Goals: This course deals with economic activity in an open economy. We begin with basic concepts, including the balance of payments, exchange rates, and the impact of macroeconomic policies. We then examine the options that countries have in their choice of capital account and exchange rate regimes, and how these affect the economy. Finally, we study currency and financial crises, including the role of the IMF.

One of the goals of the course is to learn how to read research papers. We will read recently published papers and working papers and discuss how their authors present their evidence.

Prerequisites: The prerequisites for the course are ECON 202 and 203. It will not be possible to take either of these courses concurrently with this course, as the theoretical models and empirical analyses we will discuss require familiarity with the material taught in ECON 202 and 203.

Readings: The main text for the course is:

Caves, Frankel and Jones, *World Trade and Payments* (10th ed.)

There also be readings from:

Joyce, *The IMF and Global Financial Crises: Phoenix Rising*

The other readings are posted on the course site.

Requirements: The course grade will be determined by the results of two exams (25% each), four problem sets (40%), and a joint paper presentation (15%).

Class Conference: There is a Sakai site that we will use to post announcements, answer questions, etc. All class notes, problem sets, and exams are the intellectual property of instructor and should not be given or forwarded to any other party without prior consent.

Office Hours: Wednesdays from 2:00 – 3:30 and Thursdays from 2:30 – 4 and by appointment.

Classroom Environment: We meet in the classroom to collectively learn the material. Do not send text messages or e-mails, or check your messages. Please refrain from leaving the room unless necessary. All members of the course are expected to adhere to our Honor Code.
ARTICLES AND HANDOUTS

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>9/2</td>
<td>Balance of Payments</td>
<td>Caves, Frankel and Jones, Ch. 15</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ghosh and Ramakrishnan, “Current Account Deficits: Is There a Problem?”</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Finance &amp; Development, 3/12</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Eichengreen, “Requiem for Global Imbalances.” Project Syndicate, 1/14</td>
</tr>
<tr>
<td>9/5</td>
<td>Exchange Rate Markets</td>
<td>Caves, Frankel and Jones, Ch. 16: p. 291-293</td>
</tr>
<tr>
<td>9/9</td>
<td>Fixed Exchange Rates</td>
<td>Caves, Frankel and Jones, Ch. 16: p. 291-293</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Handouts #2, #3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>9/12</td>
<td>Purchasing Power Parity</td>
<td>Caves, Frankel and Jones, Ch. 19.2-19.3</td>
</tr>
<tr>
<td>9/17</td>
<td>REVIEW</td>
<td></td>
</tr>
<tr>
<td>9/19</td>
<td>Monetarist Model</td>
<td>Caves, Frankel and Jones, Ch. 27.2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Handout #4</td>
</tr>
</tbody>
</table>
9/23: Fixed vs. Flexible Rates

Caves, Frankel and Jones, Ch. 26.5: 559-562
Handouts #5, #6
Stone, Anderson and Veyrune, “Exchange Rate Regimes: Fix or Float?” *Finance & Development*, 3/08
Ghosh and Ostry, “Choosing An Exchange Rate Regime.” *Finance & Development*, 12/09
*The Economist*, “Not Floating, but Flailing.” 7/5/2015

9/26: No Class

9/30: Monetary Unions

Caves, Frankel and Jones, Ch. 26.5: 562-567

10/1: Problem Set #1

10/1: Research Paper Presentation

Cheung, Chinn and Fuji, “Pitfalls in Measuring Exchange Rate Misalignment.” *Open Economies Review*, vol. 20 no. 2, 2009

III. International Capital

10/3: Capital Flows

Caves, Frankel and Jones, Ch. 21.1
Joyce, *The IMF and Global Financial Crises: Phoenix Rising?*, Ch. 5.1

10/7: Capital Controls

Caves, Frankel and Jones, Ch. 21.3, 24.7
Kose and Prasad, “Capital Accounts: Liberalize or Not?” *Finance & Development*, 2/12

10/10: Interest Rate Parity

Caves, Frankel and Jones, Ch. 27.1, Ch. 21.4: 426-431
10/14: Fall Break

10/15: REVIEW

**10/17: Problem Set #2**

10/17: Research Paper Presentation


**10/24: Mid-Term Exam (I – III)**

IV. Macroeconomic Policies

10/21: IS/LM/BP
10/28: Tanner Conference
10/29: Macro Policies
10/31: No Class
11/4: External Shocks

Ch. 22.1-4; Ch. 23: 1-3
Handout #7

11/7: Research Paper Presentation


11/11: Policy Models

Caves, Frankel and Jones, Ch. 18: p. 333-336; Ch. 22: Appendix: p. 461-466
Handout #8

11/12: REVIEW

**11/21 Problem Set #3**

V. Financial Crises

11/14: Currency Crises: 1st Generation Models
11/18: Currency Crises: 2nd Generation Models
11/21: Twin Crises: 3rd Generation Models

Caves, Frankel and Jones, Ch. 24.2-24.4, 24.6
Handouts #9, #10

11/25: Research Paper Presentation


11/28: Thanksgiving

VI. IMF

12/2: Policies and Programs

Caves, Frankel and Jones, Ch. 24.5, 24.8
Joyce, *The IMF and Global Financial Crises*, Chs. 10, Ch. 11.2-11.3

12/3: REVIEW
12/5: Research Paper Presentation

Dreher and Walter, “Does the IMF Help or Hurt? The Effect of IMF Programs on the Likelihood and Outcome of Currency Crises.” *World Development*, vol. 38 no. 1, 2010

12/9: Problem Set #4

12/9: Research Paper Presentation


Final Exam: Self-scheduled (IV – VI)