

Economics 103 — Spring 2004

International Monetary Relations

March 8, 2004

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Classroom:	Cognitive Science Building, Room 001
Class Time:	TuTh 9:30am - 10:50am
Class Web Page:	econ.ucsd.edu/muendler/teach/04s/103

1 Course Objectives

This course examines the macro-economy in an international setting. The course covers the exchange rate and the current account, and relates their determination to world capital markets and the domestic macro-economy. The course discusses economic policies and their effects under different exchange rate regimes—ranging from floating rates to fixed rates to monetary unions—and presents implications for the current account and the economy as a whole. A final part of the course turns to recent issues including global financial crises and the present US current account imbalance.

2 Prerequisites

Economics 110A-B.

3 Readings

Textbook: Krugman and Obstfeld (2003)

Readings: McKinnon (1993), Rogoff (1996);
Obstfeld and Rogoff (1995);
McKinnon (2001), Allsopp and Artis (2003), Obstfeld (1998),
Stiglitz (2000)

The readings (articles) are available as custom materials from AS Soft Reserves (copyright fees apply). The readings can also be accessed through the class web page (no copyright charges from campus; see link above) and the UCSD electronic library.

4 Problem Sets

There will be three problem sets, due on scheduled dates throughout the quarter. You are encouraged to work on the problems with your classmates. The first problem set will have eight questions, the latter two will have six questions each. Correct answers count for four points per question.

Your teaching assistant(s) (TBA) will hold review sessions to help you approach the problems. Your solutions to the problem sets will be graded and your performance on them will be part of the final grade. Problem sets have to be handed in *before* 9:30am on the due date. You may bring them to class before it starts.

5 Assessment

There will be two midterm exams and a final exam. The two midterm exams will take 80 minutes each and the final exam will take 120 minutes. All exams are cumulative.

Your final raw score will be your total points from the three exams and the three problem sets:

Problem sets:	80 points (32+24+24 points)	4/20, 5/11, 6/3
Midterm 1 (80 minutes):	80 points	4/27
Midterm 2 (80 minutes):	80 points	5/18
Final (120 minutes):	120 points	finals week
<i>Total:</i>	360 points	

Midterm exams last for the time of a lecture. (Problem sets have to be handed in *before* 9:30am on the due date.)

Your final *letter grade* will be inferred from the typical grade distribution (curve) in economics classes at UCSD. You can find this grade distribution at econ.ucsd.edu/muendler/teach/04s/103. So, the difficulty or simplicity of problem sets and exams will not matter, whereas your relative performance in comparison to your classmates will determine your final letter grade. The overall curve will be shifted in your favor to account for the typical students' GPA in Econ 103, which tends to be higher than average.

6 Class Schedule

1. **Tue, March 30:** Introduction to International Monetary Relations
(Krugman and Obstfeld 2003/Ch. 12 and 18)
2. **Thu, April 1:** International Monetary Systems, Past and Present
(Krugman and Obstfeld 2003/Ch. 18; McKinnon 1993)
PROBLEM SET 1 OUT

3. **Tue, April 6:** Exchange Rates and Foreign Exchange Markets
(Krugman and Obstfeld 2003/Ch. 13)
4. **Thu, April 8:** An Asset Approach to the Exchange Rate
(Krugman and Obstfeld 2003/Ch. 13)
5. **Tue, April 13:** A Monetary Approach to the Exchange Rate
(Krugman and Obstfeld 2003/Ch. 14)
6. **Thu, April 15:** Monetary Policy and Exchange Rate Determination
(Krugman and Obstfeld 2003/Ch. 14)
7. **Tue, April 20:** Purchasing Power Parity
(Krugman and Obstfeld 2003/Ch. 15; Rogoff 1996)
PROBLEM SET 1 DUE
8. **Thu, April 22:** Purchasing Power Parity
(Krugman and Obstfeld 2003/Ch. 15; Rogoff 1996)
PROBLEM SET 2 OUT
- Tue, April 27:** MIDTERM 1
covering lectures 1 through 8,
Krugman and Obstfeld (2003)/Ch. 12 through 15 (Ch. 18 will only be on
the following exams); and McKinnon (1993), and Rogoff (1996)
9. **Thu, April 29:** Flexible Exchange Rates
(Krugman and Obstfeld 2003/Ch. 16)
10. **Tue, May 4:** Policy under Floating Exchange Rates
(Krugman and Obstfeld 2003/Ch. 16)
11. **Thu, May 6:** Flexible, Managed and Fixed Exchange Rates
(Krugman and Obstfeld 2003/Ch. 16, 17)
12. **Tue, May 11:** Policy under Fixed Exchange Rates
(Krugman and Obstfeld 2003/Ch. 17; Obstfeld and Rogoff 1995)
PROBLEM SET 2 DUE
13. **Thu, May 13:** International Monetary Policy
(Krugman and Obstfeld 2003/Ch. 18 and 19)
PROBLEM SET 3 OUT
- Tue, May 18:** MIDTERM 2
covering lectures 9 through 13,
Krugman and Obstfeld (2003)/Ch. 12 through 19; and Obstfeld and Rogoff (1995)
14. **Thu, May 20:** The US Current Account Deficit
(McKinnon 2001)

15. **Tue, May 22:** Optimum Currency Areas and the Euro
(Krugman and Obstfeld 2003/Ch. 20; Allsopp and Artis 2003)
 16. **Thu, May 27:** Capital Market Integration
(Krugman and Obstfeld 2003/Ch. 21; Obstfeld 1998)
 17. **Tue, June 1:** International Financial Crises
(Krugman and Obstfeld 2003/Ch. 22; Stiglitz 2000)
 18. **Thu, June 3:** International Financial Crises
(Krugman and Obstfeld 2003/Ch. 22; Stiglitz 2000)
- PROBLEM SET 3 DUE
- Thu, June 10 (Finals Week): 8:00am to 11:00am FINAL EXAM**
covering lectures 1 through 18,
Krugman and Obstfeld (2003)/Ch. 12 through 22; and McKinnon (1993),
Rogoff (1996), Obstfeld and Rogoff (1995), McKinnon (2001), Allsopp and
Artis (2003), Obstfeld (1998), Stiglitz (2000)

References

- ALLSOPP, C., AND M. J. ARTIS (2003): "The Assessment: EMU, Four Years On," *Oxford Review of Economic Policy*, 19(1), 1–29.
- KRUGMAN, P. R., AND M. OBSTFELD (2003): *International economics: Theory and policy*. Addison Wesley, Boston, 6th edn.
- MCKINNON, R. I. (1993): "The Rules of the Game: International Money in Historical Perspective," *Journal of Economic Literature*, 31(1), 1–44.
- (2001): "The International Dollar Standard and the Sustainability of the US Current Account Deficit," *Brookings Papers on Economic Activity*, pp. 227–39.
- OBSTFELD, M. (1998): "The Global Capital Market: Benefactor or Menace?," *Journal of Economic Perspectives*, 12(4), 9–30.
- OBSTFELD, M., AND K. ROGOFF (1995): "The Mirage of Fixed Exchange Rates," *Journal of Economic Perspectives*, 9(4), 73–96.
- ROGOFF, K. (1996): "The Purchasing Power Parity Puzzle," *Journal of Economic Literature*, 34(2), 647–68.
- STIGLITZ, J. E. (2000): "Lessons from the Global Financial Crisis," in *Global financial crises: Lessons from recent events*, ed. by J. R. Bisignano, W. C. Hunter, and G. G. Kaufman, pp. 89–107. Kluwer Academic, Boston, Dordrecht and London.