

Economics 103 — Spring 2007

International Monetary Relations

May 2, 2007

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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 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 recent issues including the present U.S. current account imbalance and global financial crises.

2 Prerequisites

Economics 110A-B.

3 Readings

Lecture notes become available online at econ.ucsd.edu/muendler/teach/07s/103 before each class.

Textbook: Krugman and Obstfeld (2003) or Krugman and Obstfeld (2006)

Readings: McKinnon (1993), Rogoff (1996);
Obstfeld and Rogoff (1995);
McKinnon (2001), Allsopp and Artis (2003), Stiglitz (2000)

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. The first problem set will have eight questions, the latter two will have six questions each. Correct answers count for four points per question.

Your teaching assistant Oana Tocoian will hold three sections, on April 23, May 14 and June 5 to help you approach the problems. Your solutions to the problem sets will be graded and your performance on them will be part of the final grade. Problem sets have to be handed in *before* 2:00pm on the due date. You may bring them to class *before* it starts.

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. All exams are cumulative. Midterm exams take place in class and contain seven ten-minute questions each. The final exam contains twelve 10-minute questions. Problem sets have to be handed in *before* 2:00pm 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:	80 points (32+24+24 points)	4/24, 5/15, 6/7
Midterm 1 (70 minutes):	70 points	5/1
Midterm 2 (70 minutes):	70 points	5/24
Final (120 minutes):	120 points	6/13
<i>Total:</i>	340 points	

Your final *letter grade* will be inferred from the typical grade distribution (curve) in *economics* classes at UCSD since 2000. You can find this grade distribution at econ.ucsd.edu/muendler/teach/07s/103. So, 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 *F* will not depend on the curve but on a minimal performance standard).

We will offer three review sessions, on April 30, May 23 and June 8, to prepare you for the exams.

6 Class Schedule

I. Exchange Rate Determination

1. **Tue, April 3:** Introduction to International Monetary Relations
(Krugman and Obstfeld 2006/Ch. 12 and 18)
2. **Thu, April 5:** International Monetary Systems, Past and Present
(Krugman and Obstfeld 2006/Ch. 18; McKinnon 1993)
PROBLEM SET 1 OUT
3. **Tue, April 10:** Exchange Rates and Foreign Exchange Markets
(Krugman and Obstfeld 2006/Ch. 13)
4. **Thu, April 12:** An Asset Approach to the Exchange Rate
(Krugman and Obstfeld 2006/Ch. 13)
5. **Tue, April 17:** A Monetary Approach to the Exchange Rate
(Krugman and Obstfeld 2006/Ch. 14)
6. **Thu, April 19:** Monetary Policy and Exchange Rate Determination
(Krugman and Obstfeld 2006/Ch. 14)
- Mon, April 23:** REVIEW SESSION FOR PROBLEM SET 1 (Oana Tocioian)
7. **Tue, April 24:** Purchasing Power Parity and the Monetary Approach
(Krugman and Obstfeld 2006/Ch. 15; Rogoff 1996)
PROBLEM SET 1 DUE
8. **Thu, April 26:** Purchasing Power Parity and the Real Exchange Rate
(Krugman and Obstfeld 2006/Ch. 15; Rogoff 1996)
- Mon, April 30:** REVIEW SESSION FOR MIDTERM 1
(Deniz Kebabci & Marc Muendler)
- Tue, May 1:** MIDTERM 1
covering lectures 1 through 8,
Krugman and Obstfeld (2006)/Ch. 12 through 15 (Ch. 18 will only be on
the following exams); and McKinnon (1993), and Rogoff (1996)

II. Exchange Rate and Current Account Determination

9. **Thu, May 3:** Flexible Exchange Rates
(Krugman and Obstfeld 2006/Ch. 16)
PROBLEM SET 2 OUT
10. **Tue, May 8:** Policy under Floating Exchange Rates
(Krugman and Obstfeld 2006/Ch. 16)

- 11. Thu, May 10:** Flexible, Managed and Fixed Exchange Rates
(Krugman and Obstfeld 2006/Ch. 16 and 17)
- Mon, May 14:** REVIEW SESSION FOR PROBLEM SET 1 (Oana Tocoian)
- 12. Tue, May 15:** Policy under Fixed Exchange Rates
(Krugman and Obstfeld 2006/Ch. 17; Obstfeld and Rogoff 1995)
- 13. Thu, May 17:** International Monetary Policy
(Krugman and Obstfeld 2006/Ch. 18, 19 and 22; McKinnon 1993)
PROBLEM SET 2 DUE
- 14. Tue, May 22:** International Capital Market Integration
(Krugman and Obstfeld 2006/Ch. 21)
- Wed, May 23:** REVIEW SESSION FOR MIDTERM 2
(Deniz Kebabci & Marc Muendler)
- Thu, May 24:** MIDTERM 2
covering lectures 1 through 14,
Krugman and Obstfeld (2006)/Ch. 12 through 19 and 22; Obstfeld and Rogoff (1995) and McKinnon 1993

III. Topics in International Macroeconomics

- 15. Thu, May 29:** Current Account Sustainability
(McKinnon 2001)
PROBLEM SET 3 OUT
- 16. Thu, May 31:** Optimum Currency Areas and the Euro
(Krugman and Obstfeld 2006/Ch. 20; Allsopp and Artis 2003)
- 17. Tue, June 5:** International Financial Crises
(Krugman and Obstfeld 2006/Ch. 21 and 22; Stiglitz 2000)
- Tue, June 5:** REVIEW SESSION FOR PROBLEM SET 3 (Oana Tocoian)
- 18. Thu, June 7:** International Financial Crises
(Krugman and Obstfeld 2006/Ch. 22; Stiglitz 2000)
PROBLEM SET 3 DUE
- Fri, June 8:** REVIEW SESSION FOR FINAL EXAM
(Deniz Kebabci & Marc Muendler)
- Wed, June 13 (Finals Week): 3:00p-5:00p** FINAL EXAM (120 minutes)
covering lectures 1 through 18,
Krugman and Obstfeld (2006)/Ch. 12 through 22; and McKinnon (1993), Rogoff (1996), Obstfeld and Rogoff (1995), McKinnon (2001), Allsopp and Artis (2003), Stiglitz (2000)

References

- ALLSOPP, C., AND M. J. ARTIS (2003): "The Assessment: EMU, Four Years On," *Oxford Review of Economic Policy*, 19(1), 1–29.
- KRUGMAN, P. R., AND M. OBSTFELD (2003): *International economics: Theory and policy*. Addison Wesley, Boston, 6th edn.
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- MCKINNON, R. I. (1993): "The Rules of the Game: International Money in Historical Perspective," *Journal of Economic Literature*, 31(1), 1–44.
- (2001): "The International Dollar Standard and the Sustainability of the US Current Account Deficit," *Brookings Papers on Economic Activity*, pp. 227–39.
- OBSTFELD, M., AND K. ROGOFF (1995): "The Mirage of Fixed Exchange Rates," *Journal of Economic Perspectives*, 9(4), 73–96.
- 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.