

# Syllabus for Econ 362 - International Finance

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Office hours: Mondays & Wednesdays from 12.30-2pm.

**Important:** we are officially due to ‘meet’ at the following days and times: Mondays and Wednesdays, 12.30-1.50pm. The general asynchronicity of this class notwithstanding, you **cannot** take it if you have another class that conflicts. This is because (i) the midterms will occur during these times and (ii) my office hours will be during these times. That last point is salient; I think office hours are even more important under the current circumstances than they usually are, and encourage you to attend either mine or those of the TA.

All times indicated for office hours and assignments/exams are CDT, i.e. Evanston time.

## 1 Logistics

The class lectures will be asynchronous. I will pre-record me talking mostly about international finance, and will release a few recordings for each lecture that we would have had if life were normal. I will make clear just which of these lectures correspond to which days, and my advice is to keep up with my suggested Monday/Wednesday viewing schedule. Taken together, a given week’s recordings will amount to less than the 160 minutes of allotted class time.

The lecture videos will be available as mp4 files posted directly on Canvas. I suggest you download the files to a local drive and then watch them. [Canvas somewhat mysteriously treats mp4 files in an inconsistent manner. Some are downloaded when one clicks on the Canvas link, while others open automatically as videos in a new browser tab. In the latter case you can (at least with Chrome) still right-click on the video in the new tab and save it locally.]

### 1.1 evaluation

- Two assignments, due on Wednesday April 21<sup>st</sup> and Friday May 28<sup>th</sup>. (20% each)
- Midterm on Wednesday April 28<sup>th</sup>, 12.30-1.50pm. (30%)
- Final exam on Wednesday June 9<sup>th</sup>, noon-2pm. (30%)

You must be available for the midterm and final, which will be synchronous exams administered remotely (over Zoom/Crowdmark). There will be no alternative days/times offered. While the final will focus on the second half of the course, it may require students to draw on their knowledge of the earlier material.

## 1.2 sections

The plan is as follows.

- For each week I will post ‘supplementary questions’ on Canvas. I will post answers too, but do not look at the answers before you try the questions yourselves. Economics is one of those disciplines where the answers can often seem obvious ex post, once you have them in front of you, but not ex ante.
- The sections will be led by the TA, Felipe Durazzo, over Zoom. They will be at 12.30pm on Fridays. Felipe will go through the supplementary questions and address any issues you have with the class material. He will also hold additional office hours and you can go to those as well.

You may attend my office hours and those of the TA as it suits you. Attendance is not mandatory but is encouraged. Zoom links for office hours will be on the front page on Canvas. I will be using a Zoom waiting room for office hours, which means I will manually admit people as they arrive. If I don’t admit you immediately just be patient, as it only means I haven’t seen yet you because I’m talking to someone already in the meeting. You don’t have to be there at the start of office hours but can turn up any time, just like in the real world.

There are advantages and disadvantages of the asynchronous approach that I’m largely adopting. Advantages include minimisation of technical problems, and greater flexibility for students. The main disadvantage is that students might be less likely to engage with their instructors. Again, I encourage you to attend sections and office hours.

## 1.3 what should you do each week?

On Canvas I will organise things by week using the ‘Modules’ section. For each week there will be a ‘material’ page that has everything you need to read and watch for that week. It will contain the slides that I will use in my pre-recorded lectures, links to the corresponding recordings, occasional written notes, supplementary questions (and answers) and whatever else I want you to absorb that week. Note that there will be no textbook readings on Canvas, as strictly speaking the textbook is optional (see below).

So, each week you should make sure to:

- Read and watch everything on that week’s material page.
- Do the supplementary questions before attending section and perhaps office hours.
- If there’s an assignment due soon, complete the assignment. If there’s an exam on the horizon, prepare for the exam.

## 2 Course overview

This is essentially a course in open-economy macroeconomics, with a good helping of microeconomics thrown in. We will examine the nature and determinants of such things as international capital flows, exchange rates and currency crises. The aim will be to help students think clearly about these issues, using simple and widely applicable models. There will necessarily be a significant theoretical component to the course, but the aim will be to link the theory to real-world events whenever possible.

Prerequisites for the course are 201, 202, 281, 310-1, 311, Math 220, Stat 210. Near the start of the course we will be doing some micro-type exercises that involve maximising utility subject to a budget constraint. This will only require basic differential calculus, but if it sounds terrifying to you then perhaps you should wait before doing the course.

Should you desperately want a textbook, buy ‘*International Economics: Theory and Policy*’ [7th edition] by Krugman and Obstfeld, hereafter **KO** (note that later editions, some with another co-author Marc Melitz, are fine, though the page numbers might differ a bit). Some of the reading may come from other sources such as articles. These, along with the slides from lectures, will be made available on Canvas where possible. The slides will in fact constitute the main resource for students, given that we will on occasion depart from the textbook analysis significantly. It is very possible to do the class without having the textbook. In fact I do not actively recommend that you buy it; the textbook readings are there for you solely as an optional resource. [My sense is that most people don’t buy and don’t regret this decision. I could be wrong.]

The plan is to tackle the following subjects in order. If it looks like we’re falling behind, certain sections will be abbreviated or even eliminated. I will keep students informed of potential adjustments to the syllabus as soon as they look likely. All readings are mandatory save those marked with an asterisk, which are optional (yes, I am aware that this currently describes all but one of the articles listed). Obviously you should only do the textbook readings if you have the textbook; the same material will be available on the class slides. There are 5 topics, and I expect to get through about 2.5 of them before the midterm.

### 2.1 Intertemporal trade and national income accounting

What do simple micro and macro tell us to expect of flows of goods and capital?

- 2-period intertemporal trade
- national income accounting and the balance of payments

*Readings:* **KO** Ch. 7 (pp.155-157 & 170-173) Ch. 12; “U.S. Current Account Deficit: Causes and Consequences”, Roger Ferguson (<http://www.federalreserve.gov/boarddocs/Speeches/2005/20050420/default.htm>).

### 2.2 The foreign exchange and money markets

Interest rates and exchange rates.

- domestic money market equilibrium
- uncovered and covered interest parity

- exchange rate anomalies

*Readings:* **KO** Ch. 13 (inc. appendix), Ch. 14 (up to p.356); \*“Anomalies: Foreign Exchange”, Ken Froot & Richard Thaler, *Journal of Economic Perspectives*, Summer 1990; \*“Perspectives on Exchange Rate Volatility”, Kenneth Rogoff, in *International Capital Flows*, edited by Martin Feldstein (University of Chicago Press and the NBER), 1999, 441-53.

## 2.3 Exchange rate determination

Modelling exchange rates in the long run and the short run.

- purchasing power parity and the long run
- short-run rigidities and overshooting

*Readings:* **KO** Ch 15; \*“The Purchasing Power Parity Puzzle”, Kenneth Rogoff, *Journal of Economic Literature* 34, June 1996, 647-68; \*“Dornbusch’s Overshooting Model after 25 years”, Kenneth Rogoff.

## 2.4 Exchange rate regimes

The fixed, the floating and the dirty.

- foreign exchange interventions
- currency crises

*Readings:* **KO** Ch. 17 (pp.447-454 & 460-463), Ch. 22 (pp. 619-627); \*“The Modern History of Exchange Rate Arrangements”, Kenneth Rogoff & Carmen Reinhart, *Quarterly Journal of Economics*, May 2002; \*“Argentina and the Fund: From Triumph to Tragedy”, Michael Mussa, *Institute for International Economics*, 2002; \*<http://web.mit.edu/krugman/www/crises.html>

## 2.5 Global ‘imbalances’ and capital flows

Is the international capital market working?

- risk sharing and diversification
- why doesn’t capital flow to poor countries?
- US and China again

*Readings:* **KO** Ch. 21 (pp.576-580 & 591-598), Ch.22, Ch. 19 (box on pp.534-536); \*“Global Current Account Imbalances and Exchange Rate Adjustments”, Maurice Obstfeld and Kenneth Rogoff, *Brookings Institution*, 2005; \*“Global Imbalances: A Saving and Investment Perspective”, *IMF World Economic Outlook*, Chapter 2, September 2005; \*“The Global Saving Glut and the U.S. Current Account Deficit”, Ben Bernanke, *Sandridge*

Lecture, Virginia Association of Economics, March 2005. \* “The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?”, Maurice Obstfeld and Kenneth Rogoff, NBER Working Paper #7777, 2000; \* “Why Doesn’t Capital Flow from Rich Countries to Poor Countries?”, Robert Lucas, American Economic Review 80, 1990, pp.92-96; \* “Why Doesn’t Capital Flow from Rich to Poor Countries? An Empirical Investigation”, Laura Alfaro et al., 2003; \* “Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution”, Daron Acemoglu et al., Quarterly Journal of Economics, Nov. 2002, vol 117.

### 3 Comments, policies

Please note the following.

- The midterm and final dates/times are not negotiable.
- Assignments must be handed in on time. Failure to do so, especially (but not only) with no prior warning, will result in points deducted.
- If you miss an exam for any reason then I might allow you to do a makeup exam, your percentage score on which will be capped at the score of the other exam. For example, say you missed the midterm and your score on the final ends up being 80%. If you get 70% on the makeup-midterm then you will receive a score of 70% for that midterm. If you get 90% on the makeup-midterm then you will receive a score of 80% for that midterm.
- Makeup exams might not happen until late in the quarter, or even next quarter.
- There will be no ex post reweighting of the relative contributions of assignments and exams to the final grade.

#### 3.1 various statements

All instructors have been asked to include the following statements on syllabi this quarter.

##### 3.1.1 Academic Integrity Statement

*Students in this course are required to comply with the policies found in the booklet, "Academic Integrity at Northwestern University: A Basic Guide". All papers submitted for credit in this course must be submitted electronically unless otherwise instructed by the professor. Your written work may be tested for plagiarized content. For details regarding academic integrity at Northwestern or to download the guide, visit: <https://www.northwestern.edu/provost/policies/academic-integrity/index.html>*

##### 3.1.2 Accessibility Statement

*Northwestern University is committed to providing the most accessible learning environment as possible for students with disabilities. Should you anticipate or experience disability-related barriers in the academic setting, please contact AccessibleNU to move forward with the university's established accommodation process (e: [accessiblenu@northwestern.edu](mailto:accessiblenu@northwestern.edu); p: 847-467-5530). If you already have established accommodations with AccessibleNU,*

*please let me know as soon as possible, preferably within the first two weeks of the term, so we can work together to implement your disability accommodations. Disability information, including academic accommodations, is confidential under the Family Educational Rights and Privacy Act.*

### **3.1.3 COVID-19 Testing Compliance Statement**

*To ensure the health of our community, Northwestern University currently requires students who come to campus or interact with the campus community in person regularly to be tested for COVID-19 routinely. Students must keep the Community Interaction Survey in CAESAR up-to-date, which is the method by which students communicate such plans to the University. Community Interaction Survey status, enrollment in classes with face to face meetings, and/or living in an on-campus residence dictate the frequency with which students must be tested.*

*Students who fail to comply with COVID-19 testing or misrepresent their status in the Community Interaction Survey may face summary disciplinary action, including being restricted from campus or suspended.*

### **3.1.4 Guidance on Class Recordings**

*This class or portions of this class will be recorded by the instructor for educational purpose and available to the class during the quarter. Your instructor will communicate how you can access the recordings. Portions of the course that contain images, questions or commentary/discussion by students will be edited out of any recordings that are saved beyond the current term.*

[Note from RW: Discussion sections will be recorded and made available for students; these recordings will be deleted at the end of the quarter. The Zoom meetings used to proctor the two exams will be recorded; these recordings will be deleted at the end of the quarter. Office hours will not be recorded. ]

### **3.1.5 Prohibition of Recording of Class Sessions by Students**

*Unauthorized student recording of classroom or other academic activities (including advising sessions or office hours) is prohibited. Unauthorized recording is unethical and may also be a violation of University policy and state law. Students requesting the use of assistive technology as an accommodation should contact AccessibleNU. Unauthorized use of classroom recordings - including distributing or posting them - is also prohibited. Under the University's Copyright Policy, faculty own the copyright to instructional materials - including those resources created specifically for the purposes of instruction, such as syllabi, lectures and lecture notes, and presentations. Students cannot copy, reproduce, display, or distribute these materials. Students who engage in unauthorized recording, unauthorized use of a recording, or unauthorized distribution of instructional materials will be referred to the appropriate University office for follow-up.*

[Note from RW: basically this means you should not attempt to record office hours or the exams.]

### **3.1.6 Support for Wellness and Mental Health**

*Northwestern University is committed to supporting the wellness of our students. Student Affairs has multiple resources to support student wellness and mental health. If you are feeling distressed or overwhelmed, please reach out for help. Students can access confidential resources through the Counseling and Psychological Services*

*(CAPS), Religious and Spiritual Life (RSL) and the Center for Awareness, Response and Education (CARE). Additional information on all of the resources mentioned above can be found here:*

<https://www.northwestern.edu/counseling/>

<https://www.northwestern.edu/religious-life/>

<https://www.northwestern.edu/care/>