

ECON 313: INTERNATIONAL MACROECONOMICS

Fall Semester, 2019-2020

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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 capital flows. We then examine the impact of government policies in open economies. We also study currency and financial crises.

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.

Meetings: The class meets on Tuesdays and Fridays at 8:30 a.m. - 9:45 a.m. and on Wednesdays at 8:30 p.m. - 9:20 a.m. in Room 339 PNE.

Readings: The main text for the course is:

Pilbeam, *International Finance* (4th ed.)

The additional readings are posted on the course site.

Requirements: The course grade will be determined by the results of two exams (25% each), five problem sets (35%), 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 and Thursdays from 2:00 – 3:30 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.

Honor Code: Members of the course are expected to adhere to the College's Honor Code. You are allowed to work on problem sets with classmates, but you must hand in your own written assignment. Problem sets are a key component of exam preparation.

Disability: If you have a disability or condition, either long-term or temporary, and need reasonable academic adjustments in this course, please contact Accessibility and Disability Resources (ADR) to get a letter outlining your accommodation needs, and submit that letter to me. You should request accommodations as early as possible in the semester, or before the semester begins, since some situations can require significant time for review and accommodation design. If you need immediate accommodations, please arrange to meet with me as soon as possible. If you are unsure but suspect you may have an undocumented need for accommodations, you are encouraged to contact (ADR). They can provide assistance including screening and referral for assessments.

Disability Services can be reached at accessibility@wellesley.edu, at 781-283-2434, by scheduling an appointment online at their website, <https://www.wellesley.edu/adr> or by visiting their offices on the 3rd floor of Clapp Library, rooms 316 and 315.

READINGS

I. Concepts and Relationships

Sept. 3: Balance of Payments

Pilbeam, Ch. 2.1-2.10

Handout #1

Ghosh and Ramakrishnan, "Current Account Deficits: Is There a Problem?", *Finance & Development*, 3/28/2012

Sept. 4: Review

Sept. 6: Exchange Rate Markets

Pilbeam, Ch. 1.1-1.3, 1.6-1.7

Sept. 10: Fixed Exchange Rates

Sept. 11: Review

Pilbeam, Ch. 1.8

Handouts #2, #3

II. Exchange Rate Models and Regimes

Sept. 13: Purchasing Power Parity/Real Exchange Rates

Pilbeam, Ch. 6

Catão, "Why Real Exchange Rates?", *Finance & Development*, 9/2007
The Economist, "Pick of the Menu", 1/12/2019

Sept. 17: Monetarist Model

Pilbeam, Chs. 7.4, 9.7-9.9

Wang, “Why Are Exchange Rates So Difficult to Predict?”, *Economic Letter*, 6/2008
Handout #4

Sept. 18: Review

Sept. 20: Problem Set #1

Sept. 20: Fixed vs. Flexible Rates

Pilbeam, Ch. 10.1-10.3, 10.11, Box 4.1 (p. 92-93)
Handout #5

Ghosh and Ostry, “Choosing An Exchange Rate Regime”, *Finance & Development*, 12/2009

The Economist, “Why Countries like Argentina and Turkey Fret”, 6/21/2018

The Economist, “Two Out of Three Ain’t Bad”, 8/27/2016

Yu, “China Confronts the Mundell-Fleming Trilemma”, *Project Syndicate*, 2/26/2018

Sept. 24: Research Paper Presentation #1

Chinn and Ito, “A Requiem for “Blame It on Beijing” Interpreting Rotating Global Currency Account Surpluses,” 2019.

Sept. 25: Review

Sept. 27: Monetary Unions

Pilbeam, Ch. 16.11-16.13, 16.20, 16.23-16.24, 16.31-16.33

The Economist, “The Euro Enters Its Third Decade in Need of Reform”, 1/5/2019

Mody, “On The Euro’s 20th birthday, Draghi’s Tribute Perpetuates Long-Refuted Myths”,
1/25/2019

III. International Capital

Oct. 1: Capital Flows

Pilbeam, Ch. 15.5

Galeza and Chan, “What is Direct Investment?”, *Finance & Development*, 9/2015

The Economist, “The Good, The Bad, and The Ugly”, 10/1/2016

Kose, Prasad, Rogoff and Wei, “Financial Globalization: Beyond the Blame Game”, *Finance & Development*, 3/2007

Handout #6

Oct. 2: Review

Oct. 4: Problem Set #2

Oct. 4: Research Paper Presentation #2

Eichengreen, “The Open-Economy Trilemma in the Long-Run”, *Korean Economic Review*, 2018

Oct. 8: Capital Controls

The Economist, “Just in Case,” 10/12/2013

Kose and Prasad, “Capital Accounts: Liberalize or Not?”, *Finance & Development*, 2/2012

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

Hallwood and MacDonald, *International Money and Finance*, Ch. 19.4: p. 398-401

Oct. 9: Review

Oct. 11: Interest Rate Parity

Pilbeam, Chs. 1.9, 7.2, 9.1-9.5

Oct. 15: Fall Break

Oct. 16: Problem Set #3

Oct. 16: Review Class

Oct. 18: Mid-Term Exam (I – III)

IV. Macroeconomic Policies

Oct. 22: IS/LM/BP

Pilbeam, Ch. 4.3-4.7

Oct. 23: Review

Oct. 25: Macro Policies

Pilbeam, Ch. 4.8, 4.10-4.11

Handout #7

Oct. 29: Tanner Conference

Oct. 30: Review

Nov. 1: External Shocks

Pilbeam, Ch. 4.12

Nov. 5: Research Paper Presentation #3

Avdjiev, Koch, McGuire and von Peter, "Transmission of Monetary Policy through Global Banks: Whose Policy Matters?", BIS Working Paper no. 737, 2018

Nov. 6: Review

April 18: Problem Set #4

Nov. 8: Coordination

Pilbeam, Ch. 14.1-14.3, 14.5-14.10

Frankel, "International Coordination", NBER Working Paper #21878, 1/2016

Handout #8

V. Financial Crises

Nov. 12: Crises: 1990s

Wolf, *Fixing Global Finance*, Ch. 3

Joyce, *The IMF and Global Financial Crises*, Ch. 7

Pilbeam, Ch. 17.4-17.12

Handout #8

Nov. 13: Review

Nov. 15: International Monetary Fund

Joyce, *The IMF and Global Financial Crises*, Chs. 2, 3

Nov. 19: Research Paper Presentation #4

Forbes and Warnock, "Capital Flow Waves: Surges, Stops, Flight and Retrenchment", *Journal of International Economic*, 2012

Nov. 20: Review

Nov. 22: Crises: 2000s

Wolf, 2010, *Fixing Global Finance*, Ch. 8

Joyce, *The IMF and Global Financial Crises*, Ch. 10

Aliber and Kindleberger, *Manias, Panics and Crashes*, Ch. 2, 2015

Gourinchas and Obstfeld, "Understanding Past and Present Crises", *Vox*, 2/2012

Nov. 26: Research Paper Presentation #5

Saravia, "Vulnerability, Crises and Debt Maturity: Do IMF Interventions Increase Reliance on Short-Term Debt?", *International Finance*, 2013

Dec. 3: "Ten Years of Turmoil"

Dec. 4: Review

Dec. 6: TBA

Dec. 10: Problem Set #5

Final Exam: Self-scheduled (IV – VI)