Economics 592 - International Monetary Theory and Policy

Course Syllabus - Fall 2014

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<tr>
<th>Course</th>
<th>Economics 592</th>
<th>Mon/Wed: 3:30-4:45 P.M.</th>
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<tr>
<td>Instructor</td>
<td>Dr. Hisham Foad</td>
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<tr>
<td>Office Hours</td>
<td>Monday, 12:00-1:30</td>
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<td>Tuesday, 10:00-12:00</td>
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<td>Wednesday, 11:00-12:30</td>
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Overview

Economic Globalization has become a fact of life. International trade is ubiquitous and economies have become so interconnected that events and policies in one part of the world often have global effects. The goal of this course is to explore the unique challenges and opportunities posed by this increased pace of economic globalization from a macroeconomic perspective. The course will develop the theoretical tools necessary to analyze such issues as trade imbalances, exchange rate fluctuations, monetary and fiscal policy from an international perspective, the choice of exchange rate regime, the merits of a single currency area, the role of international financial institutions, the root causes of financial crises, and international development policies.

Learning Outcomes

Success in this course is contingent on your ability to master the following learning outcomes. You should periodically review this list as the semester proceeds and check off those that you have mastered. I will also review these outcomes in class as we cover them.

- Define the “International Economics Trilemma”
- Discuss the implications for increased financial integration on exchange rate and monetary policy
- Explain why some countries run trade deficits and others trade surpluses.
- Intelligently discuss the problems created by these trade imbalances and what policies can be done about them.
- Assess the sustainability of the US Current Account deficit.
- Analyze why some currencies get stronger while others get weaker using supply and demand analysis.
- Evaluate the predictions of Purchasing Power Parity Theory
- Explain why exchange rates tend to be more volatile than goods prices
- Discuss how Interest Rate Parity Theory can be used to predict exchange rate changes
- Assess the argument for and against having an undervalued/overvalued currency.
- Compare the costs and benefits of different exchange rate regimes.
- Analyze whether or not the Euro Area qualifies as an optimum currency area.
• Synthesize the arguments for and against a single global currency.
• Discuss the historical roles played by the IMF and World Bank in global development.
• Investigate the patterns international capital flows have taken over the past forty years. Why has capital crossed those specific borders and not others?
• Compare direct and portfolio investment flows. Assess the unique roles played by each in financial crises and in development.
• Investigate the root causes of past and future financial crises.
• Evaluate different policies aimed at limiting exposure to these crises?
• Explain how and why the current financial crisis spread so rapidly from the US across the world.
• Discuss the Washington Consensus policy recommendations for economic development. Compare these policy recommendations with contemporary heterodox approaches.

Readings

The main textbook for this course is International Economics: Theory and Policy, 9th Edition by Paul Krugman, Maurice Obstfeld, and Marc Melitz. The bookstore has a custom version of the textbook that only includes the second half of the full version and is considerably cheaper. That said, it will have limited resale value so you should look at all your options before buying the book.

In addition to the textbook, I will regularly assign articles from academic journals. The majority of these articles come from general interest journals such as the Journal of Economic Perspectives and should be accessible to anyone with a basic understanding of economics. A full list of articles is listed in the tentative course outline at the end of the syllabus, though I reserve the right to add and subtract readings as the semester proceeds.

Finally, it is important that you keep up with current events as they pertain to the lectures. I ask that you regularly (i.e. at least once a week) read through the contents of The Economist, The Financial Times, The Wall Street Journal, or some other reputable publication, paying particular attention to articles that deal with international economics. We will be discussing current events regularly in class and you will have no basis for discussion if you haven’t kept up with the news. As an added incentive, nearly all extra credit questions on quizzes and exams will be lifted from the news headlines.

Exams

There will be three closed-book midterms. Each midterm is self-contained (i.e. not cumulative), covering only material discussed in class up to that point. Please note that the third exam occurs during finals week, but is not cumulative. The exams are tentatively scheduled for the following dates:

Exam I Wednesday, October 1st
Exam II Wednesday, November 5th
Exam III Wednesday, December 17th (3:30-5:PM)

There will be no make-up exams offered. If you know that you will miss an exam, let me know as soon as possible. Students who notify me BEFORE the exam with a valid excuse can add the weight of a missed exam to the other exams. Students who notify me after an exam or without a valid excuse will receive a zero on any exam that they miss. Valid excuses include school-sponsored functions such as athletic events or performances, unavoidable and documented work conflicts, or health issue accompanied by a doctor’s note. Let me know as soon as possible if you know that you will be unable to sit for an exam.
Quizzes
We will have an announced quiz in class once per week covering the material discussed up to that point (i.e. you will only be quizzed on material you’ve already seen). The quizzes will be short (10-15 minutes) and provide you with an incentive to keep up with the material. I will drop your lowest quiz score when computing your quiz average. As with exams, there will be no make-up quizzes offered. If you know you will be absent on the day of a quiz and have a valid excuse, let me know beforehand and I can grant you an excused absence from the quiz. Any notification after the quiz will result in a zero for that quiz.

Research Paper
Each student will be required to write a short (4-7 page) research paper on one of the following topics:

- Assess the viability of a currency union in North America, South America, the MENA region, or East Asia
- Evaluate the sustainability of the current account deficits of one of the following countries: Australia, Greece, Ireland, Jamaica, Mexico, Portugal, Spain, or the United States
- Trace out the steps that led to the recent Greek debt crisis and compare the financial situation in either Ireland, Portugal, or Spain to that in Greece.
- Write a brief historical summary of the Argentine financial crisis of 1998-2002. Then assess how Argentina’s economy has recovered since then, concluding with a discussion of Argentina’s recent debt default.
- Make a case for or against dollarizing one of the following economies: Angola, Argentina, India, Nigeria, Thailand, Turkey, or Venezuela. If these countries were to dollarize, what currency would they adopt?
- Trace out the events leading to hyperinflations in either Germany from 1922-1923, Hungary from 1945-1946, or Zimbabwe from 2007-2008. What were the leading causes of hyperinflation? How was this hyperinflation eventually dealt with?
- Using the theories of IRP and PPP, evaluate whether or not China’s currency is undervalued. Assess the impact of China revaluing its currency on both the Chinese and US economies.
- Read through the IMF World Economic Outlook for 2014. Then select two countries (one developed and one developing) and contrast their economic outlook using the information in the WEO as well as the tools learned in class.

Your research paper should combine economic theory with sound data analysis. I have chosen topics for which you can readily access the data. You must clear your topic choice with me by October 15th and your papers will be due on December 10th. I encourage you to meet with me to discuss your paper and I am happy to review any drafts submitted to me before December 3th.

Grading
Grading in this course will be computed with the following weights:

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<th>Component</th>
<th>Weight</th>
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<tr>
<td>Research Paper</td>
<td>16%</td>
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<tr>
<td>Quizzes</td>
<td>24%</td>
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<tr>
<td>Exams</td>
<td>60%</td>
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For example, a student with an 85 on the research paper, a 95 average on quizzes and a 78 average on the exams would have their final score computed as:

\[85 \times 0.16 + 95 \times 0.24 + 78 \times 0.60 = 13.6 + 22.8 + 46.8 = 83.2\] (Just barely good enough for a B)

I employ a standard grading scale in which 80-82 is a B-, 83-86 is a B, 87-89 is a B+ and so forth. I determine a grade distribution, I aim for an average score across the class of a 78 and a standard deviation of 10 points. If the average or standard deviation differs greatly from these targets on any one assignment, then I will utilize a curve.

**Attendance**

While attendance is not mandatory, it is highly recommended. Past experiences indicate that there is a strong and positive correlation between attendance and exam scores. The lectures will cover material not in the textbook, and you can save yourself a lot of time and frustration by showing up and paying attention in class. Furthermore, you will miss out on the weekly quiz if you skip class.

I encourage you to ask questions and participate in class discussions. While I am happy to lecture for the full class period, you may find this format less appealing. Engaging in discussions and asking questions will not only liven up the class, but also help you comprehend economics as more than just graphs and numbers.

**Blackboard**

This course has a dedicated site on Blackboard to which I will regularly post lecture notes, homework assignments, articles, and make announcements. It is your responsibility to regularly check the conference. You may also use it as a discussion forum outside of class and office hours. Please let me know as soon as possible if you have any trouble accessing the site.

**Academic Integrity**

I consider academic dishonesty to be a serious offense, and follow a zero tolerance policy in this regard. You can do very well in this course if you are willing to put in the work, and any benefit you may perceive from cheating is far outweighed by the penalty not only to your academic performance, but your personal integrity as well. I also ask that you be courteous to your fellow classmates and the class itself. Please arrive to class promptly and turn off your cell phones. If you have a question or a point to make, raise your hand and I will call on you. I will not tolerate rudeness toward your classmates and anyone guilty of this will be asked to leave that class period.

If you need to leave class early, please let me know beforehand. I reserve the right to lower your grade if you are consistently showing up late to class or leaving early. In the past, I have had a problem with students showing up to class on the day of a quiz and leaving as soon as they have taken the quiz. Feedback from students in these courses has indicated that this practice has been a distraction to their learning. I ask that if you must leave class after a quiz, please sit by the door and leave as quietly as possible so as to not disturb your classmates. Finally, please read the SDSU Standards for Student Conduct: [http://csrr.sdsu.edu/conduct1.html](http://csrr.sdsu.edu/conduct1.html)

**Accommodating Disabilities**

If you have or acquire any sort of disability that may require accommodation, feel free to discuss it with me at your convenience. If you want to find out what services are available on campus, contact Student Disability Services, Suite 3100, Calpulli Center, (619) 594-6473.
Tentative Course Outline ***Subject to Change***

Introduction


National Income Accounts and the Balance of Payments

***KO, Chapter 13***


Exchange Rates and Money

***KO, Chapters 14-15***


Purchasing Power Parity (Long Run Exchange Rates)

***KO, Chapter 16***


Exchange Rates and Output (Short Run Exchange Rates)

***KO, Chapter 17***


Different Exchange Rate Regimes

***KO, Chapters 18 and 19***
**Fixed Exchange Rates and Government Intervention**


**The Case for Flexible Exchange Rates**


**The Case for Fixed Exchange Rates**


**The Case for Fewer Currencies**


**The Case for a Pragmatic Approach**


**Optimum Currency Areas**

***KO, Chapter 20 ***


**International Financial Institutions**


International Capital Flows

*** KO Chapter 21 ***

Financial Crises

*** KO, Chapters 21 and 22***

International Development Policy

*** KO, Chapter 22 ***
Important Dates

Please take note of these important dates for both this class and the Fall 2013 Academic Semester:

- August 25th: First day of classes
- September 1st: Labor Day, campus closed
- September 8th: Last day to add or drop classes
- October 1st: Exam I
- October 15th: Paper Topics Due
- November 5th: Exam II
- November 26th: Thanksgiving holiday, no class
- December 3rd: Last day to submit research paper draft for comments
- December 10th: Last day of class and research paper due
- December 17th: Exam 3 (3:30-5:30PM)

Useful Links

- library.sdsu.edu
  SDSU Library. Good starting point to track down information.

- rfe.org
  Resources for Economists. Good starting place to find information about economics.

- www.gapminder.org
  Really interesting site that shows dynamic graphs relating key development variables

- pwt.econ.upenn.edu/php_site/pwt_index.php
  Penn World Tables. Good source of macroeconomic data that is comparable across countries.

- www.bea.gov
  U.S. Bureau of Economic Analysis. Good balance of payments data for the U.S.

- www.imf.org/external/country/index.htm
  Link to the International Monetary Fund's page for information about countries. Of particular interest are the Selected Issues reports and the Article IV consultations, which detail the key economic issues facing a country.

- fx.sauder.ubc.ca
  Good website to access exchange rate data (click “database retrieval”) and charts (click “plot interface”).

- databank.worldbank.org
  World Bank statistics gateway. World Development Indicators should be particularly interesting

- nationmaster.com
  Nice site to find basic information about a country and some cross-country comparisons

- www.cia.gov/library/publications/the-world-factbook
  The CIA Factbook. Another nice place to get detailed information about an individual country

- voxeu.org
  Policy analysis and commentary from economists