

ECON 313: INTERNATIONAL MACROECONOMICS

Fall Semester, 2014-2015

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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.

READINGS

Articles are posted at our class conference.

I. Concepts and Relationships

9/2: Balance of Payments

Caves, Frankel and Jones, Ch. 15

Handout #1

Ghosh and Ramakrishnan, "Current Account Deficits: Is There a Problem?" *Finance & Development*, 3/12

Eichengreen, "Requiem for Global Imbalances." Project Syndicate, 1/14

9/5: Exchange Rate Markets

9/9: Fixed Exchange Rates

Caves, Frankel and Jones, Ch. 16: p. 291-293

Handouts #2, #3

II. Exchange Rate Models and Regimes

9/12: Purchasing Power Parity

Caves, Frankel and Jones, Ch. 19.2-19.3

Catão, "Why Real Exchange Rates?" *Finance & Development*, September 2007

The Economist, "Beefed-up Burgernomics," 8/3/2011

9/16: Research Paper Presentations

Lane, "Financial Globalisation and the Crisis." *Open Economies Review*, vol. 24 no. 3, 2013

Servén and Nguyen, "Global Imbalances: Origins and Prospects." *World Bank Research Observer*, vol. 28 no.2, 2012

9/17: REVIEW

9/19: Monetarist Model

Caves, Frankel and Jones, Ch. 27.2

Handout #4

Wang, "Why Are Exchange Rates So Difficult to Predict?" Federal Reserve Bank of Dallas
Economic Letter, 3/6/08

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

Krugman, "Can Europe Be Saved?" *New York Times*, 1/12/2011

Subramanian, "Three New Lessons of the Euro Crisis." Project Syndicate, 4/8/2013

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

Kose, Prasad, Rogoff and Wei, "Financial Globalization: Beyond the Blame Game." *Finance & Development*, 3/07

10/7: Capital Controls

Caves, Frankel and Jones, Ch. 21.3, 24.7

Hallwood and MacDonald, *International Money and Finance* (3rd ed), Ch. 19.4: p. 398-401

Kose and Prasad, "Capital Accounts: Liberalize or Not?" *Finance & Development*, 2/12

Eichengreen and Rose, "Capital Controls in the 21st Century," *Vox*, 6/5/2014

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

Alfaro, Kalemli-Ozcan and Volosovych, “Why Doesn’t Capital Flow from Rich to Poor Countries? An Empirical Investigation.” *Review of Economics and Statistics*, vol. 90 no. 2, 2008

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

Freyer and Shambaugh, “Global Savings and Global Investment: The Transmission of Identified Fiscal Shocks.” *American Economic Journal: Economic Policy*, vol. 4 no. 2, 2012

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

Claessens and Kose, "Financial Crises: Questions and Lessons." *Vox*, 4/7/2013

Hallwood and MacDonald, *International Money and Finance* (3rd ed), Ch. 14.1-14.4, 14.8

Joyce, *The IMF and Global Financial Crises: Phoenix Rising?*, Chs. 6.1-6.2, 7

11/25: Research Paper Presentation

Furceri, Guichard and Rusticelli, "Episodes of Large Capital Inflows, Banking and Currency Crises, and Sudden Stops." *International Finance*, vol. 15 no. 1, 2012

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

Joyce, 2014, "External Balance Sheets and Crisis Insurance"

Final Exam: Self-scheduled (IV – VI)