ECON182: INTERNATIONAL MONETARY ECONOMICS

Pierre-Olivier Gourinchas Phone: 510 643 3783
691A Evans Email: pog@berkeley.edu

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 website (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 website 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**

Gewei Wang  
(gewei@berkeley.edu)

Haonan Qu  
(hqu@berkeley.edu)

Liang Bai  
(liang.bai.83@gmail.com)

**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:
  - IMF, World Economic Outlook Update, July 2009

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

- *chapter 12
- additional material:

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:

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

- *chapter 13 and 21 (pp598-602)
- *Lecture Notes
- additional readings:
  - Baba, Packer and Nagano, “The spillover of money market turbulence to FX swap and cross-currency swap markets”, BIS quarterly review, March 2008

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

- *chapter 14
- additional material:


SEPTEMBER 24: TBA

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

- *chapter 15
- additional material:

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

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

- additional material
  - 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.

**MIDTERM: TUESDAY OCTOBER 22, IN CLASS.**

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

- *chapter 17
- *Lecture Notes
- additional material:
  - 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:

**OPTIMUM CURRENCY AREAS AND EUROPEAN MONETARY UNION (NOVEMBER 17 AND 19) -23,24-**
• *chapter 20
  • additional material:
    o Lane, Philip, “The Real Effects of European Monetary Union”, Journal of Economic Perspectives, Fall 2006.

THE GLOBAL CAPITAL MARKET (NOVEMBER 24) -25-

• *chapter 21
  • additional material:

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:
  o BIS Annual Report, Chapter V, June 2009

CURRENT ISSUES AND REVIEW (DECEMBER 08) -28-