

ECON4423: International Finance

2011

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Course Description

This course reviews selected topics from both international finance and open-economy macroeconomics. From international finance, we will discuss international financial markets and their operations. From open-economy macroeconomics, we will discuss macroeconomic policies and their implications. Obviously, most of our time will be devoted to further our understanding of “exchange rates.”

Here are some stylized facts:

1. Real and nominal exchange rates are highly correlated.
2. Changes in both real and nominal exchange rates are persistent.
3. Forward exchange rates are poor and biased predictors of future spot exchange rates.
4. International differences in interest rates are large and persistent.
5. Portfolios are not internationally diversified.
6. The extent of international consumption risk-sharing is less than expected.
7. Savings and investment are highly correlated.
8. The trade balance and the current account are countercyclical.
9. Business cycles are correlated across countries.

Evaluation

The assessment for this class consists of three assignments, two tests, and one final examination. The tests and final are closed notes and closed books. No make-up tests will be given. The schedule and grade distribution is

	Week	Date	Time	Location	%
Assignment 1	7	21 February	14:00	ECON 119	5
Term Test 1	7	25 February	14:00	ECON 119	25
Assignment 2	12	1 April	14:00	ECON 119	5
Term Test 2	13	4 April	14:00	ECON 119	25
Assignment 3	16	29 April	14:00	ECON 119	5
Final Exam	Finals	4 May	13:30–16:00	ECON 119	35

: Students who may need academic accommodations should discuss options with the professor no later than 21 January.

Required Text

Feenstra, R. and A. Taylor (2008) *International Macroeconomics*, New York: Worth Publishers.

Advanced Texts

Frankel, J. and A. Razin (1996) *Fiscal Policies and the World Economy*, Cambridge: The MIT Press.

Grossman, G. and E. Helpman (1991) *Innovation and Growth in the Global Economy*, Cambridge: The MIT Press.

Grossman, G. and K. Rogo (1995) *Handbook of International Economics*, vol. 3, Amsterdam: North-Holland.

Jones R. and P. Kennen (1985) *Handbook of International Economics*, vol. 1 and 2, Amsterdam: North-Holland.

Obstfeld, M. and K. Rogo (1996) *Foundations of International Macroeconomics*, Cambridge: The MIT Press.

van der Ploeg, F. (1994) *The Handbook of International Macroeconomics*, Oxford: Basil Blackwell Ltd.

Course Outline

Part 1: Introduction to International Finance

1. Introduction
Feenstra and Taylor: Chapter 1.

Part 2: Exchange Rates

2. The Exchange Rate Market
Feenstra and Taylor: Chapter 2 and Chapter 11.2.
3. The Money Market
Feenstra and Taylor: Chapter 3 and Chapter 11.1.
4. The Balance of Payments
Feenstra and Taylor: Chapter 4.

Part 3: The Balance of Payments

5. The World and the Balance of Payments
Feenstra and Taylor: Chapter 5.
7. The Exchange Rate and the Balance of Payments
Feenstra and Taylor: Chapter 7.
6. The Goods Market and the Balance of Payments
Feenstra and Taylor: Chapter 6.

Part 4: Policy Issues

8. Exchange Rate
Feenstra and Taylor: Chapter 8.
9. Exchange Rate
Feenstra and Taylor: Chapter 9.