two hour exams during the semester, and a 3-hour final exam. The hour exams will be given October 8 and November 12. The final exam is scheduled for December 16.

Make-up hour exams (due to absence only) will be given at the end of the semester during the reading period, in response to a letter from the Dean's Office. Please be aware that only one make-up exam will be allowed.

In addition to three class meetings a week, there will be discussion sections every Monday at noon and 7 PM. The class rooms will be announced later. The sections will meet with an advanced graduate student who will go over homework assignments and review lectures in preparation for exams. The first sections will meet September 13.

In addition to the exams, you are required to write a 3000 word research paper. A list of suggested topics and readings for the paper will be circulated at the beginning of the semester. The paper is due December 10 but may be submitted earlier. I will be pleased to comment on a first draft, provided it is submitted before November 22. You must select a topic no later than October 15. You are advised to act promptly, as I will not accept more than two papers on any particular topic.

Also note that it is advisable for you to read the Wall Street Journal, because it contains items of relevance to the course. If you don't agree with its editorial policies, you will be pleased to learn that its reporters don't either. If you do agree with its editorial policies, reading it will make you feel good. In either case, you will learn from it.

Economics 155 Course Outline

1. Exchange Rates and the Foreign Exchange Market; Spot and Forward Rates, Futures, Interest Rates, Interest Rate Parity - covered and uncovered. (4 sessions, September 8, 10, 13, and 15). Krugman-Obstfeld, Ch. 13, pp. 324-56.
2. Money, Interest Rates, Exchange Rates, and Inflation. (3 sessions, September 17, 20, and 22). Krugman-Obstfeld, Ch. 14, pp. 357-87.
3. Price Levels and Exchange Rates in the Long Run; The Law of One Price; Purchasing Power Parity; Fisher Effect; Real Exchange Rate. (3 sessions, September 24, 27, and 29). Krugman-Obstfeld Ch. 15, pp. 388-432.
4. National Income Accounting in the Open Economy; Balance of Payments accounting; Definition of deficits in various accounts; Official Financing. (3 sessions, October 1, 4, and 13). Krugman-Obstfeld, Ch. 12, pp. 294-323.

REVIEW, Topics 1-3, October 6. FIRST HOUR EXAM, October 8, Holiday Oct. 11

5. Output and the Exchange Rate in the Short Run; Output Market Equilibrium; Asset Market Equilibrium; General Equilibrium; Monetary and Fiscal Policy. (4 sessions, October 15, 18, 20, and 22). Krugman-Obstfeld Ch. 16, pp. 433-80.
6. Fixed Exchange Rates; Central Bank and the Money Supply; Money Market Equilibrium with Fixed Exchange Rates; Balance of Payments Crises; Managed Floats; Reserve Currencies; Gold Standard. (3 sessions, October 25, 27, and 29). Krugman-Obstfeld Ch. 17, pp. 481-530.
7. International Monetary System, 1870-1973; Rules of the Game; Gold Standard; Wartime Inflation and Postwar Hyperinflation 1914-1925; Great Crash of 1929; Bretton Woods and the International Monetary Fund, 1945-73. (4 sessions, November 1, 3, 5, and 8). Krugman-Obstfeld Ch. 18, pp. 532-567.

REVIEW, Topics 4-7, November 10. SECOND HOUR EXAM, November 12.

8. Macro-economic Policy Under Floating Rates; Oil Shocks; EMS, the Case for Floating Rates; the Twin Deficits of the 1980's. (3 sessions, November 15, 17, and 19). Krugman-Obstfeld Ch. 19, pp. 568-603.
9. Optimum Currency Areas and EMS, (3 sessions, November 22, 29, and December 1). Krugman-Obstfeld Ch. 20, pp. 604-635.

HOLIDAY, November 24 and 26

10. Global Capital Markets; International Debt Problems: Argentina, Brazil, Mexico, Indonesia, Korea, Thailand; Stabilization Proposals; Sovereign Default; Debt Buybacks. (3 sessions, December 3, 6, and 8). Krugman-Obstfeld Ch. 21 and 22, pp. 636-706.

MAKE-UP EXAMS and REVIEW , December 10.

FINAL EXAM: December 16.