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Office Hours: TBD, likely Online/Zoom

Econ 244: International Finance, Summer II, 2022
MTWR, 10:50am – 12:45pm
Reiss 262

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Course Description and Prerequisites

Finance studies how to maximize the transfer of purchasing power from the present to the future. As a result, expectations of asset prices play a central role in finance. Not surprisingly, expectations of monetary policies, through their effect on interest rates, are important in determining expectations of asset prices. Recognizing that the world economy includes the role of monetary policies of many countries turns finance into international finance. We will begin the course with a brief description of the structure and recording principles of the Balance of Payments; we follow it with quick review of what is money and the implications for the international monetary system. I then move to offer theoretical models of exchange rate determination. These models take interest rates as given and thus, to remove that limitation, we cover the role of monetary policies in setting short-term using the Taylor Rule; we also cover the determination of long-term nominal interest rates using the expectations theory of long-term rates. The next question is how changes in expectations of asset prices for one country affect asset prices in another country? Of the many channels operating, we will focus on how international capital flows respond to contagion and arbitrage opportunities. Having completed a preliminary characterization of asset prices, we then turn to the functioning of fixed exchange-rate systems. The final segment examines the role of institutions with emphasis on the Euro monetary system.

Required Text:

International Macroeconomics by Feenstra R. and A. Taylor. Third edition or higher. (F&T hereafter)

OR

International Economics by Krugman and Obstfeld. Ninth edition or higher. (K&O hereafter)

Either one (or both) of these textbooks is good. I reference chapters from each and I think they can be complementary. I would choose the F&T textbook if I had to choose one though.

Evaluation:

Midterm exam (30%): August 1

Two assignments (30%): July 17, 11:59pm (10%)

July 24, 11:59pm (20%)

Final exam or final paper (40%): TBD

(if final exam, the exam will be comprehensive)

(if final paper, you will be asked to give a short presentation on the final day of classes, August 11)

Course Outline:

Introduction (2 lectures)

Topics:

Balance of Payments accounting

National Income accounting

Readings: F&T, Chapter 5
K&O, Chapter 13

Exchange Rates (4 lectures)

Topics:

What are exchange rates? What are exchange rates?
How do financial markets clear?
Uncovered Interest Parity
Purchasing Power Parity
Traditional analysis of interest-rate determination
Forecast evaluation
Covered Interest Parity
Real Effective Exchange Rates
Gold Standard and Bretton-Woods exchange-rate system

Readings: F&T, Chapters 2-4
K&O, Chapters 14 & 15

Intervention in the Market for Foreign Exchange: Monetary Policy (3 lectures)

Topics:

What are central banks doing, and why are they doing it? Can we believe what they say?
Taylor rule for interest rates of closed economies
Taylor rule for interest rates of open economies
Term Structure of Long-term interest rates
Forward guidance

Readings: K&O, Chapter 18

Supplementary texts:

- de Grauwe, P. *International Money: Post-war Trends and Theories*. Oxford University Press, 1997, chapters 1- 4.
- Schelling, T. "Self-command in Practice, in Policy, and in a Theory of Rational Choice," *American Economic Review*, May 1984, pp. 1-10.
- Ihrig, J., E. Meade, and G. Weinback, 2015, "Monetary Policy 101: A Primer on the Fed's Changing Approach to Policy Implementation," <http://www.federalreserve.gov/econresdata/feds/2015/files/2015047pap.pdf>
- Taylor comments to Bruno and Shin in <http://www.bis.org/publ/work400.pdf>
- Taylor, J., 1999, "A Historical Analysis of Monetary Policy Rules," in J. Taylor (ed.) *Monetary Policy Rules*, University of Chicago Press, Chicago.
- Kozicki, S., 1999, "How Useful Are Taylor Rules for Monetary Policy," *Economic Review*, Second Quarter, Federal Reserve Bank of Kansas City.
- "What is the Yield Curve?" NY-Times article in Canvas.

International Financial Flows (4 lectures)

Topics:

International financial flows as smoothing effects of economic variability
Measurement of mobility of international financial flows

Readings: F&T, Chapter 6

Supplementary texts:

- Obstfeld, M. 1995, "International Capital Mobility in the 1990s," in P. Kenen (ed.),

Understanding Interdependence, Princeton University Press, Princeton.

- Feldstein, M. and C. Horioka, 1980, "Domestic Saving and International Capital Flows," *Economic Journal*, 358, 314-329.

Fixed vs. flexible exchange rates (2 lectures)

Topics:

To float or not to float? That is the question for some central banks.

Collapse of fixed exchange rates

Readings: F&T, Chapter 9

K&O, Chapter 21

Currency Areas (2 lectures)

Topics:

Gains and Losses from forming a currency union

The European Monetary Union

Readings: F&T, Chapter 10

Supplementary texts:

- de Grauwe, P. *Exchange Rates and Global Financial Policies*, 2014, Chapter 7.
- Rogoff, K. "Why Not a Global Currency," *American Economic Review*, May 2001, pp. 243-247.
- Mundell, R. "A Theory of Optimum Currency Areas," *American Economic Review*, Sept., 657-65, 1961.
- Frankel, J. "No Single Currency Regime is Right for All Countries or at All Times," Graham Lecture, Princeton University, April 20, 1999. *Essays in International Finance* No. 215, Princeton University Press.
- de Grauwe, P. *The Economics of Monetary Integration*. Oxford: Oxford University Press, 1997, chapters 1-4.
- Frankel, J. and Rose, A. "[The Endogeneity of the Optimum Currency Area Criterion](#)", *The Economic Journal*, vol. 108, no. 449, July 1998, 1009-1025.

***Disclaimer:** Please note that the syllabus may change before or during the class. The most up-to-date syllabus can be found in Canvas.

Title IX Syllabus Statement (endorsed by Faculty Senate)

Georgetown University and its faculty are committed to supporting survivors and those impacted by sexual misconduct, which includes sexual assault, sexual harassment, relationship violence, and stalking. Georgetown requires faculty members, unless otherwise designated as confidential, to report all disclosures of sexual misconduct to the University Title IX Coordinator or a Deputy Title IX Coordinator. If you disclose an incident of sexual misconduct to a professor in or outside of the classroom (with the exception of disclosures in papers), that faculty member must report the incident to the Title IX Coordinator, or Deputy Title IX Coordinator. The coordinator will, in turn, reach out to the student to provide support, resources, and the option to meet. [Please note that the student is not required to meet with the Title IX coordinator.]. More information about reporting options and resources can be found on the Sexual Misconduct Website:

<https://sexualassault.georgetown.edu/resourcecenter>.

If you would prefer to speak to someone confidentially, Georgetown has a number of fully confidential professional resources that can provide support and assistance. These resources include:

Health Education Services for Sexual Assault Response and Prevention: confidential email sarp@georgetown.edu

Counseling and Psychiatric Services (CAPS): 202.687.6985 or after hours, call (833) 960-3006 to reach Fonemed, a telehealth service; individuals may ask for the on-call CAPS clinician

More information about reporting options and resources can be found on the [Sexual Misconduct Website](#).

(Above statement and TIX faculty resources found at: <https://sexualassault.georgetown.edu/get-help/guidance-for-faculty-and-staff-on-how-to-support-students/>)

Title IX Pregnancy Modifications and Adjustments

Georgetown University is committed to creating an accessible and inclusive environment for pregnant students. At any point throughout their pregnancy students may request adjustments/modifications based on general pregnancy needs or accommodations based on a pregnancy-related complication or medical need. Students may also request accommodations following labor and delivery based on a complication or medical need.

SCS students must complete the [Pregnancy Adjustment Request Form](https://titleix.georgetown.edu/title-ix-pregnancy/student-pregnancy/) (<https://titleix.georgetown.edu/title-ix-pregnancy/student-pregnancy/>) and submit it to the SCS Deputy Title IX Coordinator at titleixscs@georgetown.edu. Upon receiving the completed form, the Deputy Title IX Coordinator will schedule a meeting with the student to discuss the requested adjustments and implementation process. More information about pregnancy modifications can be found on the [Title IX at Georgetown University Website](#).