Course Title: Economics of International Finance
EC 654
Date of Preparation: May 2009
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COURSE OUTLINE

I. Catalog Description

EC 654 Economics of International Finance (4)

Advanced topics in international liquidity and finance theory. Problems of international monetary system. Balance of payments theory and practices; theory of exchange rates and mechanism of international adjustment. 4 lecture/discussions. Prerequisites: EC 401, EC 403, EC 408 and EC 405. Unconditional standing required.

II. Required Background or Experience

EC 401, EC 403, EC 408 and EC 405. Unconditional standing required.

III. Expected Outcomes

Students in EC 654 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:


**Readings:**


"The European Central Bank, the Eurosystem, the European System of Central Banks" (April 2009, 3rd edition), from European Centralbank: Publications Web site:  


**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
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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.

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. Global Exchange Rate Regimes
   1. The Gold Standard Regime
   2. The International Monetary Fund System
   3. The Float
   4. The European Monetary System
   5. The Increased Financial Interdependence in the World Economy

B. Open Economy Models -- Comparative Statics Analysis
   1. The Mundell - Fleming Model
   2. The Mundell - Fleming Model -- Its Strengths and Limitations
   3. The Mundell - Fleming Model With Wage and Price Adjustments
   4. Disequilibrium Models of Product and Labor Markets

C. A General Framework
   1. Modelling Goods and Money Markets
   2. Modelling Production and Labor Markets

4. The Portfolio Balance Model of the Monetary Sector

5. The Mundell - Fleming Model with Wealth

6. The Classical Elasticities Approach to A Devaluation

7. The Two-Country Model with Flexible Wages and Prices

8. The Three-Country Model and the European Monetary System

D. Open Economy Models -- Dynamic Analysis

1. Dynamic Effects of A Monetary Expansion under Flexible Rates -- the Dornbusch 1976 Model

2. The Dynamic Adjustment to A Fiscal Deficit -- A Simple Framework

3. An Extended Mundell - Fleming Model with J Curves

4. Effects of A Restrictive Money Growth Policy on the Path of Inflation and Unemployment

E. New Classical Themes

1. Macropolicy Impotence and the New Classical Paradigm

2. The Effects of Anticipated Monetary and Fiscal Policies in a Small Economy with Flexible Exchange Rates

3. The Ricardian Equivalence Hypothesis

F. Policy Design

1. Choosing the Exchange Rate Regime

2. Rules Versus Discretion

3. Assignment Rules for Internal and External Balance
4. Theoretical Evaluation of Alternative Simple Policy Regimes

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.

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.