

Syllabus for Econ 362 - International Finance

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We will meet twice a week: Mondays and Wednesdays from 2-3.20pm. The room is Harris L07. Sections will be on Fridays at the same time and place.

Office hours: these will be detailed on Canvas. They will probably be a mix of Zoom and in-person. My office is KGH 3493 (i.e. Kellogg Building, 3rd floor).

1 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, speak to me. I'll probably recommend '*International Economics: Theory and Policy*' by Paul Krugman and Maurice Obstfeld, recent editions with another co-author Marc Melitz. However, you do not need a textbook for this class. The slides will in fact constitute the main resource for students, given that we will on occasion depart from the textbook analysis significantly. My sense is that most people don't buy a book and don't regret this decision. I could be wrong.

You are allowed to use a laptop or tablet in class, but to do so you must be sitting in one of the first two rows.

While instructors are permitted to conduct 10% of the class remotely, my current plan is that all classes will be in person. I will not be recording them.¹ Should you miss a class then get notes from someone who did attend, and/or see me or the TA to catch up.

¹I might occasionally post a separate video for you to watch outside of class, depending on how the timetable works out.

2 Evaluation

There will be no assignments, just exams:

- In section on Friday April 14th [30%].
- In section on Friday May 5th [30%].
- In section on Friday May 26th [40%].

I will be explicit about what is required on the exams closer to the times.

3 Lecture topics

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. Any indicated readings are optional unless I say otherwise during the quarter; again, the core material comprises the slides, supplementary questions and whatever I say in class.

3.1 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: <http://www.federalreserve.gov/boarddocs/Speeches/2005/20050420/default.htm>

3.2 The foreign exchange and money markets

Interest rates and exchange rates.

- domestic money market equilibrium
- uncovered and covered interest parity
- exchange rate anomalies

3.3 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

3.4 Exchange rate regimes

The fixed, the floating and the dirty.

- foreign exchange interventions
- currency crises

Readings: <http://web.mit.edu/krugman/www/crises.html>

3.5 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: <https://www.federalreserve.gov/boarddocs/speeches/2005/200503102/>

4 Comments, policies

Please note the following.

- The exam dates/times are not negotiable.
- 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 exams to the final grade.

4.1 various statements

Below are some statements instructors were asked to include on syllabi last quarter, i.e. in Winter 2022. I might edit them should I get more instructions from above.

4.2 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-procedures/academic-integrity/index.html>

4.3 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; 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.

4.4 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/>