I. Catalog Description

EC 405 International Finance (4)

Analysis of the international monetary system, the role of exchange rate dynamics, balance of payments, problems in achieving internal and external balance, the role of capital market and interest rates, international monetary effects on domestic prices and output. 4 lectures/problem-solving. Prerequisites: EC 201 and 202; EC 403 and EC 404 recommended.

II. Required Background or Experience

EC 201 and EC 202; EC 403 and EC 404 recommended.

III. Expected Outcomes

Students in EC 405 will:

a) develop a solid foundation in international finance and open economic macrotheory,

b) read and interpret information available in international trade journals such as "International Financial Statistics" and "Staff Papers of the International Monetary Fund",

c) define and describe methods of adjustment and problems of adjustment in international exchanges, and

d) summarize and interpret the effects that alternative systems have on the process of international macroeconomic policy.

IV. Text and Readings

Texts:


International Trade and Policy

**Readings:**


**References:**

American Economic Review  
Blanca Nazionale Del Lavoro  
Brookings Discussion Papers in International Economics  
Canadian Journal of Economics and Statistics  
Economic Inquiry  
Economica  
Economic Journal  
Economic Record  
Federal Reserve publications  
International Economic Review  
International Financial Statistics  
Journal of Banking and Finance  
Journal of International Economics  
Journal of International Money and Finance  
Journal of Monetary Economics  
Journal of Political Economy  
Oxford Economic Papers  
Princeton Studies in International Finance  
Review of Economics and Statistics  
Staff Papers  
Survey of Current Business  
Welwirtschaftliches Archiv  
Zeitschrift fur Wirtschafts und Sozialwissenschaften

**V. Minimum Student Materials**

Textbooks, and access to references, graphing materials and computing facilities.

**International Trade and Policy**
VI. **Minimum College Facilities**

Classroom suitable for discussion and presentation of research results, and equipped for use of audio-visual materials. Access to personal computers (PCs).

VII. **Course Outline**

A. The Markets for Currencies
   1. Exchange Rate Determination under a Flexible Regime
   2. Exchange Rates under a Fixed Rate Regime
   3. Exchange Rate Volatility

B. The Balance of Payments

C. The Market for Goods and Services in an Open Market Economy

D. Money and Foreign Exchange in an Open Economy -- General Equilibrium in an Open Market

E. Macroeconomic Policy in an Open Economy under Fixed Exchange Rates

F. Macroeconomic Policy in an Open Economy under Flexible Exchange Rates

G. Prices and Output in an Open Economy

H. Alternative International Monetary Regimes -- Goals of a Monetary Regime

I. Open-Economy Macroeconomics
   1. The Portfolio Approach
   2. The Monetary Approach

J. Open-Economy Macroeconomic: Institutions and Policies

VIII. **Instructional Methods**

Assigned readings and term projects. Student-professor discussion of readings. Students will present the results of their studies for critique by class members and the professor.

**International Trade and Policy**
IX. Evaluation of Outcomes

In addition to participation in class discussions, there will be three required writing assignments:

a) Term Paper: The student will write a term paper that examines a specific international finance and open economy macroeconomic problem. The source of the problem and solutions to the problem must be identified and critically analyzed in the paper. The paper must additionally discuss changes in overall economic welfare and progress towards optimality with respect to their chosen topic. The analysis and results of the topic may be presented orally to the class.


c) Final Exam: A cumulative essay examination is additionally required for all students.