

Economics 103 — Spring 2015

International Monetary Relations

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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 balances a business cycle perspective on short-term macroeconomic adjustment with a real-side perspective on the long-term evolution of the macroeconomy. The real-side view is bundled in three pairs of lectures (lectures 1&2, 8&9 and 17&18) and offers the long-term foundation. On the monetary side (lectures 3-7 and 10-16), 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.

3 Readings

Lecture notes are available online at econ.ucsd.edu/muendler/teach/15s/103 before each class.

Textbook (required): Krugman, Obstfeld, and Melitz (2015)

Textbook supplement (required): Muendler (2014)/Ch. 1, 3, 14 and 20

Background Readings (recommended): Caballero, Farhi, and Gourinchas (2008); Calvo and Reinhart (2002); Diamond and Dybvig (1983); Duffie (2010); Greenspan (2010); Spolaore (2013); Stiglitz (2000)

The textbook is available for purchase from the bookstore.

The textbook supplements are chapters from my own textbook Muendler (2014)/Ch. 1, 3, 14 and 20, which is under development with Pearson. The chapters will be available for download from the course web page (see link above) prior to the respective lectures. Further textbook supplements may or may not become available throughout 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 course 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 summer session. 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. The first and second problem sets will have eight questions each, the final problem set will have six questions. Correct answers count five points per question.

Your teaching assistants will offer three problem set review sections to help you solve the problems. Problem sets 1, 2 and 3 have to be handed in on paper *before* 5:00p on the due date. You can drop the problem sets off prior to the start of lecture or in the course mailbox on the lower floor of the economics department.

5 Assessment

There will be one midterm exam and a final exam. The midterm exam will take 80 minutes and the final exam will take 120 minutes (no extra time). The final exam is cumulative. The midterm exam contains eight 10-minute questions, the final exam contains twelve 10-minute questions. Problem sets have to be handed in *before* 5:00pm 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:	110 points (40+40+30 points)	4/27, 5/26, 6/5
Midterm (80 minutes):	80 points	5/4
Final (120 minutes):	120 points	6/12
Total:	310 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/15s/103. The difficulty or simplicity of problem sets and exams will therefore 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 sections 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 Course Schedule

I. Open-economy Macroeconomics

1. **Mon, March 30:** Introduction to Open-economy Macroeconomics
(Krugman, Obstfeld, and Melitz 2015/Ch. 1 and 2; Muendler 2014/Ch. 1 and 14)
PROBLEM SET 1 OUT
2. **Mon, March 30:** International Capital Market Integration
(Krugman, Obstfeld, and Melitz 2015/Ch. 2; Muendler 2014/Ch. 14)

II. Exchange Rate Determination

3. **Mon, April 6:** International Monetary Systems, Past and Present
(Krugman, Obstfeld, and Melitz 2015/Ch. 8)
4. **Mon, April 6:** Exchange Rates and Foreign Exchange Markets
(Krugman, Obstfeld, and Melitz 2015/Ch. 3)
5. **Mon, April 13:** An Asset Approach to the Exchange Rate
(Krugman, Obstfeld, and Melitz 2015/Ch. 3)
6. **Mon, April 13:** A Monetary Approach to the Exchange Rate
(Krugman, Obstfeld, and Melitz 2015/Ch. 4)
7. **Mon, April 20:** Monetary Policy and Exchange Rate Determination
(Krugman, Obstfeld, and Melitz 2015/Ch. 4)
8. **Mon, April 20:** Purchasing Power Parity and the Monetary Approach
(Krugman, Obstfeld, and Melitz 2015/Ch. 5)
- Fri, April 24, 3:00p-4:50p:** *Problem set 1 review section* (Deborah Watkins, Peterson Hall 110)
9. **Mon, April 27:** Purchasing Power Parity and the Real Exchange Rate
(Krugman, Obstfeld, and Melitz 2015/Ch. 5, Muendler 2014/Ch. 3)
PROBLEM SET 1 DUE

III. Exchange Rate and Current Account Determination

10. Mon, April 27: Flexible Exchange Rates and Output in the Short Term

(Krugman, Obstfeld, and Melitz 2015/Ch. 6; Muendler 2014/Ch. 20, sections 1 and 2)

Fri, May 1, 3:00p-4:50p: *Midterm review section* (Briana Sullivan, Peterson Hall 110)

Mon, May 4, 5:00p - 6:30p: MIDTERM (90 minutes)

covering lectures 1 through 10,

Krugman, Obstfeld, and Melitz (2015)/Ch. 1 through 5 (ch. 8 will be on the final); Muendler 2014/Ch. 1, 3 and 14 (ch. 20 will be on the final)

11. Mon, May 4: Policy under Floating Exchange Rates

(Krugman, Obstfeld, and Melitz 2015/Ch. 6; Muendler 2014/Ch. 20)

PROBLEM SET 2 OUT

12. Mon, May 11: Managed and Fixed Exchange Rates

(Krugman, Obstfeld, and Melitz 2015/Ch. 7)

13. Mon, May 11: Policy under Managed Exchange Rates

(Krugman, Obstfeld, and Melitz 2015/Ch. 7; Calvo and Reinhart 2002)

14. Mon, May 18: Optimum Currency Areas

(Krugman, Obstfeld, and Melitz 2015/Ch. 10; O'Rourke and Taylor 2013, Spolaore 2013)

IV. Management of International Financial Relations

15. Mon, May 18: Currency Crises

(Krugman, Obstfeld, and Melitz 2015/Ch. 9; Stiglitz 2000)

PROBLEM SET 3 OUT

Tue, May 19: *Online review:* International Monetary Policy (Historic Review with Model and Exercises)

(Krugman, Obstfeld, and Melitz 2015/Ch. 8)

Fri, May 22, 3:00p-4:50p: *Problem set 2 review section* (Deborah Watkins, Peterson Hall 110)

Tue, May 26, 5:00p: PROBLEM SET 2 DUE

16. Mon, June 1: Banking and Debt Crises

(Diamond and Dybvig 1983; Duffie 2010; Greenspan 2010)

17. Mon, June 1: Current Account Sustainability

(Krugman, Obstfeld, and Melitz 2015/Ch. 11; Muendler 2014/ch. 17 *if ready*; Caballero, Farhi, and Gourinchas 2008)

Wed, June 3, 6:00p-7:50p: *Problem set 3 review section* (Briana Sullivan, Center Hall 101)

Fri, June 5, 5:00p-6:50p: *Final review section* (Briana Sullivan, Peterson Hall 110)

PROBLEM SET 3 DUE

Fri, June 12, 7:00p - 9:00p: FINAL EXAM (120 minutes)

covering lectures 1 through 7, lectures 9 through 16 and 18,

Krugman, Obstfeld, and Melitz (2015); Muendler (2014)/Ch. 1, 3, 14 and 20; and Caballero, Farhi, and Gourinchas (2008), Calvo and Reinhart (2002), Diamond and Dybvig (1983), Duffie (2010), Greenspan (2010), Spolaore (2013), Stiglitz (2000)

References

- CABALLERO, R. J., E. FARHI, AND P.-O. GOURINCHAS (2008): "Financial Crash, Commodity Prices, and Global Imbalances," *Brookings Papers on Economic Activity*, 2008(2), 1–68.
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- 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), 51–72.
- GREENSPAN, A. (2010): "The Crisis," *Brookings Papers on Economic Activity*, 2010(1), 201–261.
- KRUGMAN, P. R., M. OBSTFELD, AND M. J. MELITZ (2015): *International Finance: Theory and Policy*. Pearson, Boston, 10th edn.
- MUENDLER, M.-A. (2014): "The Economics of Globalization," University of California, San Diego, unpublished textbook manuscript.
- O'ROURKE, K. H., AND A. M. TAYLOR (2013): "Cross of Euros," *Journal of Economic Perspectives*, 27(3), 167–92.
- SPOLAORE, E. (2013): "What Is European Integration Really About? A Political Guide for Economists," *Journal of Economic Perspectives*, 27(3), 125–44.
- 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.