

Economics 103 — Spring 2008

International Monetary Relations

March 31, 2008

Instructor:	Marc-Andreas Muendler	
Office:	Economics 312	
Office hours:	Mon and Tue 10:15am - 11:15am	
Phone:	(858) 534-4799	
E-mail:	muendler@ucsd.edu	
Classroom:	Center Hall room 216	
Class Time:	TuTh 8:00am - 9:20am	
Class Web Page:	econ.ucsd.edu/muendler/teach/08s/103	
Section ID	620587	
Teaching Assistants:	Oana Tocoian Hirakawa	Michael Callen
E-mail:	otocoian@ucsd.edu	mjcallen@ucsd.edu
Office:	Econ 127	Econ 119
Office hours:	Thu 9:30am - 11:30am	Fri 9:30am - 10:30am

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/08s/103 before each class.

Textbook: Krugman and Obstfeld (2008) or Krugman and Obstfeld (2005)

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. 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 assistants Oana Tocoian Hirakawa and Michael Callen will hold three sections, on April 24 (Michael Callen), May 15 (Oana Tocoian Hirakawa) and June 4 (Oana Tocoian Hirakawa) to help you solve 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 by 11:30am on the due date. The three due dates are April 25, May 16 and June 6. Graded problem sets will be available by the following Monday to help you prepare for subsequent exams.

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 by 11:30am 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)	4/25 (11:30a) 5/16 (11:30a) 6/6 (11:30a)
Midterm 1 (70 minutes):	70 points	4/29 (8:00a-9:10a)
Midterm 2 (70 minutes):	70 points	5/22 (8:00a-9:10a)
Final (120 minutes):	120 points	6/12 (8:00a-10:00a)
<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 URL econ.ucsd.edu/muendler/teach/08s/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).

There will be three review sessions, on April 28, May 20 and June 6, to help you prepare for the exams.

A picture ID will be required to take exams. Appeals of scores on exams must be submitted in writing, along with all prior exams. Exams must be written with non-erasable pen to qualify for appeal. Following an appeal, all questions on all exams will be reconsidered. 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.

6 Class Schedule

I. Exchange Rate Determination

1. **Tue, April 1:** Introduction to International Monetary Relations
(Krugman and Obstfeld 2005/Ch. 12 and 18)
 2. **Thu, April 3:** International Monetary Systems, Past and Present
(Krugman and Obstfeld 2005/Ch. 18; McKinnon 1993)
PROBLEM SET 1 OUT
 3. **Tue, April 8:** Exchange Rates and Foreign Exchange Markets
(Krugman and Obstfeld 2005/Ch. 13)
 4. **Thu, April 10:** An Asset Approach to the Exchange Rate
(Krugman and Obstfeld 2005/Ch. 13; Menkhoff and Taylor 2007)
 5. **Tue, April 15:** A Monetary Approach to the Exchange Rate
(Krugman and Obstfeld 2005/Ch. 14)
 6. **Thu, April 17:** Monetary Policy and Exchange Rate Determination
(Krugman and Obstfeld 2005/Ch. 14)
 7. **Tue, April 22:** Purchasing Power Parity and the Monetary Approach
(Krugman and Obstfeld 2005/Ch. 15; Rogoff 1996)
 8. **Thu, April 24:** Purchasing Power Parity and the Real Exchange Rate
(Krugman and Obstfeld 2005/Ch. 15; Rogoff 1996)
- Thu, April 24:** REVIEW SESSION FOR PROBLEM SET 1 (Michael Callen)
- Fri, April 25:** PROBLEM SET 1 DUE
- Mon, April 28:** REVIEW SESSION FOR MIDTERM 1
(Michael Callen & Marc Muendler)

Tue, April 29: MIDTERM 1
covering lectures 1 through 8,
Krugman and Obstfeld (2005)/Ch. 12 through 15 (Ch. 18 will only be
on the following exams); and McKinnon (1993) and Menkhoff and Taylor
(2007)

II. Exchange Rate and Current Account Determination

9. Thu, May 1: Flexible Exchange Rates and Output in the Short Term
(Krugman and Obstfeld 2005/Ch. 16)

10. Tue, May 6: Policy under Floating Exchange Rates
(Krugman and Obstfeld 2005/Ch. 16)
PROBLEM SET 2 OUT

11. Thu, May 8: Flexible, Managed and Fixed Exchange Rates
(Krugman and Obstfeld 2005/Ch. 16 and 17)

12. Tue, May 13: Policy under Fixed Exchange Rates
(Krugman and Obstfeld 2005/Ch. 17; Obstfeld and Rogoff 1995)

13. Thu, May 15: International Monetary Policy
(Krugman and Obstfeld 2005/Ch. 18, 19 and 22; McKinnon 1993)

Thu, May 15: REVIEW SESSION FOR PROBLEM SET 2 (Oana Tocoian Hirakawa)

Fri, May 16: PROBLEM SET 2 DUE

14. Tue, May 20: International Capital Market Integration
(Krugman and Obstfeld 2005/Ch. 21)

Tue, May 20: REVIEW SESSION FOR MIDTERM 2
(Oana Tocoian Hirakawa & Marc Muendler)

Thu, May 22: MIDTERM 2
covering lectures 1 through 14,
Krugman and Obstfeld (2005)/Ch. 12 through 19, 21 and 22; Obstfeld
and Rogoff (1995), Rogoff (1996) and McKinnon (1993)

III. Topics in International Macroeconomics

15. Tue, May 27: Current Account Sustainability
(McKinnon 2001)
PROBLEM SET 3 OUT

16. Thu, May 29: Optimum Currency Areas and the Euro
(Krugman and Obstfeld 2005/Ch. 20; Allsopp and Artis 2003)

17. Tue, June 3: International Financial Crises
(Krugman and Obstfeld 2005/Ch. 21 and 22; Stiglitz 2000)

Wed, June 4: REVIEW SESSION FOR PROBLEM SET 3 (Oana Tocoian Hirakawa)

18. Thu, June 5: International Financial Crises
(Krugman and Obstfeld 2005/Ch. 22; Stiglitz 2000)

Fri, June 6: PROBLEM SET 3 DUE
REVIEW SESSION FOR FINAL EXAM
(Oana Tocoian Hirakawa & Marc Muendler)

Thu, June 12 (Finals Week) 8:00a-10:00a: FINAL EXAM (120 minutes)
covering lectures 1 through 18,
Krugman and Obstfeld (2005)/Ch. 12 through 22; and McKinnon (1993),
Menkhoff and Taylor (2007), Rogoff (1996), Obstfeld and Rogoff (1995),
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References

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- KRUGMAN, P. R., AND M. OBSTFELD (2005): *International economics: Theory and policy*. Addison Wesley, Boston, 7th 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.
- MENKHOFF, L., AND M. P. TAYLOR (2007): "The Obstinate Passion of Foreign Exchange Professionals: Technical Analysis," *Journal of Economic Literature*, 45(4), 936–72.
- 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.