

Economics 103 — Spring 2018

International Monetary Relations

April 10, 2018

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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 balances a business cycle perspective on short-term macroeconomic adjustment with a real-side perspective on the long-term evolution of the macroeconomy. The real-side perspective serves as a foundation of the short-term view (lectures 1, 2 and 8) and offers important lessons for macroeconomic management in its own right (lectures 16, 17 and 18). On the short-term monetary side (lectures 3-7 and 9-15), 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. Lectures in the latter third of the course turn to current policy topics including recent global financial crises, the Great Recession of 2008, and prevailing global imbalances.

2 Prerequisites

Econ 102 or Econ 110B or Econ 173A.

3 Readings

Lecture notes are available online at econ.ucsd.edu/muendler/teach/18s/103 before each class.

Textbook (required): Krugman, Obstfeld, and Melitz (2015)

Textbook supplement (required): Muendler (2014)/Ch. 1, 3, 14 and 20

Background Readings (recommended): Caballero, Farhi, and Gourinchas (2008); Calvo and Reinhart (2002); Diamond and Dybvig (1983); Duffie (2010); Greenspan (2010); Spolaore (2013); Stiglitz (2000)

The textbook is available for purchase from the bookstore.

The textbook supplements are select chapters from the textbook draft Muendler (2014, Ch. 1, 3, 14 and 20) and available for download from the course web page (econ.ucsd.edu/muendler/teach/18s/103) and TritonEd. Further textbook supplements may or may not become available throughout the quarter. The supplements 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 course web page and TritonEd. Web links to copyrighted readings only work from on-campus domains.

4 Lecture Materials

Lecture slides are available online at the course web page (econ.ucsd.edu/muendler/teach/18s/103) and TritonEd. Graphs and select text passages are left empty for you to complete in class.

The lectures will also become available, as held, in the form of video podcasts. These videos display the complete graphs. At some point during the quarter, the podcasts will also become available as Panopto videos through TritonEd (with automatic captions and searchable).

An online review video revisits the history of international monetary relations over the past century-and-a-half in the light of the main model. The review video is available from the course web page (econ.ucsd.edu/muendler/teach/18s/103) and TritonEd, and is best viewed on or after May 23.

To help you review material and assess your own understanding, three optional problem sets are available from the course web page. The problem sets are not graded. It is recommended that you work in groups and come to see the instructor or the teaching assistants during office hours to review your answers. Each problem set indicates a suggested start date (April 5, May 8, May 22) and a recommended completion date (April 27, May 18, June 8).

5 Writing Assignments

In the evolving workplace that you will face after graduation, it is becoming ever more important to communicate ideas clearly to team members, suppliers and clients from diverse backgrounds. Under a pilot program at the economics department, there will therefore be three writing assignments.

The writing assignments are meant to help you communicate insights from the course's rigorous economic concepts in an informed way that non-economists can follow. The first writing assignment will cover plagiarism and help you avoid plagiarism on the following two assignments. The second writing assignment will address the valuation and use of crypto-currencies. The third writing assignment is designed as an assessment of policy options for macroeconomic management in an open economy.

You should target your writing in level and style to a freshman student at UC San Diego who has not taken an economics course so far but is eager and fast to learn. Strive for clarity and concision. Your work is meant to be about three paragraphs in length and have between 300 and 500 words. You will submit your written work via the *Turnitin* assignment link on the TritonEd website.

The three writing assignments are due at 5pm on their respective due dates: 4/20, 5/11, and 6/8. Late submissions receive a reduced score.

Your work on the writing assignments must be yours alone; group work is not permitted. The assignments will point you to useful academic publications, from which you can depart. If you refer to those resources, or the textbook, supplemental textbook material, or lecture notes in your written work, make sure your use does not constitute plagiarism.

The teaching assistants and the instructor hold office hours, and you can receive assistance with the assignments during any of the scheduled office hours. For assistance during the writing process, the The Writing Hub at the UC San Diego Teaching+Learning Commons (Geisel Library, lower level west) has arranged for special capacity to assist and advise you. Please make appointments early by visiting the Writing Hub at the UC San Diego Commons or their web page at ucsd.mywconline.com.

6 Assessment

There will be one midterm exam and a final exam. The midterm exam will take 80 minutes and the final exam will take 120 minutes (no extra time). The final exam is cumulative. The midterm exam contains eight 10-minute questions, the final exam contains twelve 10-minute questions.

Your final raw score will be your total points from the two exams and the three writing assignments:

Writing assignments:	120 points (40+40+40 points)	4/20, 5/11, 6/8
Midterm (80 minutes):	80 points	5/3
Final (120 minutes):	120 points	6/12
<i>Total:</i>	320 points	

Your final *letter grade* will be inferred from the typical grade distribution (curve) in *economics* classes at UC San Diego. You can find this grade distribution at econ.ucsd.edu/muendler/teach/18s/103. The difficulty or simplicity of problem sets and exams will therefore not matter, whereas your relative performance in comparison to your classmates will determine your final letter grade. Grades of *D* or *F* will not depend on the curve but on a minimal performance standard.

There are two scheduled review sections, one prior to the midterm exam and one prior to the final exam, 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*. 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 the exams, only a pen, a pencil, a ruler and an eraser are permitted for use. No other material is allowed, and all other objects of yours must be outside your immediate reach at all times during the exam. Principles of academic honesty are applied strictly. The complete UC San Diego Policy on Integrity of Scholarship can be viewed at: senate.ucsd.edu/manual/appendices/appendix2.pdf. On each exam, you are required to sign a personal pledge of academic integrity.

Appeals of scores on exams must be submitted in writing, along with all prior exams and writing assignments. Following the appeal, all questions on all exams will be reconsidered. An appeal may be denied if the exam was written with a pencil.

7 Course Schedule

I. Open-economy Macroeconomics

1. **Tue, April 3:** Introduction to Open-economy Macroeconomics
(Krugman, Obstfeld, and Melitz 2015/Ch. 1 and 2; Muendler 2014/Ch. 1 and 14)
2. **Thu, April 5:** International Capital Market Integration
(Krugman, Obstfeld, and Melitz 2015/Ch. 2; Muendler 2014/Ch. 14)

II. Exchange Rate Determination

3. **Tue, April 10:** International Monetary Systems, Past and Present
(Krugman, Obstfeld, and Melitz 2015/Ch. 8)
 4. **Thu, April 12:** Exchange Rates and Foreign Exchange Markets
(Krugman, Obstfeld, and Melitz 2015/Ch. 3)
 5. **Tue, April 17:** An Asset Approach to the Exchange Rate
(Krugman, Obstfeld, and Melitz 2015/Ch. 3)
 6. **Thu, April 19:** A Monetary Approach to the Exchange Rate
(Krugman, Obstfeld, and Melitz 2015/Ch. 4)
- Fri, April 20, 5pm:** *Writing Assignment 1 DUE* (TritonEd, Turnitin)
7. **Tue, April 24:** Monetary Policy and Exchange Rate Determination
(Krugman, Obstfeld, and Melitz 2015/Ch. 4)
 8. **Thu, April 26:** Purchasing Power Parity and the Monetary Approach
(Krugman, Obstfeld, and Melitz 2015/Ch. 5)
- Mon, April 30, 5pm-7.50pm:** *Midterm review section*, Mandeville B-210

III. Exchange Rate and Current Account Determination

9. **Tue, May 1:** Flexible Exchange Rates and Output in the Short Term
(Krugman, Obstfeld, and Melitz 2015/Ch. 6; Muendler 2014/Ch. 20, sections 1 and 2)
- Thu, May 3:** MIDTERM (80 minutes)
covering lectures 1 through 8,
Krugman, Obstfeld, and Melitz (2015)/Ch. 1 through 5 (ch. 8 will be on the final); Muendler
2014/Ch. 1, 3 and 14 (ch. 20 will be on the final)
10. **Tue, May 8:** Policy under Floating Exchange Rates
(Krugman, Obstfeld, and Melitz 2015/Ch. 6; Muendler 2014/Ch. 20)
 11. **Thu, May 10:** Managed and Fixed Exchange Rates
(Krugman, Obstfeld, and Melitz 2015/Ch. 7)
- Fri, May 11, 5pm:** *Writing Assignment 2 DUE* (TritonEd, Turnitin)
12. **Tue, May 15:** Policy under Managed Exchange Rates
(Krugman, Obstfeld, and Melitz 2015/Ch. 7; Calvo and Reinhart 2002)

13. Thu, May 17: Optimum Currency Areas
(Krugman, Obstfeld, and Melitz 2015/Ch. 10; O'Rourke and Taylor 2013, Spolaore 2013)

IV. Management of International Financial Relations

14. Tue, May 22: Currency Crises
(Krugman, Obstfeld, and Melitz 2015/Ch. 9; Stiglitz 2000)

Wed, May 23: *Online review:* International Monetary Policy (Historic Review with Model and Exercises)
(Krugman, Obstfeld, and Melitz 2015/Ch. 8)

15. Thu, May 24: Banking and Debt Crises
(Diamond and Dybvig 1983; Duffie 2010; Greenspan 2010)

16. Tue, May 29: Purchasing Power Parity and the Real Exchange Rate
(Krugman, Obstfeld, and Melitz 2015/Ch. 5, Muendler 2014/Ch. 3)

17. Thu, May 31: Competitiveness and the Current Account
(Krugman, Obstfeld, and Melitz 2015/Ch. 5, Muendler 2014/Ch. 3)

Tue, June 5: Guest Lecture by alumnus Phil Gibbs

18. Thu, June 7: Current Account Sustainability
(Krugman, Obstfeld, and Melitz 2015/Ch. 11; Muendler 2014/ch. 17 *if ready*; Caballero, Farhi, and Gourinchas 2008)

Thu, June 7, 6pm-7.50pm: *Final review section, Center 119*

Fri, June 8, 5pm: *Writing Assignment 3 DUE (TritonEd, Turnitin)*

Tue, June 12, 8:00a - 10:00a: FINAL EXAM (120 minutes)
covering lectures 1 through 18,
Krugman, Obstfeld, and Melitz (2015); Muendler (2014)/Ch. 1, 3, 14 and 20; and Caballero, Farhi, and Gourinchas (2008), Calvo and Reinhart (2002), Diamond and Dybvig (1983), Duffie (2010), Greenspan (2010), Spolaore (2013), Stiglitz (2000)

References

- CABALLERO, R. J., E. FARHI, AND P.-O. GOURINCHAS (2008): "Financial Crash, Commodity Prices, and Global Imbalances," *Brookings Papers on Economic Activity*, 2008(2), 1–68.
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- DUFFIE, D. (2010): "The Failure Mechanics of Dealer Banks," *Journal of Economic Perspectives*, 24(1), 51–72.
- GREENSPAN, A. (2010): "The Crisis," *Brookings Papers on Economic Activity*, 2010(1), 201–261.
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- MUENDLER, M.-A. (2014): "The Economics of Globalization," University of California, San Diego, unpublished textbook manuscript.
- O'ROURKE, K. H., AND A. M. TAYLOR (2013): "Cross of Euros," *Journal of Economic Perspectives*, 27(3), 167–92.
- SPOLAORE, E. (2013): "What Is European Integration Really About? A Political Guide for Economists," *Journal of Economic Perspectives*, 27(3), 125–44.
- 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.