

# CALIFORNIA STATE UNIVERSITY LONG BEACH

## Economics 471: *International Finance*

**Sec. #:** 03

**Term:** Spring 2015

**Class Number:** 10502

**Class Time:** MW, 3:30 p.m. – 4:45 p.m.

**Room:** SPA-108

**Office Hours:** MW, 2:30 p.m. – 3:00 p.m. and by appointment

### **Contact information**

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### **Class website**

<https://bbsulb.desire2learn.com>

## I. REQUIRED TEXTBOOK AND OTHER CLASS MATERIALS

### **a. Textbook (Required)**

**Pilbeam, Keith, *International Finance*, 4<sup>th</sup> Edition. (Palgrave MacMillan)**

**ISBN #:** 978-0-230-36289-5

### **b. Selected Articles and Book Chapters (Required)**

All other supporting class materials including article readings, class syllabus, lecture notes, handouts, homework assignments, and exam study guides will be posted on Beachboard. You are encouraged to check Beachboard regularly for any handouts posted. Lectures will refer frequently to sources such as *The Economist*, *The Financial Times*, *The Wall Street Journal*, and *Finance and Development (from the International Monetary Fund)*. These are excellent sources of international financial and macroeconomic news and commentaries.

## II. COURSE DESCRIPTION

This course is designed to give you basic tools for studying how macroeconomic policy operates in a financially inter-connected world, and it builds on the knowledge and concepts that you learned in Econ 311 (Macroeconomic Theory). The first part of the class covers the basic concepts of exchange rates and Balance of Payments (BOP). Building upon this knowledge, we will study the history of the international monetary system. The second part of the class discusses the technical aspects of open economy macroeconomics: various theories of exchange rate determination, BOP disequilibrium, as well as the effects of monetary, fiscal policy, and exchange rate devaluation on income, prices and the BOP. As international finance is a constantly evolving subject that deals with real world international economic policies, the class ends with selected topics in contemporary global financial issues.

## III. COURSE OBJECTIVES

- Understand the foreign exchange market, the demand and supply of foreign currency, and exchange rate regimes/systems.
- Understand Balance of Payments accounting, BOP surplus and deficits, and capital flows.

- Understand the history and international financial institutions (the Gold Standard, the Bretton Woods system, and the post-Bretton Woods era).
- Understand theories of Balance of Payments and exchange rates.
- Analyze the effects of monetary and fiscal policy changes on output, Balance of Payments, and using the Mundell-Fleming model under different assumptions of exchange rate regimes and degrees of capital mobility.
- Apply the models learned throughout the course to understand some of the key debates in international finance and macroeconomic policy, including financial globalization, global economic imbalances and the global financial crisis of 2007-09, financial crises in developing countries, optimum currency areas and the Eurozone.

#### IV. ASSESSMENT

The following activities will be used to assess mastery of course content.

A. **Exams:** There will be two exams — one midterm exam and one take-home final exam. The materials covered in the final exam will not be cumulative.

**Exam rescheduling policy:** Due to lack of facilities and monitors, *only in very rare cases of university-approved excuses* (e.g., death in the immediate family, serious injury/illness with doctor's letter) will rescheduling be permitted, at the **sole discretion of the instructor**. See the Academic Information and Regulations section of the CSULB Catalog for greater details.

B. **Homework:** There will be a number of homework assignments to be completed over the course of the semester that incorporate skills and concepts discussed in class and readings. You are free to consult with a partner or group on homework assignments. However, the work you turn in must be your own. This means that two assignments turned in with identical — or even conspicuously similar — answers may each receive a grade of zero! Late homework will not be accepted.

C. **Student Presentations:** Students will form groups of 2-3 and deliver a powerpoint presentation one of the articles in the reading assignment. A guideline on the presentation format and length will be posted on Beachboard.

D. **Reading Response Assignments:** You are required to turn in two one-page reading responses throughout the semester. First, find an article of international finance and macroeconomic policy in the newspaper (it could be a news piece, editorial, opinion piece or commentaries, or a journal). Second, summarize the article and comment on or critically review its content and analysis. You must use at least one concept that you have studied in class for your reading response. Guidelines for this assignment will be posted on Beachboard by the fourth week of the semester.

E. **Calculating your course grade.** Your course grade will be a weighted average of the following components:

- Midterm Exam 1 (25%)
- Final Exam (30%)
- Presentations (15%)
- Homework (15%)

- Reading Response (15%)

## **V. GRADING SCALE**

The following scale will apply in converting your course grade to a letter grade: 90–100 (A), 80–89 (B), 70–79 (C), 60–69 (D), and <60 (F).

## **VI. ATTENDANCE REQUIREMENTS AND WITHDRAWAL POLICY**

Students are expected to attend *all* class meetings. Continuity of attendance is necessary to individual progress in any class, and research has shown that the best predictor of success in a course is regular attendance. If you are going to miss a class, please notify the instructor before hand. Students who miss the first class meeting without prior authorization or exceptional circumstances may also be dropped. Students who are not in attendance for more than 3 times in a row without notifying the instructor may be dropped from the class.

The instructor is not responsible for dropping enrolled students should they wish to do so. Students who fail to officially withdraw by the university-set deadlines are subject to a failed grade.

## **VII. STATEMENT OF STUDENT CONDUCT**

Students are advised to consult the *Academic Information and Regulations* of the CSULB university catalog. In particular, please note the following policies:

**A. Academic conduct, cheating, plagiarism:** All forms of academic dishonesty will be taken very seriously. All such behavior will be reported to the dean and can have serious consequences. If you are not sure what constitutes academic dishonesty, refer to the *Cheating and Plagiarism* subsection CSULB student catalog (p.46-48 of the 2014-15 version of the catalog).

**B. Tardiness.** Students who come late (or must leave early) are asked to enter/depart the classroom in the least disruptive manner possible. This includes sitting near the door if you anticipate leaving early or taking a seat as near the door as possible if you arrive late.

**C. Cellphones & other technology:** Please refrain from use of cellphones, laptop computers, and tablets for browsing purposes as it is distracting to yourself and others. Cellphones should be turned off or kept on vibrate mode.

## **VII. SPECIAL ACCOMMODATIONS**

Any student who has a disability and/or special needs is to please alert me by the second week of the semester so that accommodations can be made. Please bring supporting documentation.

## **IX. DISCLAIMER**

All information in this syllabus is subject to change. Students will be notified ahead of time if and when any changes are made to course assignments or policies.

## X. TOPICS TO BE COVERED

Week	Date	Topic and Required Reading
<b>I. THE FOREIGN EXCHANGE MARKET, BALANCE OF PAYMENTS AND THE INTERNATIONAL MONETARY SYSTEM</b>		
1	Jan 21 & 26	<p><b>Introduction to International Finance: the Foreign Exchange Market: Exchange Rate Regimes, and the Balance of Payments</b></p> <p>Chapter 1 (Pilbeam) Oatley, Thomas (2012), <i>International Political Economy</i>, pp. 202-05</p>
2	Jan 28	<p><b>The International Monetary System: Background and History</b></p> <p>Bernanke's College Lecture Series – Pay particular attention to the lecture section on The Gold Standard, min 28-41) available at <a href="http://www.federalreserve.gov/newsevents/lectures/origins-and-mission.htm">http://www.federalreserve.gov/newsevents/lectures/origins-and-mission.htm</a></p> <p>National Public Radio's Planet Money Podcast Ep. 253 "Gold Standard, R.I.P." <a href="http://www.npr.org/blogs/money/127413729/podcast/">http://www.npr.org/blogs/money/127413729/podcast/</a></p>
3	Feb 2 & 4	<p><b>The International Monetary System (Continued)</b></p> <p>Chapter 11 (Pilbeam) Frieden (2007), <i>Global Capitalism</i>, pp. 16-21, 28-39, 43-45, 111-116. Ahamad (2011), "Currency Wars Now and Then" Oatley (2012), pp. 212-224.</p> <p><b>Balance of Payments Accounting</b></p> <p>Chapter 2 (Pilbeam) Oatley (2012), pp. 205-212</p>
<b>II. BALANCE OF PAYMENTS AND EXCHANGE RATES: THEORY AND POLICY</b>		
4	Feb 9 & 11	<p><b>The Elasticity and Absorption Approaches to the BOP</b></p> <p>Chapter 3 (Pilbeam)</p> <p><i>Homework 1 assigned Feb 4, due Feb 11</i></p>
5	Feb 16	<p><b>The Elasticity and Absorption Approaches to the BOP, continued</b></p> <p>Chapter 3 (Pilbeam)</p>
5	Feb 18	<b>CLASS CANCELLED</b>
6	Feb 23 & 25	<p><b>The Absorption Approach to the BOP</b></p> <p>Chapter 3 (Pilbeam)</p> <p><b>IS-LM-BP (the Mundell Fleming Model) Monetary and Fiscal Policy under the Mundell-Fleming Model</b></p> <p>Chapter 4 (Pilbeam)</p> <p><i>Homework 2 assigned Feb 23, due March 2</i></p>
7	Mar 2 & 4	<p><b>IS-LM-BP (the Mundell Fleming Model) Monetary and Fiscal Policy under the Mundell-Fleming Model</b></p> <p>Chapter 4 (Pilbeam)</p> <p><i>Homework 3 assigned Mar 2, due Mar 9</i></p>
8	Mar 9	<p><b>Monetary Approach to the Balance of Payments</b></p> <p>Chapter 5 (Pilbeam)</p> <p><i>Optional Reading:</i> Pugel, <i>International Economics</i>, p. 457-467</p>

8	Mar 11	<b>MIDTERM EXAM</b>
9	Mar 16 and 18	<b>Monetary Approach to the Balance of Payments, continued</b> <b>Purchasing Power Parity and Monetary Models of Exchange Rates</b> Chapter 6, Chapter 1 (1.9 and 1.10), Chapter 7
10	Mar 23 & 25	<b>Covered and Uncovered Interest Rate Parity</b> Chapter 1 (1.9 and 1.10), Chapter 7  <i>Homework 4 assigned March 25, due April 8</i>
11	Mar 30 & April 1	<b>NO CLASS – SPRING BREAK</b>
<b>III. SELECTED TOPICS IN INTERNATIONAL FINANCE (STUDENTS WILL PRESENT SELECTED ARTICLES FROM THE LIST BELOW)</b>		
12	April 6 & 8	<b>Financial Globalization: Causes and Consequences</b>  <u>Required Readings</u> The Economist (2003). A Survey of Global Finance. Eichengreen and Gupta (2014) "Tapering talk: the impact of expectations of reduced federal reserve security purchases on emerging markets." <i>World Bank Policy Research Working Paper</i> , (6754). Bird (2012) "Managing Capital Surges." <i>World Economics</i> 13(1).  <u>Optional Reading</u> Aizenman, Binici, and Hutchison (2014). "The transmission of Federal Reserve tapering news to emerging financial markets." National Bureau of Economic Research No. w19980.  <i>Reading Response 1 due on April 8, Homework 4 due April 8</i>
13	April 13 & 15	<b>Global Economic Imbalances and Currency Politics: China and the United States</b>  <u>Required Readings</u> Bird (2012) "Dealing with Global Economic Imbalances." <i>Global Economic Review</i> 41(4) Walter (2011) "Global Imbalances and Currency Politics: China, Europe, and the United States"  <u>Optional Reading</u> Huang and Tao (2011) "Causes of and Remedies for the People's Republic of China's External Imbalances: The Role of Factor Market Distortion" Ahamad (2011) "Currency Wars Now and Then"
14	April 20 & 22	<b>Global Economic Imbalances and the Global Financial Crisis:</b>  Borio and Disyatat (2011) "Global imbalances and the financial crisis: Link or no link?" <i>Bank for International Settlements Working Paper</i> No. 346 Obstfeld (2012) "Financial Flows, Financial Crises, and Global Imbalances." <i>Journal of International Money and Finance</i> 31. Corden (2009), "The World's Credit Crisis: Understanding It and What to Do." <i>The World Economy</i> , 32 (3)
15	Apr 27 & 29	<b>Financial Crises (With a focus on the Global Financial Crisis 2008-09)</b>  Pilbeam (2013) Chapter 18 "Financial Innovation and the Credit Crunch." Gorton and Metrick (2012) "Getting up to Speed on the Financial Crisis: A One-Weekend-Reader's Guide" <i>Journal of Economic Literature</i> , 50(1). <u>Optional Reading</u> Lo (2012) "Reading About the Financial Crisis: A Twenty-One-Book Review." <i>Journal of Economic Literature</i> , 50(1) <i>Homework 5 assigned April 27, due May 4</i>

16	May 4 & 6	<p><b>The Eurozone Crisis, Optimum Currency Areas, and the Political Economy of Adjustments</b></p> <p>Pilbeam Textbook Chapter 16, Chapter 10 (10-1 to 10-3).  Yglesias (2015) "9 Facts about Greece and the Eurozone Crisis."  <a href="http://www.vox.com/cards/eurozone-crisis">http://www.vox.com/cards/eurozone-crisis</a></p> <p>Gibson, Hall, and Tavlas (2012). "The Greek financial crisis: growing imbalances and sovereign spreads." <i>Journal of International Money and Finance</i> 31 (3).</p> <p>Wihlborg, Willett, Zhang (2010). "The Euro Debt Crisis: It's More than Just Fiscal." <i>World Economics</i> 11(4).</p> <p>Frieden (2015). "The political economy of adjustment and rebalancing." <i>Journal of International Money and Finance</i> 52(4-14).</p> <p><i>Reading Response 2 due on May 4th</i></p>
	<b>May 13</b>	<b>TAKE HOME FINAL EXAM DUE (2:45 pm) exam to be distributed May 8, 2015</b>