

Economics 103 — Spring 2014

# International Monetary Relations

March 31, 2014

Instructor: Marc-Andreas Muendler  
Office: Economics 312  
Office hours: Thu 11:00a-12:00p  
Phone: (858) 534-4799  
E-mail: [muendler@ucsd.edu](mailto:muendler@ucsd.edu)

Classroom: CSB 001  
Class Time: TueThu 9:30a-10:50a  
Class Web Page: [econ.ucsd.edu/muendler/teach/14s/103](http://econ.ucsd.edu/muendler/teach/14s/103)  
Section ID 806249

Teaching Assistants: Justin Lesniak  
E-mail: [jlesniak@ucsd.edu](mailto:jlesniak@ucsd.edu)  
Office: Sequoyah 139  
Office hours: Tue 2:00p-4:00p

Wei You  
[wyou@ucsd.edu](mailto:wyou@ucsd.edu)  
Econ 119  
Wed 12:00p-1:30p

## 1 Course Objectives

This course examines the macroeconomy 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 macroeconomy. 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 current policy topics including recent global financial crises, the Great Recession of 2008, and prevailing global imbalances.

## 2 Prerequisites

Econ 102 or Econ 110B or Econ 173A (previously Econ 110B or 173A or 175).

## 3 Readings

Lecture notes become available online at [econ.ucsd.edu/muendler/teach/14s/103](http://econ.ucsd.edu/muendler/teach/14s/103) before each class.

**Textbook:** Krugman, Obstfeld, and Melitz (2011b)/Ch. 13 through 22

**Textbook supplement:** Muendler (2013)/Ch. 1, 14, 20 and 21

**Background Readings:** Calvo and Reinhart (2002); McKinnon (2001), Eichengreen (2006), Stiglitz (2000), Diamond and Dybvig (1983), Duffie (2010), Greenspan (2010)

The relevant chapters of the first textbook are compiled in a custom reader: Krugman, Obstfeld, and Melitz (2011a), provided for Econ 103 by Pearson Learning Solutions. This special extract is available for purchase from the bookstore. The complete textbook Krugman, Obstfeld, and Melitz

(2011b), which also covers the material of Econ 101 and Econ 102, is available for purchase online. Library copies are on reserve.

The textbook supplements Muendler (2013)/Ch. 1, 14, 20 and 21 are available for download from the class web page (see link above) prior to the respective lectures. Further textbook supplements may become available over the course of the quarter. The supplements are zipped and password protected. The password is given out on the first day in class.

The readings (articles) help you review the lecture material beyond the textbook. They are available through the class web page (see link above). Web links to copyrighted readings only work from on-campus domains.

## 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. Your teaching assistants will hold sections over the course of the quarter to help you solve the problems, and you can receive assistance during any of the scheduled office hours. Your solutions to the problem sets will be checked by question (check/no check) and your performance on them will be a part of the final grade.

Problem sets 1 and 2 have to be handed in on paper *before* 9:30a on the due date, problem set 3 has to be handed in on paper *before* 5:00p on the due date. You may bring them to class and hand them in *before* class begins.

## 5 Assessment

There will be two midterm exams and a final exam. The two midterm exams will take 70 minutes each and the final exam will take 120 minutes (no extra time). All exams are cumulative. Midterm exams take place in class and contain seven 10-minute questions each. The final exam contains twelve 10-minute questions. Problem sets have to be handed in *before* 9:30am on the due date to be considered.

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

Problem sets:	100 points (40+30+30 points)	4/24, 5/13, 6/5
Midterm 1 (70 minutes):	70 points	4/29
Midterm 2 (70 minutes):	70 points	5/15
Final (120 minutes):	120 points	6/10
Total:	360 points	

Your final *letter grade* will be inferred from the typical grade distribution (curve) in *economics* classes at UC San Diego. You can find this grade distribution at [econ.ucsd.edu/muendler/teach/14s/103](http://econ.ucsd.edu/muendler/teach/14s/103). Therefore 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. Grades of *D* or *F* will not depend on the curve but on a minimal performance standard.

There will be review sessions to help you prepare for the exams.

Participation in exams is mandatory and excused only under the conditions that also permit an incomplete grade: course work must be of non-failing quality and absence must be for a cause beyond the student's control. In particular, the incidence of other exams on the same day is no reason for an excuse from the exam. Under its current rules, Student Health Services offers access to medical excuses that document illness only under extreme circumstances (severe, prolonged illness that necessitates dropping a class or obtaining specific accommodations for class/lab participation, test

taking or make-up). To be excused from the midterm because of illness, the student must inform the instructor *before* the midterm exam. To be excused from the final exam, however, the illness must be sufficiently severe so that Student Health Services or another health-care provider does document the illness.

During exams, only a pen, a pencil, a ruler and an eraser are permitted for use. No other material is allowed. Principles of academic honesty are strictly applied.

Appeals of scores on exams must be submitted in writing, along with all prior exams and problem sets. Following the appeal, all questions on all exams will be reconsidered. An appeal may be denied if the exam was written with a pencil.

## 6 Class Schedule

### I. Open-economy Macroeconomics

1. **Tue, April 1:** Introduction to Open-economy Macroeconomics  
(Krugman, Obstfeld, and Melitz 2011b/Ch. 13 and 19; Muendler 2013/Ch. 1 and 14)

### II. Exchange Rate Determination

2. **Thu, April 3:** International Monetary Systems, Past and Present  
(Krugman, Obstfeld, and Melitz 2011b/Ch. 19)  
PROBLEM SET 1 OUT
3. **Tue, April 8:** Exchange Rates and Foreign Exchange Markets  
(Krugman, Obstfeld, and Melitz 2011b/Ch. 14)
4. **Thu, April 10:** An Asset Approach to the Exchange Rate  
(Krugman, Obstfeld, and Melitz 2011b/Ch. 14)
5. **Tue, April 15:** A Monetary Approach to the Exchange Rate  
(Krugman, Obstfeld, and Melitz 2011b/Ch. 15)
6. **Thu, April 17:** Monetary Policy and Exchange Rate Determination  
(Krugman, Obstfeld, and Melitz 2011b/Ch. 15)
7. **Tue, April 22:** Purchasing Power Parity and the Monetary Approach  
(Krugman, Obstfeld, and Melitz 2011b/Ch. 16)

**Wed, April 23, time TBA:** *Problem set 1 review section* (Justin Lesniak, location TBA)

8. **Thu, April 24:** Purchasing Power Parity and the Real Exchange Rate  
(Krugman, Obstfeld, and Melitz 2011b/Ch. 16)  
PROBLEM SET 1 DUE

**Fri, April 25, time TBA:** *Midterm 1 review section A* (Justin Lesniak, location TBA)

**Mon, April 28, time TBA:** *Midterm 1 review section B* (Wei You, location TBA; problem set 1 back)

**Tue, April 29:** MIDTERM 1 (70 minutes)  
covering lectures 1 through 8,  
Krugman, Obstfeld, and Melitz (2011b)/Ch. 13 through 16 (Ch. 19 will only be on the final);  
Muendler 2013/Ch. 1 and 14

### III. Exchange Rate and Current Account Determination

- 9. Thu, May 1:** Flexible Exchange Rates and Output in the Short Term  
(Krugman, Obstfeld, and Melitz 2011b/Ch. 16; Muendler 2013/Ch. 20)  
PROBLEM SET 2 OUT
- 10. Tue, May 6:** Policy under Floating Exchange Rates  
(Krugman, Obstfeld, and Melitz 2011b/Ch. 17; Muendler 2013/Ch. 20)
- 11. Thu, May 8:** Managed and Fixed Exchange Rates  
(Krugman, Obstfeld, and Melitz 2011b/Ch. 17 and 18; Muendler 2013/Ch. 21)
- Mon, May 12, time TBA:** *Problem set 2 review section* (Wei You, location TBA)
- 12. Tue, May 13:** Policy under Fixed Exchange Rates  
(Krugman, Obstfeld, and Melitz 2011b/Ch. 18; Muendler 2013/Ch. 21; Calvo and Reinhart 2002)  
PROBLEM SET 2 DUE
- Tue, May 13, time TBA:** *Midterm 2 review section A* (Justin Lesniak, location TBA)
- Wed, May 14, time TBA:** *Midterm 2 review section B* (Wei You, location TBA; problem set 2 back)
- Wed, May 14:** *Extra Online Lecture: International Monetary Policy (Historic Review)*  
(Krugman, Obstfeld, and Melitz 2011b/Ch. 19 and 22)
- Thu, May 15:** MIDTERM 2 (70 minutes)  
covering lectures 1 through 12,  
Krugman, Obstfeld, and Melitz 2011b/Ch. 13 through 18 (Ch. 19 and 20 will only be on the final); Muendler 2013/Ch. 1, 14, 20 and 21; Rogoff 1996 and Calvo and Reinhart 2002

### IV. Topics in International Macroeconomics

- 13. Tue, May 20:** Optimum Currency Areas  
(Krugman, Obstfeld, and Melitz 2011b/Ch. 20; Allsopp and Artis 2003)  
PROBLEM SET 3 OUT
- 14. Thu, May 22:** Currency Crises  
(Krugman, Obstfeld, and Melitz 2011b/Ch. 21 and 22; Stiglitz 2000)
- 15. Tue, May 27:** Banking and Debt Crises  
(Diamond and Dybvig 1983; Duffie 2010; Greenspan 2010)
- 16. Thu, May 29:** International Capital Market Integration  
(Krugman, Obstfeld, and Melitz 2011b/Ch. 21, Appendix to Ch. 6 and Postscript to Ch. 21; Muendler 2013/Ch. 14)
- 17. Tue, June 3:** Competitiveness and the Real Exchange Rate  
(Muendler 2013/Ch. 15 if ready)
- Wed, June 4, time TBA:** *Problem set 3 review section* (Wei You, location TBA)
- 18. Thu, June 5:** Current Account Sustainability  
(McKinnon 2001; Eichengreen 2006)  
PROBLEM SET 3 DUE

**Thu, June 5, time TBA:** *Final review section A* (Justin Lesniak, location TBA)

**Fri, June 6, time TBA:** *Final review section B* (Wei you, location TBA; problem set 3 back)

**Tue, June 10, 8:00a - 10:00a:** FINAL EXAM (120 minutes)

covering lectures 1 through 16 and 18,

Krugman, Obstfeld, and Melitz (2011b)/Ch. 13 through 22, Appendix to Ch. 6, Postscript to Ch. 21; Muendler (2013)/Ch. 1, 14, 20 and 21; and Calvo and Reinhart (2002), McKinnon (2001), Eichengreen (2006), Allsopp and Artis (2003), Stiglitz (2000), Diamond and Dybvig (1983), Duffie (2010), Greenspan (2010)

## References

- ALLSOPP, C., AND M. J. ARTIS (2003): "The Assessment: EMU, Four Years On," *Oxford Review of Economic Policy*, 19(1), 1–29.
- CALVO, G. A., AND C. M. REINHART (2002): "Fear of Floating," *Quarterly Journal of Economics*, 117(2), 379–408.
- DIAMOND, D. W., AND P. H. DYBVIK (1983): "Bank Runs, Deposit Insurance, and Liquidity," *Journal of Political Economy*, 91(3), 401–19.
- DUFFIE, D. (2010): "The Failure Mechanics of Dealer Banks," *Journal of Economic Perspectives*, 24(1), 5172.
- EICHENGREEN, B. (2006): "Global Imbalances: The New Economy, the Dark Matter, the Savvy Investor, and the Standard Analysis," *Journal of Policy Modeling*, 28(6), 645–52.
- GREENSPAN, A. (2010): "The Crisis," Greenspan Associates LLC, unpublished manuscript.
- KRUGMAN, P. R., M. OBSTFELD, AND M. J. MELITZ (2011a): *International Economics: Theory & Policy*, Pearson Custom Business Resources. Pearson Learning Solutions, New York, special extract compiled for International Trade Econ 101.
- (2011b): *International economics: Theory and policy*. Pearson, Boston, 9th edn.
- MCKINNON, R. I. (2001): "The International Dollar Standard and the Sustainability of the US Current Account Deficit," *Brookings Papers on Economic Activity*, pp. 227–39.
- MUENDLER, M.-A. (2013): "The Economics of Globalization," University of California, San Diego, unpublished textbook manuscript.
- 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.