SYLLABUS

Course Requirements

• Exams

There will be two exams given in the course—a midterm and a final. The dates of the exams are:

Thurs., Oct. 22 (covering the material from Sept. 3 through Oct. 8)

The final exam is on Wednesday, Dec. 16, at 9 AM. The final will be cumulative, but weighted 60% toward material covered after the midterm.

Please Note:

• It is your responsibility to plan your travel ahead around exam dates. In particular, the date of the final exam is determined by the Registrar and cannot be changed for any reason.
• **Problem Sets**

There will be seven problem sets assigned during the term. The problem sets will be available in the “Problem Sets” folder on the class Canvas site.

*Problem sets must be completed and submitted at the start of class on the dates detailed in the course calendar below.*

*The due date on problem sets cannot be extended for any reason.* However, the lowest two of the seven problem set scores will be dropped from the calculation of each student’s semester grade. So, if you cannot do one of the psets some week, that will just be one of the scores that gets dropped.

**Grading**

Grades will be determined by the final (40%), your midterm score (30%), and the highest six of your eight problem sets (30%).

**Readings**

Most of the reading assignments are drawn from the textbook, *International Finance: Theory and Policy (10th ed.),* by Paul Krugman, Maurice Obstfeld and Marc Melitz. The majority of the reading in the book reinforces material you'll learn in class, but some of the topics we cover may not appear in the book. Conversely, some of the assigned reading is for background, and will not be covered explicitly in class.

The rest of the reading will be drawn from recent newspaper and magazine articles and other books. These will all be available on the course Canvas site.
COURSE CALENDAR

Tues., Sept. 1  Introduction to International Finance
Course Overview

Thurs., Sept. 3  The Balance of Payments Accounts
The Current and Financial Accounts
Net Foreign Investment (NFI)
The Equality of Net Exports (NX) and Net Foreign Investment

Krugman, Obstfeld and Melitz:  pp. 24 – 35

Tues., Sept. 8  Open Economy Macroeconomics of Savings and Investment
The Loanable Funds Market
Savings, Investment and Net Foreign Investment

Krugman, Obstfeld and Melitz:  pp. 11 – 24

Thurs., Sept. 10  Open Economy Macroeconomics of Savings and Investment (cont.)

Tues., Sept. 15  Equilibrium in the Loanable Funds Market
Private Savings, Public Savings, Investment and NFI
Comparative Statics in the Loanable Funds Market

Tues., Sept. 17  Exchange Rates and the Forex Market
Exchange Rates and Relative Prices
Spot Rates and Forward Rates
The Role of Arbitrage

Krugman, Obstfeld and Melitz:  pp. 40 – 48
Tues., Sept. 22  Foreign Exchange Derivatives
   Options
   Calls and Puts
   Intrinsic Value and Time Value
   Hockey Stick Diagrams

   Krugman, Obstfeld and Melitz:  pp. 49 – 50

Thurs., Sept. 24  Foreign Exchange Derivatives (cont.)
   Options (cont.)
   Forward Contracts
   Futures Contracts
   Swaps

Tues., Sept. 29  Assets and Asset Returns
   Risk and Liquidity
   Interest Rates
   Exchange Rates and Asset Returns

   Krugman, Obstfeld and Melitz:  pp. 40 – 58

Thurs., Oct. 1  Equilibrium in the Foreign Exchange Market
   Interest Parity
   The Role of Expectations
   The Carry Trade

   Krugman, Obstfeld and Melitz:  pp. 59 – 74

   Problem Set 1 Available on Class Canvas Site

Tues., Oct. 6  Money, Interest Rates and Exchange Rates
   Money Demand and Money Supply
   Interest Rate Determination:  Equilibrium in the Money Market
   The Money Supply and the Exchange Rate in the Short Run

   Krugman, Obstfeld and Melitz:  pp. 77 – 91
Thurs., Oct. 8  Money, the Price Level and the Exchange Rate in the Long Run
Inflation and Exchange Rates
Krugman, Obstfeld and Melitz:  pp. 92 – 106

*PS 1 Due*

Tues., Oct. 13  Price Levels and the Exchange Rate in the Long Run
Purchasing Power Parity (PPP)
A PPP-based Model of Exchange Rates
Problems with PPP
Krugman, Obstfeld and Melitz:  pp. 111 – 129

*Problem Set 2 Available on Class Canvas Site*

Thurs., Oct. 15  A General Model of Long-Range Exchange Rates
International Interest Rate Differences and the Real Exchange Rate
Real Interest Parity
Krugman, Obstfeld and Melitz:  pp. 130 – 146

Tues., Oct. 20  Review Session for the Midterm

*PS 2 Due*

Thurs., Oct. 22  Midterm

Tues., Oct. 27  Output and the Exchange Rate in the Short Run
Aggregate Demand
Asset Market Equilibrium
Short-run Equilibrium for an Open Economy
Monetary and Fiscal Policy
Krugman, Obstfeld and Melitz:  pp. 149 – 175
<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
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<tbody>
<tr>
<td>Thurs., Oct. 29</td>
<td>Macroeconomic Policies and the Current Account</td>
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<td>Trade Flow Adjustment and Current Account Dynamics</td>
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<td>The J-Curve</td>
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<td>Krugman, Obstfeld and Melitz: pp. 175 – 193</td>
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<td>Tues., Nov. 3</td>
<td>Exchange-Rate Regimes</td>
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<td>Fixed Exchange Rates</td>
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<td>Central Bank Intervention and the Money Supply</td>
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<td>Fixed Exchange Rate Mechanics</td>
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<td>Stabilization Policies Under a Fixed Exchange Rate Regime</td>
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<td>Krugman, Obstfeld and Melitz: pp. 193 – 207</td>
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<td>Thurs., Nov. 5</td>
<td>Balance of Payments Crises and Capital Flight</td>
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<td>Managed Floats and Sterilized Intervention</td>
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<td>The Gold Standard</td>
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<td>Equilibrium in the Forex Market with Imperfect Asset Substitutability</td>
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<td>Krugman, Obstfeld and Melitz: pp. 207 – 233</td>
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<td><em>Problem Set 3 Available on Class Canvas Site</em></td>
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<td>Tues., Nov. 10</td>
<td>International Monetary Systems: An Historical Overview</td>
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<td>International Macro Policy Under the Gold Standard</td>
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<td>The Bretton Woods System</td>
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<td>Policy Options for Reaching Internal and External Balance</td>
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<td>Krugman, Obstfeld and Melitz: pp. 236 – 265</td>
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<td>Thurs., Nov. 12</td>
<td>The Case for Floating Exchange Rates</td>
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<td>Krugman, Obstfeld and Melitz: pp. 266 – 292</td>
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<td><em>PS 3 Due</em></td>
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<td><em>Problem Set 4 Available on Class Canvas Site</em></td>
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Tues., Nov. 17  The International Capital Market and the Gains from Trade
International Banking and the International Capital Market
Krugman, Obstfeld and Melitz: pp. 295 – 309

Thurs., Nov. 19  Multinational Banking
Regulatory Issues
Questions of Efficiency
Krugman, Obstfeld and Melitz: pp. 310 – 327

**PS 4 Due**
*Problem Set 5 Available on Class Canvas Site*

Tues., Dec. 1  Optimal Currency Areas
The Euro
Crises in the Euro Area
Krugman, Obstfeld and Melitz: pp. 332 – 341

Thurs., Dec. 3  The Theory of Optimal Currency Areas
Krugman, Obstfeld and Melitz: pp. 341 – 363

**PS 5 Due**
*Problem Set 6 Available on Class Canvas Site*

Tues., Dec. 8  No Class: Review Video for the Final Exam

Tues., Dec. 10  **PS 6 Due**

Wed., Dec. 16  **Final Exam** *(cumulative; weighted 60% on material since second midterm, 40% on material covered by the midterm)*