

International Finance

I. Introduction

This course will study international finance and macroeconomics. The objective is to acquire an understanding of how international financial markets work and how international economic integration affects policy making. We will study exchange rates, international financial flows, monetary and fiscal policies, the consequences of globalization, currency regimes and international financial crises. We will use many examples from the rich history of international finance and financial crises and current events to illustrate how the global economy and national macroeconomic policy interact.

The prerequisite for the course is completion of intermediate macroeconomics, Economics 100B or Economics 100N.

Student evaluation will be based on a midterm exam (35%), five homework assignments (15%) and a final exam (50%).

Lectures: TTh 4:00-5:45 in Physical Sciences 110.

II. Office hours

Tuesday and Wednesday 11:00-12:00, or by appointment, in Engineering 2, room 461. Phone: 459-3407. E-mail: kkletzer@ucsc.edu.

III. Textbook

The text for the course is *International Macroeconomics*, by Robert Feenstra and Alan Taylor, 3rd Edition (Worth, 2014). This book should be in stock at the Bay Tree Bookstore and available on the web. This book is identical to the second half of Feenstra and Taylor, *International Economics*, 3rd Edition (Worth, 2014) which may be available for less used. You should choose which to buy on the basis of your preferences (presumably, for lower price). Additional handouts and suggested readings will be posted on the website during the quarter.

IV. Course Webpage

The course webpage is <http://people.ucsc.edu/~kkletzer/econ141.htm> and should be linked from the Department of Economics webpage (link to faculty). Class materials and announcements will be posted here frequently. The webpage also has links to many useful web pages on macroeconomics.

V. Exam Schedule:

Midterm
Final Exam

Tuesday, November 3, in class
Wednesday, December 9 at 12:00 noon

Syllabus

1. Exchange Rates and the Foreign Exchange Market

Feenstra and Taylor, chapters 1, 2 (or 12, 13 in *International Economics*, 2nd edition)

Della Corte, P., L. Sarno, and I. Tsiakas (2010), "Can We Predict Exchange Rates? Economic Evidence Against the Random Walk Model." <http://www.voxeu.org/article/valuable-predictions-exchange-rates>

Froot, Kenneth A., and Richard H. Thaler (1990), "Anomalies: Foreign Exchange," *Journal of Economic Perspectives*, 4(3): 179-192. <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.4.3.179>

Owen F Humpage, Michael Bordo, 2011, "Currency wars: Lessons from the US experience: 1973-95." <http://www.voxeu.org/article/currency-wars-lessons-us-experience>

2. The Monetary Approach to Exchange Rates

Feenstra and Taylor, chapter 3 and section 11.1

Pakko, M. R. and P. S. Pollard (2003), "Burgernomics: A Big Mac™ Guide to Purchasing Power Parity," *Review*, Federal Reserve Bank of St. Louis, Vol. 85(6), 9-27. <http://research.stlouisfed.org/publications/review/03/11/pakko.pdf>

Taylor, A. and M. Taylor (2004), "The Purchasing Power Parity Debate," *Journal of Economic Perspectives*, Vol. 18(4), 135-158. <http://pubs.aeaweb.org/doi/pdfplus/10.1257/0895330042632744>

3. The Asset Approach to Exchange Rates

Feenstra and Taylor, chapter 4 and section 11.2

Rogoff, K. (2002), "Dornbusch's Overshooting Model after 25 Years," *IMF Staff Papers*, Vol. 49, 1-34. <http://www.jstor.org/stable/3872469> (on campus or logged into UCSC library)

4. National Income Accounting and the Balance of Payments

Feenstra and Taylor, chapter 5

Feldstein, M. S. (2008), "Resolving the Global Imbalance: The Dollar and the U.S. Saving Rate," *Journal of Economic Perspectives*, Vol. 22(3), 113-125. <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.22.3.113>

Milesi-Ferretti, G. M. (2009), "A \$2 trillion question." <http://www.voxeu.org/article/2-trillion-question>

5. Financial Globalization

Feenstra and Taylor, chapter 6

Lothian, J. R. (2006), "Institutions, Capital Flows and Financial Integration," *Journal of International Money and Finance*, Vol. 25(3), 358-369.
<http://www.sciencedirect.com/science/article/pii/S0261560606000027> (on campus or logged into UCSC library)

Lucas, R. E. (1990), "Why Doesn't Capital Flow from Rich to Poor Countries?," *American Economic Review*, Vol. 80(2), 92-96. <http://www.jstor.org/stable/2006549> (on campus or logged into UCSC library)

Prasad, E., R. Rajan and A. Subramanian (2007), "The Paradox of Capital," *Finance & Development*, Vol. 44(1). <http://www.imf.org/external/pubs/ft/fandd/2007/03/prasad.htm>

6. Macroeconomic Policies and the Balance of Payments

Feenstra and Taylor, chapter 7

Barry Eichengreen (2013), "Does the Federal Reserve Care About the Rest of the World?," NBER Working Paper No. 19405, September 2013.
<http://users.nber.org/~confer/2013/SI2013/FED/Eichengreen.pdf>

Maurice Obstfeld (2012), "Does the Current Account Still Matter?," *American Economic Review*, March 2012. <http://elsa.berkeley.edu/~obstfeld/Ely%20lecture.pdf>

7. Exchange Rate Regimes

Feenstra and Taylor, chapter 8

Calvo, G. and F. Mishkin (2003), "The Mirage of Exchange Rate Regimes for Emerging Market Countries," *Journal of Economic Perspectives*, Vol. 17(1), 99-118.
<http://pubs.aeaweb.org/doi/pdfplus/10.1257/089533003772034916>

Hélène Rey (2013), "Dilemma not Trilemma: The global financial cycle and monetary policy independence." <http://www.voxeu.org/article/dilemma-not-trilemma-global-financial-cycle-and-monetary-policy-independence>

8. Currency and Debt Crises

Feenstra and Taylor, chapter 9 and section 11.4

Pierre-Olivier Gourinchas and M. Obstfeld (2012), "Understanding past and future financial crises." <http://www.voxeu.org/article/understanding-past-and-future-financial-crises>

Itay Goldstein, Assaf Razin (2013), "Theories of financial crises." <http://www.voxeu.org/article/theories-financial-crises>

Reinhart, C. (2002), "Default, Currency Crises, and Sovereign Credit Ratings," *World Bank Economic Review*, Vol. 16(2), 151-170. http://www.nber.org/papers/w8738.pdf?new_window=1

Lane, Philip R. (2012), "The European Sovereign Debt Crisis," *Journal of Economic Perspectives*, 26(3): 49-68. <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.26.3.49>

Olivier Accominotti and Barry Eichengreen (2013), "Mother of all sudden stops," <http://www.voxeu.org/article/mother-all-sudden-stops>

"What lessons should investors learn from the Argentine and Greek restructurings?" *The Economist*, April 20 2013. <http://www.economist.com/news/finance-and-economics/21576391-what-lessons-should-investors-learn-argentine-and-greek-restructurings>

9. The Euro and other Challenges

Feenstra and Taylor, chapter 10 and section 11.3

O'Rourke, K. and A.M. Taylor (2013), "Cross of Euros," *Journal of Economic Perspectives*, 27(3): 167-92. <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.27.3.167>

Wyplosz, C. (1997), "EMU: Why and How It Might Happen," *Journal of Economic Perspectives*, 11(4): 3-21. <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.11.4.3>