

Syllabus for Econ 362 - International Finance

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We will meet twice a week: Mondays and Wednesdays from 12.30-1.50pm. The room is Frances Searle 2370. Sections will be on Fridays at the same time and place.

Office hours: these will be detailed on Canvas. My office is KGH 3493 (i.e. Kellogg Building, 3rd floor).

My plan is for all the classes to be in person, and I do not intend to record any of them.

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.

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.

2 Evaluation

There will be no assignments, just exams:

- In class on Wednesday January 24th [30%].
- In class on Wednesday February 14th [30%].
- On Thursday March 14th [40%] at 3pm.

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

3 Sections

I am often asked if the sections are mandatory. They are not, at least inasmuch as you will not be directly penalised for not attending. However, the sections will be useful. There will be exercises for each section that I **strongly** advise you attempt beforehand. You will get a lot more from the course, and find the midterms and final much easier, if you try the exercises before you see the answers. There should also be time in sections for students to ask questions about the class material.

There is no section in week 1. Sections begin in week 2, i.e. the week starting with Monday January 8th.

4 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.

4.1 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>

4.2 The foreign exchange and money markets

Interest rates and exchange rates.

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

4.3 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

4.4 Exchange rate regimes

The fixed, the floating and the dirty.

- foreign exchange interventions
- currency crises

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

4.5 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/>

5 Various statements

Here are some statements that instructors have been asked to include.

5.1 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>

5.2 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; 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.

5.3 Religious Observance Statement

Northwestern is committed to fostering an academic community respectful and welcoming of persons from all backgrounds. To that end, the policy on academic accommodations for religious holidays stipulates that students will not be penalized for class absences to observe religious holidays. If you will observe a religious holiday during a class meeting, scheduled exam, or assignment deadline, please let me know as soon as possible, preferably within the first two week of class. If exams or assignment deadlines on the syllabus fall on religious holidays you observe, please reach out so that we can discuss that coursework.

5.4 Course details subject to change

Please note that the specifics of this course syllabus are subject to change in the case of unforeseen circumstances. Instructors will notify students of any changes as soon as possible. Students will be responsible for abiding by the changes.

5.5 Exceptions to Class Modality

Class sessions for this course will occur in person. Individual students will not be granted permission to attend remotely except as the result of an Americans with Disabilities Act (ADA) accommodation as determined by AccessibleNU.

5.6 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: I am not currently planning to record anything, but am including the above just in case that changes.]

5.7 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.

5.8 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). All Northwestern students are also eligible to access support at no cost through TimelyCare, a virtual mental health platform that provides counseling, health coaching and 24/7 on-demand services. 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/>

<https://www.northwestern.edu/studentaffairs/timelycare.html>