Exchange Rates and International Macroeconomics

Professor: Rhee, Yeongseop
Class hours: Tuesday 13:00-16:00, GSIS 140-2 Room 202
Office hours: Monday 1:00-2:30 or by appointment
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Course Description:

This course is designed to provide a basic understanding of the linkage between the domestic and foreign economies through capital flows and to explain international macroeconomic policies to handle problems arising from the linkage. Today, all economies are open and greatly influenced by other foreign economies. Thus we have to understand how an economy fits into the world economy.

The domestic economy is linked to foreign economies through international trade and international financial transaction. This course focuses on the second part and is interested in economic phenomena such as capital movements, exchange rates, interest rates, and at their relations with macroeconomic policies.

Course Format:

This course will combine regular lectures with students' presentations (and maybe special lectures). For the first half of each class, a lecture on basic concepts and related issues will be provided, following the class schedule.

- Students are expected to make two presentations: one individual presentation and one group presentation on research topics related with subjects covered in class. Group presentations are debates between two groups. Students are required to submit the PPT files after each presentation.
- Each week students are required to submit two-page weekly report before class, which

includes a brief of and students' own comments on reading materials assigned for the week.

- By the end of the semester, students are also required to submit a term paper on what they choose for individual presentations. The report is expected to address a basic description of the topic, what's new and interesting, and their own suggestion of policy implications.

Textbooks and Course Materials:

The lecture will be based on lecture notes. Although there is no specific textbook for the course, the first book below will be used as a course guideline but others also used when necessary.

- Copeland, Laurence S. (2008), Exchange Rates and International Finance (Pearson Education Limited: Prentice Hall)
- Dornbush, R. (1980), Open Economy Macroeconomics (Cambridge University Press)
- Obstfeld, M. and K. Rogoff (1996), Foundations of International Macroeconomics (MIT Press)
- Appleyard, D.R., A.J. Field Jr., and S.L. Cobb (2007), International Economics 6th ed. (McGraw-Hill/Irwin)
- Krugman, P., M. Obstfeld and M. Melitz (2015), International Economics: Theory and Policy (Pearson)
- Hallwood, P. and R. MacDonald (2007), International Money and Finance (Blackwell)
- Eun, C.S. and Resnick, B.G. (2008), International Financial Management (McGraw-Hill/Irwin Series in Finance, Insurance and Real Estate)
- IMF, Global Financial Stability Report (various issues)
- IMF, Annual Report (various issues)
- BIS, Annual Report (various issues)

Course materials will be posted on the website (eTL) before class begins. Besides the textbooks, students are required to read materials assigned every week and encouraged to read other relevant materials.

Evaluation:

- Presentations and weekly reports: 50%
- Final exam: 50%
- Class attendance and participation: bonus

Course Schedule:

The lecture is broadly divided into five parts. The first part is to understand basics of international transaction including balance of payments, foreign exchange market and parity conditions. The second part introduces one of the most key tools to link domestic and foreign economies, Mundell-Fleming model. The third part covers issues related to exchange rates such as exchange rate determination and forecasting and foreign exchange market intervention. The fourth part explains international monetary cooperation at a global and regional level. The last part deals with other issues related to international money and finance. After completing lectures, the remaining weeks will be spent for students' individual presentations and group discussions.

Week 1: Introduction

- Copeland Ch.1

Week 2: Balance of Payments, Foreign Exchange Markets

- Copeland Ch.1; Krugman et al. Ch.13

Week 3: International Parity Conditions

- Copeland Ch.2 and Ch.3; Eun and Resnick Ch.5

Week 4: Basics of Mundell-Fleming Model

- Appleyard et al. Ch.25 – Ch.27; Krugman et al. Ch.17 – Ch.19

Week 5: Application of Mundell-Fleming Model

- Appleyard et al. Ch.25 – Ch.27; Krugman et al. Ch.17 – Ch.19

Week 6: Exchange Rate Determination and Forecasting

- Copeland Ch.5, Ch.7, Ch.8, Ch.13, and Ch.14:
  Hallwood and MacDonald Ch.12 and Ch.13; Eun and Resnick Ch.6

Week 7: Exchange Rate System and Foreign Exchange Market Intervention

- Krugman et al. Ch.18 – Ch.19; Eun and Resnick Ch.2

Week 8: Regional Monetary and Financial Cooperation

- Krugman et al. Ch.21: Copeland Ch.11

Week 9: International Financial Crises and International Financial Regulation

- Copeland Ch.18; Krugman et al. Ch.20 and Ch.22: Other Reading Materials

Week 10: International Financial Market and Economic Growth

- Krugman et al. Ch.22: Other Reading Materials

Week 11: Exam

Week 12 – Week 13: Individual Presentations

Week 14 – Week 15: Group Discussions