

CECNG251: International Finance

Logistics and syllabus

Introduction

From the official course description

CECNG251 International Finance 4 SH

This course introduces students to international finance and equips them with tools and methods to study and analyze international economic issues and problems. Topics include: the foreign exchange market, balance of payments, international investment and banking, monetary and fiscal policy in an open economy, economic integration and monetary unification, the international monetary system, and optimum currency areas. ~~Each student is required to write a short paper on a current problem in international finance.~~ Prerequisites: None.

The instructor's own description

Traditionally the subject of international economics has been divided and taught in two parts. International Trade deals with flows of goods and services whereas International Finance deals with flows of capital. This distinction is somewhat arbitrary and recent advances in international economics typically cross this line under the header of International Macroeconomics. In this class, however, we will stick to the subject matter as traditionally defined.

The main reason behind this is that International Macroeconomics while highly interesting is typically more theoretical a subject and somewhat less "applied" in nature than International Finance. The purpose of this class is precisely to be **applied, real-world** and, to some extent, **application** oriented.

Objectives of this class

After taking this class, you should have a good understanding of the main analytical tools and policy issues in International Finance. The objective is *not* to make of you an int'l macroeconomic theory guru. If you were to pursue International Finance as an academic interest, you will probably need to take additional, more modeling and theory oriented classes.

However, you should be able to fully understand what is at stakes in the general and in financial press when it concerns International Finance. For example, you should be able to frame and put in context discussions regarding the evolution of this or that exchange rate. You should have an understanding and form some informed opinion when some currency crisis occur. You should comprehend what is at stake when this or that country is deciding whether to join a currency union, such as the Euro-zone.

Finally, if you were to be interviewed for a job related to Int'l Finance, you should sound like you are well-read, aware of the big issues, able to form an opinion and that you have a good grasp of the fundamental conceptual tools in the field.

Structure of this class

To help you meet these objectives, this class is structured in two parts:

1. In the first part, the emphasis is put on concepts and modeling tools. These tools and concepts have been chosen for their direct relevance to the study of the applied / policy questions that will be focused on in the second part of the class. This part of this class may be part review to some of you, but that can't hurt as people say that repetition is the art of education. Besides the basic concepts you will either learn or review are so key to a quick and effective understanding of real-world issues in Int'l Finance that they are definitely worth being studied more than once.
2. In the second part, or half, of the class, following the midterm examination, we will focus on "real-world" / policy applications. This part should be entirely new to most students, at least in terms of the depth in which we will cover these policy topics. This part will require more active participation on behalf of the students. Each student will present a paper from the reader. Also, there will be policy-oriented homework on a weekly basis.

Prerequisites

To many of the students, however, this will be their first exposure to Int'l Finance. This raises the question of prerequisites. The short answer is: officially there are no prerequisites. The longer answer is that to feel comfortable in this class having taken a class in undergraduate macroeconomics and / or international economics would be helpful but not to the point of being mandatory. The material in this class will be relatively self-contained. One important thing that will be assumed is basic calculus skills such as the ability to use derivatives and integrals.

Administrative

Contact information

Instructor: Jean-Philippe Stijns

Mailing address: 301 Lake Hall

Phone: (617)3738427

Email: j.stijns@neu.edu

Office Hours

Office: 321 Lake Hall

Office Hours: Th 9-11, Fri 9-10, and by appointment

Lectures

Place: 308 KA

Time: Fridays 4-7 p.m.

Required course material

Textbook: Giancarlo Gandolfo (referred to as GG in the reading list below), International Finance and Open-Economy Macroeconomics, Springer-Verlag, Berlin Heidelberg, etc., 2001. The textbook is available from the campus store. The Northeastern University Bookstore is located on the lower level of Ell Hall (adjacent to the Curry Student Center). They apparently ordered only 10 copies originally, I had them reorder additional copies. This means that some students will have to make copies of the first few chapters (see the reading list below) while waiting for their copy of the textbook. The bookstore phone number is 617-373-2286.

Reader. This is a compilation mainly of introductory articles. It will be available from Gnomon Copy @ 325 Huntington Ave. Tuesday 9/16 morning. Their number is 617-536-4600.

Grading

Student assessments:

- There will be an online **midterm**. The purpose of this midterm is to make sure everyone has studied and understood the basic theoretical concepts that will be required to make sense of the applied part of the class.
- There will be a (probably online) **take-home final exam**. The purpose of the final will be to check whether students have understood the broad issues covered in the reader and presented in class by their peers. This final is NOT comprehensive, in the sense that you will not be asked question directly about the material covered in the first half of the class. However, answering the policy / applied questions on the final will require a clear understanding of the concepts covered in the first half of the class.
- Students are required to **present a paper** from the class reader. Presentation skills are key to the economics profession, whether you become a professional or an academic economist. Economics students, including graduate students, get too few occasions to hone these skills.

Besides, there is no better way to thoroughly learn about a topic than having to present it to an audience.

- There will be **weekly homework** for the second real-world / policy part of this class. The purpose of these will be to practice the skills that will be expected on the final exam. These skills are primarily the ability to read actively, summarize and relate content. Additionally, there will be questions about related current events as they unfold.

Weights

- Midterm: 1/5
- Presentation: 1/5
- Homework: 1/5
- Final: 2/5

Note: these weights are indicative, the instructor reserves the prerogative to adjust them as the class evolves and feedback is received.

Student responsibilities

- **Attend ALL classes** (except for strictly serious reasons, of course.) Should go without saying. Roll will not be taken but you ARE upon the honor code expected to play your part in this “community of learning.”
- **Prepare for class.** This means that you are expected to come to class having read ALL the assigned reading for this meeting. IOW, reading happens before coming to class not after. Class serves to structure, discuss and summarize the material. It is a complement, not a substitute to reading the material. I have purposely limited the amount of reading to make it manageable. Typically, you are asked to read one paper per hour we meet in class, i.e. 3 papers a week. One reason behind assigning regular reading for a graduate economics class is that in your careers as professional or academic economists, you will be required to read a lot, and make sense of a wealth of reading. It is necessary that you start developing those skills at this point.
- **Stay on top of the news**, especially as they relate to International Finance. This is something you can expect to be tested on, possibly on the midterm, and most likely on our weekly homework in the second part of the class, and on the final. You are encouraged to read, and ideally subscribe to a financial newspaper for the duration of the class. The Financial Times (Snell shelves) and the Wall Street Journal (HB1 .N2500) are basically your options. Alternatively, or better yet, in complement, you can read The Economist (HB1 .E5350). To facilitate your job, I have arranged for the Department of Economics to subscribe to the FT. If

everything goes, it should be available soon in the TA's office or the Student Resource Center (310 Lake Hall).

Reading List

1. Introduction: FOREX Markets and Regimes

"SURVEY: GLOBAL FINANCE: A cruel sea of capital," The Economist, May 3rd 2003: 3-24.

OBSTFELD, MAURICE, "The Global Capital Market: Benefactor or Menace?" Journal of Economic Perspectives **12**(4), Fall 1998: 9-30

1.1 The FOREX market

GG2

1.2 Exchange-Rate Regimes

GG3

1.3 History of the International Monetary System

GG22

MCKINNON, R., "The rules of the game: international money in historical perspective," Journal of Economic Literature **31**(1), March 1993: 1-44.

EICHENGREEN, BARRY, "History of the International Monetary System," Chapter 6 in The Handbook of International Macroeconomics, van der Ploeg (ed.), 1994: 153-191.

2. Core Theory

2.1 Interest-Rate Parity

GG4

2.2 Balance of Payments

GG5

2.3 Flow approaches

GG7, GG8, GG9

2.4 Mundell-Flemming

GG8

HALLWOOD, C. PAUL AND RONALD MACDONALD, "International Policy Coordination", Chapter 6 in International Money and Finance, Blackwell Publishers, 2000 (3rd edition): 94-121.

3 Practice

3.1 Capital Movements, Speculation and Currency Crises

GG16

"SURVEY: ASIAN FINANCE: The weakest link", The Economist Feb 8th, 2003: 3-16.

DELONG, J. BRADFORD, "Financial Crises in the 1890s and the 1990s," Brookings Papers on Economic Activity, Fall 1999: 253-279.

MISHKIN, FREDERIC, S., "Global Financial Instability: Framework, Events, Issues," Journal of Economic Perspectives **13**(4), Fall 1999: 3-20.

ROGOFF, KENNETH, "International Institutions for Reducing Global Financial Instability," Journal of Economic Perspectives **13**(4), Fall 1999: 21-42.

CAPRIO, GERARD AND PATRICK HONOHAN, "Restoring Banking Stability: Beyond Supervised Capital Requirements," Journal of Economic Perspectives **13**(4), Fall 1999: 43-64.

EDWARDS, SEBASTIAN, "How Effective Are Capital Controls?" Journal of Economic Perspectives **13**(4), Fall 1999: 65-84.

KAMINSKY, GRACIELA AND CARMEN REINHART, "The twin crises: Causes of banking and balance of payments problems," American Economic Review **89**(6), 1999: 473-500.

3.2 Fixed vs. Flexible exchange rates

GG17

OBSTFELD, MAURICE AND KENNETH ROGOFF, "The mirage of fixed exchange rates," Journal of Economic Perspectives **9**(4), Fall 1995: 73-96.

FISCHER, STANLEY, "Exchange Rate Regimes: Is the Bipolar View Correct?" Journal of Economic Perspectives **15**(2), Spring 2001: 3-24.

3.3 Currency Unions

3.3.A Optimum Currency Areas

GG20

ROSE K. ANDREW, "One Money, One Market: the Effects of a Currency Union on Trade," Economic Policy **15**(30), April 2000: 7-46.

FRANKEL, JEFFREY A., "No Single Currency Regime is Right for All Countries or At All Times," NBER Working Paper 7338, September 1999: 1-41.

FRANKEL, JEFFREY A. AND ANDREW K. ROSE, "An Estimate of the Effect of Common Currencies on Trade and Income," Quarterly Journal of Economics **117**(2), May 2002: 437-466.

3.3.B The European Monetary Union

GG21

DE GRAUWE, PAUL, Chapter 6, "The Challenge of the Enlargement of Euroland": 63-72; and,

EICHENGREEN, BARRY, Chapter 8, "Reflections on the Coherence of the Euro Area": 85-88, in Submissions on EMU from Leading Academics, study compiled by HM Treasury, United Kingdom, to inform the assessment of the five economic tests, 2003, www.hm-treasury.gov.uk