

Economics 103 — Summer II 2013
International Monetary Relations

August 6, 2013

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Class Time: MonWed 5:00pm - 7:50pm
Class Web Page: *econ.ucsd.edu/muendler/teach/13x/103*
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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 current policy topics including recent global financial crises, the Great Recession of 2008, and prevailing global imbalances.

2 Prerequisites

Economics 110B or 173A or 175.

3 Readings

Lecture notes become available online at *econ.ucsd.edu/muendler/teach/13x/103* before each class.

Textbooks: Krugman, Obstfeld, and Melitz (2011b)/Ch. 13 through 22; Muendler (2013)/Ch. 1, 14, 15, 20 and 21

Background Readings: McKinnon (1993), Calvo and Reinhart (2002); McKinnon (2001), Eichengreen (2006), Stiglitz (2000), Diamond and Dybvig (1983), Duffie (2010), Greenspan (2010)

The relevant chapters of the first textbook are compiled in a custom reader: Krugman, Obstfeld, and Melitz (2011a), provided for Econ 103 by Pearson Learning Solutions. This special

extract is available for purchase from the bookstore. The complete textbook Krugman, Obstfeld, and Melitz (2011b), which also covers the material of Econ 101 is available for purchase online. Library copies are on reserve.

A draft of the second textbook Muendler (2013), chapters 1, 14, 15, 20 and 21, will become available for download from the class web page (see link above) prior to the respective lectures. The draft chapters are zipped and password protected. The password is given out on the first day in class.

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.

Deborah Watkins will offer three problem set review sections 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 *before* 5:00pm on the due date (7:00pm for the third problem set). You can drop the problem sets off in class, at Deborah Watkins' office (SH 224), or in Professor Marc Muendler's mailbox.

5 Assessment

There will be one midterm exam and a final exam. The midterm exam will take 90 minutes and the final exam will take 120 minutes (no extra time). The final exam is cumulative. The midterm exam contains nine 10-minute questions, the final exam contains twelve 10-minute questions. Problem sets have to be handed in *before* 5:00pm on the due date (7:00pm for the third problem set) to be considered.

Your final raw score will be your total points from the three exams and the three problem sets:

Problem sets:	100 points (40+30+30 points)	8/19, 8/30, 9/6
Midterm (90 minutes):	90 points	8/19
Final (120 minutes):	120 points	9/6
<i>Total:</i>	310 points	

Your final *letter grade* will be inferred from the typical grade distribution (curve) in *economics* classes at UC San Diego since 2000. The distribution is at econ.ucsd.edu/muendler/teach/13x/103. Therefore 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 *D* or *F*, however, will not depend on the curve but on a minimal performance standard.

Deborah Watkins will hold two exam review sections to help you prepare for the exams.

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. In particular, the incidence of other exams on the same day is no

reason for an excuse from the exam. Under its current rules, Student Health Services offers access to medical excuses that document illness only under extreme circumstances (severe, prolonged illness that necessitates dropping a class or obtaining specific accommodations for class/lab participation, test taking or make-up). To be excused from the midterm because of illness, the student must inform the instructor *before* the midterm exam. To be excused from the final exam, however, the illness must be sufficiently severe so that Student Health Services or another health-care provider does document the illness.

During exams, only a pen, a pencil, a ruler and an eraser are permitted for use. No other material is allowed. Principles of academic honesty are strictly applied.

Appeals of scores on exams must be submitted in writing, along with all prior exams and problem sets. Following the appeal, all questions on all exams will be reconsidered.

6 Class Schedule

I. Open-economy Macroeconomics

1. **Mon, August 5:** Introduction to Open-economy Macroeconomics
(Krugman, Obstfeld, and Melitz 2011b/Ch. 13 and 19; Muendler 2013/Ch. 1 and 14)

II. Exchange Rate Determination

2. **Mon, August 5:** International Monetary Systems, Past and Present
(Krugman, Obstfeld, and Melitz 2011b/Ch. 19; McKinnon 1993)
PROBLEM SET 1 OUT
 3. **Wed, August 7:** Exchange Rates and Foreign Exchange Markets
(Krugman, Obstfeld, and Melitz 2011b/Ch. 14)
 4. **Wed, August 7:** An Asset Approach to the Exchange Rate
(Krugman, Obstfeld, and Melitz 2011b/Ch. 14; Menkhoff and Taylor 2007)
 5. **Mon, August 12:** A Monetary Approach to the Exchange Rate
(Krugman, Obstfeld, and Melitz 2011b/Ch. 15)
 6. **Mon, August 12:** Monetary Policy and Exchange Rate Determination
(Krugman, Obstfeld, and Melitz 2011b/Ch. 15)
 7. **Wed, August 14:** Purchasing Power Parity and the Monetary Approach
(Krugman, Obstfeld, and Melitz 2011b/Ch. 16; Muendler 2013/Ch. 15)
 8. **Wed, August 14:** Purchasing Power Parity and the Real Exchange Rate
(Krugman, Obstfeld, and Melitz 2011b/Ch. 16; Muendler 2013/Ch. 15)
- Thu, August 15, 2:00p-3:20p:** REVIEW SECTION FOR PROBLEM SET 1: Deborah Watkins (HSS 1128A)
- Fri, August 16, 2:00p-3:20p:** REVIEW SECTION FOR MIDTERM: Deborah Watkins (HSS 1128A)

Mon, August 19, 5:00p-6:30p: MIDTERM (90 minutes)

covering lectures 1 through 8,

Krugman, Obstfeld, and Melitz (2011b)/Ch. 13 through 16 (Ch. 19 will only be on the final);

Muendler 2013/Ch. 1, 14 and 15; and McKinnon (1993), Menkhoff and Taylor (2007)

PROBLEM SET 1 DUE *before* 5.00pm

III. Exchange Rate and Current Account Determination

9. Wed, August 21: Flexible Exchange Rates and Output in the Short Term

(Krugman, Obstfeld, and Melitz 2011b/Ch. 16; Muendler 2013/Ch. 20)

PROBLEM SET 2 OUT

10. Wed, August 21: Policy under Floating Exchange Rates

(Krugman, Obstfeld, and Melitz 2011b/Ch. 17; Muendler 2013/Ch. 20)

11. Mon, August 26: Flexible, Managed and Fixed Exchange Rates

(Krugman, Obstfeld, and Melitz 2011b/Ch. 17 and 18; Muendler 2013/Ch. 21)

12. Mon, August 26: Policy under Fixed Exchange Rates

(Krugman, Obstfeld, and Melitz 2011b/Ch. 18; Muendler 2013/Ch. 21; Calvo and Reinhart 2002)

13. Wed, August 28: International Monetary Policy

(Krugman, Obstfeld, and Melitz 2011b/Ch. 19 and 22; McKinnon 1993)

14. Wed, August 28: Currency Crises

(Krugman, Obstfeld, and Melitz 2011b/Ch. 21 and 22; Stiglitz 2000)

Thu, August 29, 2:00p-3:20p: REVIEW SECTION FOR PROBLEM SET 2: Deborah Watkins (HSS 1128A)

Fri, August 30: PROBLEM SET 2 DUE *before* 5.00pm

IV. Topics in International Macroeconomics

15. Wed, September 4: Current Account Sustainability

(McKinnon 2001; Eichengreen 2006)

PROBLEM SET 3 OUT

16. Wed, September 4: Banking and Debt Crises

(Diamond and Dybvig 1983; Duffie 2010; Greenspan 2010)

Wed, September 4, 2:00p-3:20p: REVIEW SECTION FOR PROBLEM SET 3: Deborah Watkins (Sequoyah 147)

Thu, September 5, 2:00p-3:20p: REVIEW SECTION FOR FINAL: Deborah Watkins (Center Hall 222)

Fri, September 6, 7:00p - 9:00p: FINAL EXAM (120 minutes)

covering lectures 1 through 18,

Krugman, Obstfeld, and Melitz (2011b)/Ch. 13 through 22, Appendix to Ch. 6, Postscript to Ch. 21; Muendler (2013)/Ch. 1, 14, 15, 20 and 21; and McKinnon (1993), Menkhoff and

Taylor (2007), Calvo and Reinhart (2002), McKinnon (2001), Eichengreen (2006), Allsopp and Artis (2003), Stiglitz (2000), Diamond and Dybvig (1983), Duffie (2010), Greenspan (2010)
PROBLEM SET 3 DUE *before* 5.00pm

References

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- CALVO, G. A., AND C. M. REINHART (2002): "Fear of Floating," *Quarterly Journal of Economics*, 117(2), 379–408.
- DIAMOND, D. W., AND P. H. DYBVIK (1983): "Bank Runs, Deposit Insurance, and Liquidity," *Journal of Political Economy*, 91(3), 401–19.
- DUFFIE, D. (2010): "The Failure Mechanics of Dealer Banks," *Journal of Economic Perspectives*, 24(1), 5172.
- EICHENGREEN, B. (2006): "Global Imbalances: The New Economy, the Dark Matter, the Savvy Investor, and the Standard Analysis," *Journal of Policy Modeling*, 28(6), 645–52.
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- KRUGMAN, P. R., M. OBSTFELD, AND M. J. MELITZ (2011a): *International Economics: Theory & Policy*, Pearson Custom Business Resources. Pearson Learning Solutions, New York, special extract compiled for International Trade Econ 101.
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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.
- MUENDLER, M.-A. (2013): "The Economics of Globalization," University of California, San Diego, unpublished textbook manuscript.
- 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.