

ECON182: INTERNATIONAL MONETARY ECONOMICS

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OVERVIEW

This course is an introduction to open economy macroeconomics and international finance. The core objective of the course is to develop simple macroeconomic models of open economies that can be usefully applied to international economic phenomena. We will examine the balance of payments, the determination of exchange rates, the effect of fiscal and monetary policies under fixed and floating exchange rate regimes, balance of payment crisis, international macroeconomic dependence, financial globalization and the challenges facing developing economies. Recent issues such as the global impact of the financial crisis, the persistence of US current account deficits, China's exchange rate policy, the role of Sovereign Wealth Funds, or the creation as well as the general performance of the Euro will receive extensive attention.

Course prerequisites are Economics 100A&B, 101A&B or the equivalent. Administrative questions (about enrollment etc...) will be handled by the Economics Department (contact Juan Carlos Suarez Serrato, headgsi@econ.berkeley.edu). The course will use simple algebra and geometric arguments (and some calculus).

COURSE MATERIAL

The required text for the course is **International Economics** by Paul Krugman and Maury Obstfeld, eighth edition (Addison Wesley 2009).

Additional material (including some course notes) will be available through the course web site (accessible via Bspace at <http://bspace.berkeley.edu>, or the Econ department course list at <http://emlab.berkeley.edu/econ/courses>). You should check the web site fairly often for updates and additional material.

You will need Acrobat Reader to view some of the linked articles below. If you do not have Acrobat Reader installed on your computer, follow this link: <http://get.adobe.com/reader/>.

ASSIGNED READINGS FROM THE ECONOMIST

Students are expected to take note of economic events of relevance in the world. Empirical knowledge of key relationships, data, and current policy issues will be necessary for passing the course. To that effect, **every Tuesday** I will assign articles from *The Economist* magazine. The articles are **REQUIRED READING** and will be discussed in section the following week.

Many articles from The Economist are available free of charge on the magazine's web site (<http://www.economist.com/>). In addition, you have two options for online access:

- The [Long Business and Economics Library](#) offers access via [EBSCO](#). THIS OPTION IS FREE!! But you don't get the figures, browsing is a bit tedious and accessing the resource from off-campus requires to use a [proxy server](#).
- You can subscribe for 12 weeks to the print and [online](#) edition of The Economist. The student rate is quite competitive (\$19.95 as of August 08). THE SUBSCRIPTION IS ENTIRELY VOLUNTARY. If you do not want to subscribe, you can access The Economist from the magazine rack in the library or from EBSCO. If interested in a subscription, you should:

1. point your browser to www.economistacademic.com/
2. Enter my Faculty ID number: 1855.

Starting Tuesday 09/01, the course web site will provide links to articles on The Economist's website. I will assume that you have access one way or another and have read the articles before your section.

EVALUATION

Final (35%), **Tuesday December 15, 8-11am**. Group 7.

Midterm (25%), **in class, Thursday October 22**.

Problem sets and participation in Sections (40%).

Problem sets will be available on **Thursday at 5pm**. They will be due the following Thursday at the beginning of class. You can expect about 10-12 problem sets over the semester.

GSIs

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DETAILED SYLLABUS

A star (*) denotes required reading.

The contents of the syllabus are likely to change as we go along. You are urged to check regularly on the course web page (available via Bspace: <http://bspace.berkeley.edu>)

INTRODUCTION AND MOTIVATION (AUGUST 27) -1-

- *Rogoff, Ken, "[Managing the World Economy](#)", The Economist, August 1 2002
- additional material:
 - Bank for International Settlements, Annual Report, [chapter I: Rescue, Recovery, Reform](#), June 2009.
 - IMF, [World Economic Outlook Update](#), July 2009
 - Yellen, Janet, "[A View of the Economic Crisis and the Federal Reserve's Response](#)," San Francisco Federal Reserve Economics Letters, July 2009
 - Stanley Fisher, "[Globalization and Its Challenges](#)", Richard T. Ely Lecture, American Economic Review, May 2003, pp 1-30.

NATIONAL INCOME ACCOUNTS AND BALANCE OF PAYMENTS (SEPTEMBER 01 AND 03) -2,3-

- *chapter 12
- additional material:
 - Deutsche Bank Research, "[Sovereign Wealth Funds – State investments during the crisis](#)", July 2009

GLOBAL IMBALANCES: INVESTMENT, SAVING AND THE METZLER DIAGRAM (SEPTEMBER 08) -4-

- *chapter 16 (pp455-456) and chapter 7 (pp160-162 and 176-179)
- *[Lecture Notes](#)
- additional material:
 - Bernanke, Ben, "[The Global Saving Glut and the U.S. Current Account Deficit](#)", Sandridge Lecture, Virginia Association of Economics, Richmond, Virginia, March 2005
 - Higgins et al, "[Recycling Petrodollars](#)", Current Issues in Economics and Finance, December 2006.

FOREX MARKETS, ARBITRAGE AND PARITY CONDITIONS (SEPTEMBER 10 AND 15) –5,6-

- *chapter 13 and 21 (pp598-602)
- *[Lecture Notes](#)
- additional readings:
 - [Bank for International Settlements](#), Triennial Central Bank Survey, Foreign Exchange and Derivatives Market Activity, December 2007
 - Baba, Packer and Nagano, "[The spillover of money market turbulence to FX swap and cross-currency swap markets](#)", BIS quarterly review, March 2008
 - Cavallo, Michele, "[Interest Rates, Carry Trades, and Exchange Rate Movements](#)", FRSBF Economic Letter, November 2006.

MONEY, INTEREST RATES AND EXCHANGE RATES (SEPTEMBER 17 AND 22) -7,8-

- *chapter 14
- additional material:
 - Rogoff, Ken, "[Dornbusch's Overshooting Model After Twenty-Five Years](#)", IMF working paper, February 2002.

- Clarida, R. and D. Waldman, "[Is Bad News about Inflation Good News for the Exchange Rate?](#)", NBER Working paper 13010, April 2007.
- Velde, F., "[Chronicles of a Deflation Unforetold](#)", mimeo, Federal Reserve Bank of Chicago, November 2006.

SEPTEMBER 24: TBA

EXCHANGE RATES AND PRICES IN THE LONG RUN (SEPTEMBER 29) -10-

- *chapter 15
- additional material:
 - Rogoff, Ken, "[The Purchasing Power Parity Puzzle](#)", Journal of Economic Literature, June 1996.
 - "[The Big Mac Index](#)", The Economist, July 16, 2009.
 - World Development Indicators, [size of the Economy](#), World Bank, International Comparison program, 2008.
 - "[A Less Fiery Dragon?](#)", Economics Focus, The Economist, Nov. 29 2007.

FLEXIBLE EXCHANGE RATES AND OUTPUT IN THE SHORT RUN (OCTOBER 01, 06 AND 08) -11, 12, 13-

- *chapter 16
- additional material:
 - IMF, World Economic Outlook, chapter 3, "[From Recession to Recovery. How soon and how strong?](#)", April 2009
 - IMF, World Economic Outlook, chapter 4, "[How Linkages Fuel the Fire: the transmission of financial stress from advanced to emerging economies](#)", April 2009.

DEBT SUSTAINABILITY, GLOBAL IMBALANCES (OCTOBER 13) -14-

- * Martin Feldstein, "[Resolving the Global Imbalance: The Dollar and The U.S. Saving Rate](#)", Journal of Economic Perspectives, Summer 2008.
- additional material
 - Obstfeld, Maury and Ken Rogoff, "[Perspectives on OECD Economic Integration: Implications for US Current Account Adjustment](#)", Federal Reserve Bank of Kansas City, Symposium, 2000, and also "[The Unsustainable US Current Account Position Revisited](#)", October 2004.
 - Michele Cavallo, "[International Financial Integration and the Current Account Balance](#)", FRBSF Economic Letter, June 2006.
 - Gourinchas and Rey, "[From World Banker to World Venture Capitalist: US External Adjustment and The Exorbitant Privilege](#)", in R. Clarida ed., [G7 Current Account Imbalances: Sustainability and Adjustment](#)

FIXED EXCHANGE RATES (OCTOBER 15 AND 20) -15,16-

- *chapter 17
- additional material
 - IMF's [Classification of Exchange Rate Arrangements](#), April 2008.
 - Calvo, Guillermo and Carmen Reinhart, "Fear of Floating", Quarterly Journal of Economics May 2002, available as [NBER WP 7993](#).

- Reinhart, Carmen and Ken Rogoff, "[The Modern History of Exchange Rate Arrangements: A Reinterpretation](#)", Quarterly Journal of Economics, February 2004.
- Higgins, Matthew and Thomas Kliitgard, "[Reserve Accumulation: Implications for Global Capital Flows and Financial Markets](#)", Current Issues in Economic and Finance, Federal Reserve Bank of New York, October 2004.

MIDTERM: TUESDAY OCTOBER 22, IN CLASS.

BALANCE OF PAYMENT CRISIS (OCTOBER 27 AND 29) -17,18-

- *chapter 17
- *[Lecture Notes](#)
- additional material:
 - Obstfeld, Maury "[Models of Currency Crisis with Self-Fulfilling Features](#)", European Economic Review, 40(3-5), April 1996, pages 1037-47
 - Jeanne, Olivier, "[Currency Crisis, A Perspective on Recent Theoretical Developments](#)", Special Papers in International Economics, Princeton University, March 2000
 - Rose, Andrew and Mark Spiegel, "[Could an early warning system have predicted the crisis?](#)", vox-eu, August 2009

THE INTERNATIONAL MONETARY SYSTEM (NOVEMBER 03) -20-

- *chapter 18
- additional material:
 - Eichengreen Barry and Nathan Sussman: "[the International Monetary System in the \(very\) Long Run](#)", IMF working paper, March 2000. Summary version also available in the World Economic Outlook, May 2000, [Chapter 5](#)
 - Krugman, Paul, "[What Do We Need to Know about the International Monetary System?](#)" Princeton Essays in International Finance, 190, 1993.

NOVEMBER 05: TBA

EXCHANGE RATE REGIMES AND POLICY COORDINATION (NOVEMBER 10 AND 12) -21,22-

- *chapter 19
- additional material:
 - Barry Eichengreen, "[Back to the Thirties with a Twist](#)", Financial Times, June 30, 2008
 - Rose, Andrew, "[A Stable International Monetary System Emerges: Bretton Woods, Reversed](#)", Keynote address at the SCCIE JIMF Conference, 2006.
 - Yellen, Janet, "[Monetary Policy in a Global Environment](#)", FRSBF Economic Letter, June 2006

OPTIMUM CURRENCY AREAS AND EUROPEAN MONETARY UNION (NOVEMBER 17 AND 19) -23,24-

- *chapter 20
- additional material:
 - Lane, Philip, "[The Real Effects of European Monetary Union](#)", Journal of Economic Perspectives, Fall 2006.
 - Blanchard, Olivier, "[Adjustment with the Euro: The Difficult Case of Portugal](#)", mimeo, MIT, February 2006.

THE GLOBAL CAPITAL MARKET (NOVEMBER 24) -25-

- *chapter 21
- additional material:
 - Obstfeld M. and A. Taylor, "[Globalization and Capital Markets](#)", NBER Working Paper 8846, March 2002.
 - Feldstein M. and C. Horioka, "[Domestic Savings and International Capital Flows](#)", Economic Journal, June 1980.
 - Maury Obstfeld, "[Lenders of Last Resort in a Globalized World](#)", mimeo, UC Berkeley, June 2009

DEVELOPING COUNTRIES (DECEMBER 01 AND 03) -26, 27-

- *chapter 22
- *Maury Obstfeld, "[International Finance and Growth in Developing Countries: What Have We Learned?](#)", mimeo, UC Berkeley, August 2008
- additional material:
 - Gourinchas Pierre-Olivier and Olivier Jeanne, "[The Elusive Gains from International Financial Integration](#)", Review of Economic Studies, 2006
 - Acemoglu D. et al, "[The Colonial Origins of Comparative Development: an Empirical Investigation](#)", American Economic Review, December 2001
 - BIS Annual Report, [Chapter V](#), June 2009

CURRENT ISSUES AND REVIEW (DECEMBER 08) -28-