International Economics II (21.950)

Degree/study: ADE/ECO   **Course:** 3rd and 4th year
Academic year: 2013/14   **Term:** 3rd
Languages of instruction: English (group 1), Spanish (group 2)
Professors: Julian Di Giovanni (group 1) - julian.digiovanni@upf.edu
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Course Description

This course is an introduction to open economy macroeconomics and international finance. The core objective of the course is to develop macroeconomic models of open economies that can be applied towards gaining an understanding of recent events such as US deficits, global financial imbalances, financial crises, China's exchange rate policy, and the European debt crisis. The course will also present the evolution of the international monetary system, and discuss institutional players (e.g., the International Monetary Fund).

Required Readings

Paul R. Krugman, Maurice Obstfeld, and Marc J. Melitz (KOM), *International Economics: Theory and Policy*, 9th edition, Addison-Wesley, 2009
[Spanish edition: *Economía internacional: teoría y política*, 9ª ed., Pearson, 2012]

Further readings (such as academic papers or articles from the *Financial Times*, *The Economist*, and other press) may be posted on the course website and discussed during the course. All course material (slides, readings, assignments, etc.) will be posted on the course website, so please visit it frequently during the quarter.

Course Outline

1. ***National Income Accounting and the Balance of Payments***
    - Extend national income accounts to the open economy in order to incorporate international transactions.
    - KOM, Ch. 13

2. ***Exchange Rates and the Foreign Exchange Market: An Asset Market Approach***
    - Consider the role of the exchange rates in international trade, and how exchange rates are determined.
    - KOM, Ch. 14

3. ***Money, Interest Rates, and Exchange Rates***

- Build a model to examine how monetary developments influence exchange rates.
- KOM, Ch. 15

4. *Price Levels and the Exchange Rate in the Long Run*
- Extend the model to understand how exchange rates behave in the long run.
- KOM, Ch. 16

5. *Output and the Exchange Rate in the Short Run*
- Study how output is determined by combining models of exchange rate determination with a theory of output determination in the short run.
- KOM, Ch. 17

6. *Fixed Exchange Rates and Foreign Exchange Intervention*
- Examine how authorities can fix their country's exchange rate, and how this can affect the economy.
- KOM, Ch. 18

7. *International Monetary Systems: An Historical Overview*
- Present a historical overview of the international monetary system, as well as its key players.
- KOM, Ch. 19

8. *Optimum Currency Areas and the European Experience*
- Study the trade-offs between different types of exchange regime arrangements, focusing on Europe's experience of monetary unification.
- KOM, Ch. 20

9. *Financial Globalization: Opportunity and Crisis*
- Examine the benefits and risks of the international capital market, and what caused its rapid growth over the past 50 years.
- KOM, Ch. 21

10. *Developing Countries: Growth, Crisis, and Reform*
- Study developing countries' past experiences and challenges, as well as their potential gains from participation in the international capital market.
- KOM, Ch. 22

Course Evaluation

The grade of the course will be based on:
- **Continuous evaluation: 30%**
  (includes Problem Sets and active participation to Seminars)
- **Final Exam: 70%**

<u>Note</u>: to pass the course, besides having a weighted average of at least 5 (over 10), it is necessary to score a minimum of 4 out of 10 in the final exam (otherwise the grade from continuous evaluation will not count).

Recuperation exam

Students who participate in all the activities that are evaluated and take the final exam but do not pass the course at the end of the term, will have a second chance to pass the course by retaking the final exam at some date in July (to be determined by the university). The grade from continuous evaluation will still count for 30% if and only if the score of the recuperation exam is at least 4 out of 10.