Course Overview

*Title:* International Monetary and Financial Economics  
*Hours:* 50  
*Number of Credits:* 5  
*Prerequisites:* None  
*Term:* Winter, Spring, Summer  
*Language:* English  
*Instructor:* Manish Singh  
*Email:* manish.singh@ub.edu

Course Description

International economics is divided into two broad subfields: international trade and international money. International trade focuses on real transactions in the international economy, that is, on those transactions that involve a physical movement of goods. On the other hand, international money focuses on financial transactions and refers to the monetary side of the international economy. This course deals with the second aspect of international economics.

Learning Outcomes

The goal is to provide students with the concepts and models that will be necessary to explain the basics of monetary policy and the exchange rate determination in the short and long run. There will be an analysis of the different exchange rates systems, the study of the causes and consequences of the different international financial crisis and the role of international financial institutions, such as the European Central Bank and the International Monetary Fund.

Assessment Criteria

*Homework (10%):* During the course there will be assignments about the topics discussed in class with corrections.
Class presentation (30%): Each class students will present an article on the topic. One student is expected to do the presentation and the participation of the rest of the class will be considered in the punctuation.

Mid-term examination (30%): The exam will consist of multiple choice questions together with exercises. The duration of the exam will be 90 minutes. Additional information will be provided during the class.

Final Exam (30%): The exam will consist of multiple choice questions together with essay questions/exercises. The duration of the exam will be 90 minutes. Additional information will be provided in the class.

Main Readings


Sessions

Introduction
  - K-O, Chapter 1, 2
  - F-T, Chapter 12

PART I. Exchange Rates and Open-Economy Macroeconomics

Session 1

National income accounting and the balance of payment:
The National Income Accounts;
The National Income Accounting for an Open Economy;
The Balance of Payment Accounts.
  - K-O, Chapter 12
  - F-T, Chapter 16
Session 2

Exchange Rates and the Foreign Exchange Market: an Asset Approach:
Exchange Rates and International Transactions;
The Foreign Exchange Market;
The Demand for Foreign Currency Assets;
Equilibrium in the Foreign Exchange Market;
Interest rates, expectations and the equilibrium.
  - K-O, Chapter 13
  - F-T, Chapter 13

Session 3

Money, Interest Rates and Exchange Rates:
Money Defined: a Brief History, The Demand for Money by Individuals;
Aggregate Money Demand;
The Equilibrium Interest Rate: The Interaction Between Money Supply and Demand;
The Money Supply and Exchange Rate in the Short Run;
Money, the Price Level and the Exchange Rate in the Long Run.
  - K-O, Chapter 14
  - Europe’s central bank, Cautious on the economy, happy with liquidity. The Economist, January 12, 2012

Session 4

Price Levels and the Exchanges Rate in the Long Run:
The Law of One Price;
Purchasing Power Parity;
A Long-Run Exchange Rate Model Based on PPP;
Empirical Evidence of the PPP and the Law of One Price;
Explaining the Problems with PPP.
  - K-O, Chapter 15
  - Beefed-up burgernomics, A gourmet version of the Big Mac index suggests that the yuan is not that undervalued, The Economist, July 30, 2011
Session 5

Output and the Exchange Rate in the Short Run
Determinants of Aggregate Demand in an Open Economy;
The Equation of Aggregate Demand;
How output is Determined in the Short Run;
Output Market Equilibrium in the Short Run: the DD Schedule;
Asset Market Equilibrium in the Short Run: the AA Schedule;
Short-Run Equilibrium for an Open Economy;
Temporary Changes in Monetary and Fiscal Policy;
Inflation Bias and Other Problems of Policy Formulation;
Permanent Shifts in Monetary and Fiscal Policy;
Macroeconomic Policies and the Current Account.
  ▪ K-O, Chapter 16

Session 6

Fixed Exchange Rates and Foreign Exchange Intervention
Why Study Fixed Exchange Rates?
Central Bank Intervention and the Money Supply;
How the Central Bank Fixes the Exchange Rate;
Stabilization Policies with a Fixed Exchange Rate;
Balance of Payments Crises and Capital Flight;
Managed Floating and Sterilized Intervention.
  ▪ K-O, Chapter 17
  ▪ Shake it all about. Which emerging economies have the most monetary and fiscal wiggle-room? The Economist, January 28, 2012

PART II. International Macroeconomic Policy

Session 7

The International Monetary System, 1870-1973
Macroeconomic Policy Goals in an Open Economy;
The Interwar Years, 1918-1939;
The Bretton Wood System and the International Monetary Fund;
Analyzing Policy Options Under the Bretton Woods System;
The External Balance Problem of the United States;
Worldwide Inflation and the Transition to Floating Rate.

- K-O, Chapter 18

Session 8

Macroeconomic Policy and Coordination Under Floating Exchange Rates
The Case for Floating Exchanges Rates;
The Case Against Floating Exchanges Rates;
Macroeconomic Interdependence Under a Floating Rate;
What has been learned Since 1973?
Are Fixed Exchange Rates Even an Option for Most countries?

- K-O, Chapter 19
- F-T, Chapter 19
- F-T, Chapter 20

Session 9

The Global Capital Market: Performance and Policy Problems
The International Capital Market and the Gains from Trade;
International Banking and International Capital Market;
Regulating International Banking.

- K-O, Chapter 21

Additional readings

- Europe focused research - voxeu.org
- Leading commentaries – https://www.project-syndicate.org/
- Some research paper search engines:
  