

Economics 103 — Spring 2003

International Monetary Relations

April 1, 2003

Instructor: Marc-Andreas Muendler
Office: Economics 312
Office hours: TuTh 3:00pm - 4:00pm
Phone: (858) 534-4799
E-mail: muendler@ucsd.edu
Teaching Assistants: Natalya Lebedeva and Pauline Kennedy
Classroom: HSS 1330
Class Time: TuTh 9:30am - 10:50am
Class Web Page: econ.ucsd.edu/muendler/teach/03s/103

1 Course Objectives

This course examines the macro-economy in an international setting. The course covers the exchange rate and the capital 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.

2 Prerequisites

Economics 110A-B.

3 Readings

Required textbook: Krugman and Obstfeld (2003)

Required readings: McKinnon (1996), Sarno and Taylor (2002), Obstfeld and Rogoff (1995), McKinnon (2001), Stiglitz (2000)

Recommended readings: Taylor (1995), Ong (1997), Obstfeld (2001), Mihov (2001), Obstfeld (1998)

The required and recommended readings (articles) are available as custom materials from AS Soft Reserves (two sperate volumes, copyright fees apply). The readings can also be accessed through the class web page (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. Your teaching assistants Natalya Lebedeva and Pauline Kennedy will hold review sessions to help you approach the problems. Your solutions to the problem sets will be checked (check/no check) 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.

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.

The final grade will be based on your total points in the three exams and the three problem sets:

Problem sets:	20 points (8+6+6 points)	4/22, 5/13, 6/5
Midterm 1 (80 minutes):	80 points	4/29
Midterm 2 (80 minutes):	80 points	5/20
Final (120 minutes):	120 points	finals week

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

6 Class Schedule

- 1. Tue, April 1:** Introduction to International Monetary Relations
(Krugman and Obstfeld 2003/Ch. 12 and 18)
- 2. Thu, April 3:** International Monetary Systems, Past and Present
(Krugman and Obstfeld 2003/Ch. 18; McKinnon 1996)
PROBLEM SET 1 OUT
- 3. Tue, April 8:** Exchange Rates and Foreign Exchange Markets
(Krugman and Obstfeld 2003/Ch. 13)
- 4. Thu, April 10:** An Asset Approach to the Exchange Rate
(Krugman and Obstfeld 2003/Ch. 13; *recommended*: Taylor 1995)
- 5. Tue, April 15:** A Monetary Approach to the Exchange Rate
(Krugman and Obstfeld 2003/Ch. 14)
- 6. Thu, April 17:** Monetary Policy and Exchange Rate Determination
(Krugman and Obstfeld 2003/Ch. 14)

- 7. Tue, April 22:** Purchasing Power Parity
(Krugman and Obstfeld 2003/Ch. 15; Sarno and Taylor 2002)
PROBLEM SET 1 DUE
- 8. Thu, April 24:** Purchasing Power Parity
(Krugman and Obstfeld 2003/Ch. 15; *recommended*: Ong 1997)
PROBLEM SET 2 OUT
- Tue, April 29:** MIDTERM 1
covering Krugman and Obstfeld (2003)/Ch. 12 through 15 (Ch. 18 will only be on the following exams); and McKinnon (1996), and Sarno and Taylor (2002)
- 9. Thu, May 1:** Flexible Exchange Rates
(Krugman and Obstfeld 2003/Ch. 16)
- 10. Tue, May 6:** Policy under Floating Exchange Rates
(Krugman and Obstfeld 2003/Ch. 16; *recommended*: Obstfeld 2001)
- 11. Thu, May 8:** Fixed Exchange Rates
(Krugman and Obstfeld 2003/Ch. 17)
- 12. Tue, May 13:** Policy under Fixed Exchange Rates
(Krugman and Obstfeld 2003/Ch. 17; Obstfeld and Rogoff 1995)
PROBLEM SET 2 DUE
- 13. Thu, May 15:** International Monetary Policy
(Krugman and Obstfeld 2003/Ch. 18 and 19)
PROBLEM SET 3 OUT
- Tue, May 20:** MIDTERM 2
covering Krugman and Obstfeld (2003)/Ch. 12 through 19; and Obstfeld and Rogoff (1995)
- 14. Thu, May 22:** The US Current Account Deficit
(McKinnon 2001)
- 15. Tue, May 27:** Optimum Currency Areas and the Euro
(Krugman and Obstfeld 2003/Ch. 20; *recommended*: Mihov 2001)
- 16. Thu, May 29:** Capital Market Integration
(Krugman and Obstfeld 2003/Ch. 21, *recommended*: Obstfeld 1998)
- 17. Tue, June 3:** International Financial Crises
(Krugman and Obstfeld 2003/Ch. 22; Stiglitz 2000)
- 18. Thu, June 5:** International Financial Crises
(Krugman and Obstfeld 2003/Ch. 22; Stiglitz 2000)
PROBLEM SET 3 DUE

Thu, June 12 (Finals Week): 8:00am to 10:50am FINAL EXAM

covering Krugman and Obstfeld (2003)/Ch. 12 through 22; and McKinnon (1996), Sarno and Taylor (2002), Obstfeld and Rogoff (1995), McKinnon (2001), Stiglitz (2000)

References

- KRUGMAN, P. R., AND M. OBSTFELD (2003): *International economics: Theory and policy*. Addison Wesley, Boston, 6th edn.
- MCKINNON, R. I. (1996): "The Rules of the Game: International Money in Historical Perspective," in *The rules of the game: International money and exchange rates*, ed. by R. I. McKinnon, pp. 23–90. MIT Press, Cambridge, MA and London.
- (2001): "The International Dollar Standard and the Sustainability of the US Current Account Deficit," *Brookings Papers on Economic Activity*, pp. 227–39.
- MIHOV, I. (2001): "Monetary Policy Implementation and Transmission in the European Monetary Union," *Economic Policy*, 16(33), 369–406.
- OBSTFELD, M. (1998): "The Global Capital Market: Benefactor or Menace?," *Journal of Economic Perspectives*, 12(4), 9–30.
- (2001): "Mundell-Fleming Lecture: International Macroeconomics: Beyond the Mundell-Fleming Model," *IMF Staff Papers*, 47, 1–39.
- OBSTFELD, M., AND K. ROGOFF (1995): "The Mirage of Fixed Exchange Rates," *Journal of Economic Perspectives*, 9(4), 73–96.
- ONG, L. L. (1997): "Burgernomics: The Economics of the Big Mac Standard," *Journal of International Money and Finance*, 16(6), 865–78.
- SARNO, L., AND M. P. TAYLOR (2002): "Purchasing Power Parity and the Real Exchange Rate," *IMF Staff Papers*, 49(1), 65–105.
- 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.
- TAYLOR, M. P. (1995): "The Economics of Exchange Rates," *Journal of Economic Literature*, 33(1), 13–47.