

School of Economics and Finance

ECON 413 INTERNATIONAL ECONOMICS B

Second Trimester 2005

COURSE OUTLINE

Contact Details

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Class Times and Room Numbers

Friday 9:30 – 11:20 am

RH G01

The final examination will be held at the place and the time, in the period of 10 October – 6 November, to be announced later by the university authority.

Course Objectives

The objective of this course is to provide an introduction to modern developments in international macroeconomics. The main characteristic of the analysis is the detailed attention given to **dynamic** and **intertemporal** considerations. In contrast with the more traditional analyses, the modern approach is based on **solid microeconomic foundations**. By being grounded on solid microeconomic foundations, this approach to international macroeconomics narrows the gap between the modes of analysis typical to the branch of international economics dealing with the pure theory of international trade and the branch dealing with international macroeconomics.

Course Content and Readings

Textbook for the course is:

Obstfeld, Maurice and Kenneth Rogoff, *Foundations of International Macroeconomics*, Cambridge, MIT Press, 1996, Pp 804 + xxiii.

In addition to the textbook, following books are reserved in the library for your reference.

Frenkel, Jacob A. and Assaf Razin, *Fiscal Policies and Growth in the World Economy*, 3rd edition, Cambridge, MA: MIT Press, 1996.

Grossman, Gene M. and Kenneth Rogoff, eds., *Handbook of International Economics*, volume 3, Amsterdam: North-Holland, 1995.

1. Introduction

Main policy issues. Summary of recent developments in international macroeconomics.

Obstfeld, Maurice and Kenneth Rogoff, *Foundations of International Macroeconomics*, Preface & Introduction.

Grossman, Gene M. and Kenneth Rogoff, eds., *Handbook of International Economics*, volume 3, Preface to the Handbook.

Stockman, Alan C., “On the Roles of International Financial Markets and Their Relevance for Economic Policy”, *Journal of Money, Credit, and Banking*, August 1988 (Part 2), pp. 531-549.

<http://www.jstor.org/>

2. Intertemporal Trade and the Current Account Balance

Trade across time. Basic economic principles that govern intertemporal trade. Two-period model of small open economy and the current account balance. Two-region world economy model and the determination of world interest rates.

Obstfeld, Maurice and Kenneth Rogoff, *Foundations of International Macroeconomics*, ch. 1.

Obstfeld, Maurice and Kenneth Rogoff, “The Intertemporal Approach to the Current Account”, in G. Grossman and K. Rogoff (ed.), *Handbook of International Economics*, volume 3, ch. 34.

Sachs, Jeffrey D., “The Current Account and Macroeconomic Adjustment in the 1970s”, in W. Brainard and G. Perry (ed.), *Brookings Papers on Economic Activity* 1, 1981, pp. 201-268.

<http://www.jstor.org/>

3. Dynamics of Small Open Economies

Consumption smoothing approach to the current account. Current account dynamics for a small open economy. Current account sustainability.

Obstfeld, Maurice and Kenneth Rogoff, *Foundations of International Macroeconomics*, ch. 2.

Obstfeld, Maurice and Kenneth Rogoff, “The Intertemporal Approach to the Current Account”, in G. Grossman and K. Rogoff (ed.), *Handbook of International Economics*, volume 3, 1995, ch. 34.

Ghosh, Artish R. and Jonathan D. Ostry, "The Current Account in Developing Countries: A Perspective from the Consumption-Smoothing Approach", *The World Bank Economic Review*, Vol. 9, 1995, pp. 305-333 (xerox copy to be distributed).

Milesi-Ferretti, G. and A. Razin, "Persistent Current Account Deficits: a Warning Signal?", *International Journal of Finance and Economics*, Vol. 1, No. 3, 1996, pp. 161-181 (xerox copy to be distributed).

Milesi-Ferretti, G. and A. Razin, "Current Account Sustainability: Selected East Asian and Latin American Experiences", *NBER Working Paper Series*, No. 5791, October 1996.
<http://papers.nber.org/papers/W5791>

Frenkel, Jacob A. and Assaf Razin, *Fiscal Policies and Growth in the World Economy*, ch. 17.

Collins, S., F.N. De Simone, and D. Hargreaves, "The Current Account Balance: An Analysis of the Issues", *Reserve Bank of New Zealand Bulletin*, Vol. 61, No. 1, March 1998, pp. 15-34.
http://www.rbnz.govt.nz/research/bulletin/1997_2001/1998Mar61_1CollinsNadaldesimoneHargreaves.pdf

Kim, Kunhong, Viv B Hall, and Robert A Buckle, "Consumption-smoothing in a Small, Cyclically Volatile Open Economy: Evidence from New Zealand", September 2004, accepted for publication in *Journal of International Money and Finance*, previous version published as "New Zealand's Current Account Deficit: Analysis Based on the Intertemporal Optimisation Approach", *Treasury Working Paper*, 01/02, 2001, Pp 26.
<http://www.treasury.govt.nz/workingpapers/2001/01-2.asp>

4. Demographic Structure, Fiscal Policy, and the Current Account

Overlapping generations framework. Effect of demographic factors and fiscal policy on the current account balance. Integration of the overlapping generations and representative-consumer models.

Obstfeld, Maurice and Kenneth Rogoff, *Foundations of International Macroeconomics*, ch. 3.

Obstfeld, Maurice and Kenneth Rogoff, "The Intertemporal Approach to the Current Account", in G. Grossman and K. Rogoff (ed.), *Handbook of International Economics*, volume 3, 1995, ch. 34.
<http://papers.nber.org/papers/W4893>

Frenkel, Jacob A. and Assaf Razin, *Fiscal Policies and Growth in the World Economy*, ch. 9.

Black, Richard, Vincenzo Cassino, Aaron Drew, Eric Hansen, Benjamin Hunt, David Rose, and Alasdair Scott, *The Forecasting and Policy System: the core model*, Research paper No. 43, RBNZ Wellington, August 1997.
<http://www.rbnz.govt.nz/research/econresearch/rp43.pdf>

5. Uncertainty and International Financial Markets

Trade across states of nature. International portfolio diversification. Home bias puzzle. Equity premium puzzle.

Obstfeld, Maurice and Kenneth Rogoff, *Foundations of International Macroeconomics*, ch. 5.

Cole, Harold L., “The Macroeconomic Effects of World Trade in Financial Assets”, *Federal Reserve Bank of Minneapolis Quarterly Review*, Summer 1993, pp. 12-21.

<http://minneapolisfed.org/research/qr/qr1732.pdf>

Obstfeld, Maurice, “International Capital Mobility in the 1990s”, in P. B. Kenen (ed.), *Understanding Interdependence*, Princeton: Princeton University Press, 1995, pp. 201-261.

<http://papers.nber.org/papers/W4534>

6. Money and Exchange Rates under Flexible Prices

Flexible-price models of exchange rate determination. Empirical evidence on exchange rate models. Speculative attacks on fixed-exchange-rate regimes. Target zones.

Obstfeld, Maurice and Kenneth Rogoff, *Foundations of International Macroeconomics*, ch. 8.

Taylor, Mark, “The Economics of Exchange Rates”, *Journal of Economic Literature*, 33(1), March 1995, pp. 13-47.

<http://www.jstor.org/>

Stockman, Alan C., “The Equilibrium Approach to Exchange Rates”, *Economic Review*, Federal Reserve Bank of Richmond, March-April 1987, pp. 12-30.

<http://www.rich.frb.org/pubs/ereview/pdfs/ER730202.pdf>

Obstfeld, Maurice and Kenneth Rogoff, “The Mirage of Fixed Exchange Rates”, *Journal of Economic Perspectives*, Autumn 1995, pp. 73-96.

<http://www.jstor.org/>

Svensson, Lars E. O., “An Interpretation of Recent Research on Exchange Rate Target Zones”, *Journal of Economic Perspectives*, Autumn 1992, pp. 119-144.

<http://www.jstor.org/>

Krugman, Paul, “Currency Crises”, mimeo, October 1997.

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

Krugman, Paul, “What happened to Asia?”, mimeo, January 1998.

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

7. Nominal Price Rigidities: Empirical Facts and Sticky-Price Open-Economy Models

Mundell-Fleming-Dornbusch model. Empirical evidence on sticky-price exchange-rate models. Optimum currency area.

Obstfeld, Maurice and Kenneth Rogoff, *Foundations of International Macroeconomics*, ch. 9.

Taylor, Mark, "The Economics of Exchange Rates", *Journal of Economic Literature*, 33(1), March 1995, pp. 13-47.
<http://www.jstor.org/>

Hargreaves, David and John McDermott, "Issues Relating to Optimal Currency Areas: Theory and Implications for New Zealand", *Reserve Bank of New Zealand Bulletin*, Vol. 62, No. 3, September 1999, pp. 16-29.
http://www.rbnz.govt.nz/research/bulletin/1997_2001/1999sep62_3HargreavesMcDermott.pdf

Assessment Requirements

The success of the course (both from the lecturer's point of view and yours) depends very much on the course participants reading the relevant literature before each of the meetings and playing an active part in the discussion.

During the course students are required to complete assignments. Unlike the situation that exists in undergraduate papers, your final grade will be determined on the basis of your overall performance in the Honours programme. However, as a guide to the allocation of your efforts, the assessment in ECON 413 will be based on assignments 30%, and the final two-hour examination 70%.

Series of assignments are designed to have students learn some tools for solving international macroeconomic problems analytically.

In the final examination, students will be asked to answer a series of questions by writing short essays. It is designed to assess whether a student has good understanding on the modern developments in international macroeconomics literature and to assess her/his ability to think critically.

Communication of Additional Information

Additional information or information on changes will be conveyed to students through e-mails and Blackboard.

Faculty of Commerce and Administration Offices

Railway West Wing (RWW) - FCA Student Administration Office

The Student Administration Office is located on the ground and first floors of the Railway West Wing. The ground floor counter is the first point of contact for general enquiries and FCA forms. Student Administration Advisers are available to discuss course status and give further advice about FCA qualifications.

Easterfield (EA) - FCA/Law Kelburn Office

The Kelburn Campus Office for the Faculties of Commerce & Administration and Law is situated in the Easterfield Building - it includes the ground floor reception desk (EA005) and offices 125a to 131 (Level 1). The office, will be open from 9:00 am to 5:00 pm during Trimester 2, offers the following:

- Duty tutors for student contact and advice.
- Information concerning administrative and academic matters.
- FCA Student Administration forms (e.g. application for academic transcripts, requests for degree audit, COP requests).
- Examinations-related information during the examination period.

Please note:

There will be a Student Administration Adviser, from the RWW office, based in EA005 from Monday 27 June to Friday 1 July (9:00 am to 5:00 pm) and from Monday 4 July to Friday 22 July (11:00 am to 1:00 pm).

General University Policies and Statutes

Students should familiarise themselves with the University's policies and statutes, particularly those regarding assessment and course of study requirements, and formal academic grievance procedures.

Student Conduct and Staff Conduct

The Statute on Student Conduct together with the Policy on Staff Conduct ensure that members of the University community are able to work, learn, study and participate in the academic and social aspects of the University's life in an atmosphere of safety and respect. The Statute on Student Conduct contains information on what conduct is prohibited and what steps can be taken if there is a complaint. For queries about complaint procedures under the Statute on Student Conduct, contact the Facilitator and Disputes Advisor. This Statute is available in the Faculty Student Administration Office or on the website at: www.vuw.ac.nz/policy/StudentConduct.

The policy on Staff Conduct can be found on the VUW website at: www.vuw.ac.nz/policy/StaffConduct.

Academic Grievances

If you have any academic problems with your course you should talk to the tutor or lecturer concerned or, if you are not satisfied with the result of that meeting, see the Head of School or the Associate Dean (Students) of your Faculty. Class representatives are available to assist you with this process. If, after trying the above channels, you are still unsatisfied, formal grievance procedures can be invoked. These are set out in the Academic Grievances Policy which is published on the VUW website:

www.vuw.ac.nz/policy/AcademicGrievances.

Academic Integrity and Plagiarism

Academic integrity is about honesty – put simply it means **no cheating**. All members of the University community are responsible for upholding academic integrity, which means staff and students are expected to behave honestly, fairly and with respect for others at all times.

Plagiarism is a form of cheating which undermines academic integrity. Plagiarism is **prohibited** at Victoria.

The University defines plagiarism as follows:

Plagiarism is presenting someone else's work as if it were your own, whether you mean to or not.

'Someone else's work' means anything that is not your own idea, even if it is presented in your own style. It includes material from books, journals or any other printed source, the work of other students or staff, information from the Internet, software programmes and other electronic material, designs and ideas. It also includes the organization or structuring of any such material.

Plagiarism is not worth the risk.

Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct (www.vuw.ac.nz/policy/studentconduct) and may be penalized severely. Consequences of being found guilty of plagiarism can include:

- an oral or written warning
- suspension from class or university
- cancellation of your mark for an assessment or a fail grade for the course.

Find out more about plagiarism and how to avoid it, on the University's website at: www.vuw.ac.nz/home/studying/plagiarism.html.

Students with Disabilities

The University has a policy of reasonable accommodation of the needs of students with disabilities. The policy aims to give students with disabilities an equal opportunity with all other students to demonstrate their abilities. If you have a disability, impairment or chronic medical condition (temporary, permanent or recurring) that may impact on your ability to participate, learn and/or achieve in lectures and tutorials or in meeting the course requirements, then please contact the Course Coordinator as early in the course as possible. Alternatively you may wish to approach a Student Adviser from Disability Support Services to confidentially discuss your individual needs and the options and support that are available. Disability Support Services are located on Level 1, Robert Stout Building, or phoning 463-6070, email: disability@vuw.ac.nz. The name of your School's Disability Liaison Person can be obtained from the Administrative Assistant or the School Prospectus.

Student Support

Staff at Victoria want students' learning experiences at the University to be positive. If your academic progress is causing you concern, please contact the relevant Course Co-ordinator, or Associate Dean who will either help you directly or put you in contact with someone who can.

The Student Services Group is also available to provide a variety of support and services. Find out more at www.vuw.ac.nz/st_services/ or email student-services@vuw.ac.nz.

VUWSA employs two Education Coordinators who deal with academic problems and provide support, advice and advocacy services, as well as organising class representatives and faculty delegates. The Education Office is located on the ground floor, Student Union Building, phone 463 6983 or 463 6984, email education@vuwsa.org.nz.

Maori and Pacific Mentoring programme (Manaaki Pihipihinga)

This is a free programme of mentoring for Maori and Pacific students doing first year courses within the Faculty of Commerce and Administration. Weekly one hour mentoring sessions: drafting and editing assignments/discussing any questions that you might have from tutorials or lectures and going over every aspect of essay writing, either in small group sessions or on a one-to-one basis.

This includes:

- A computer suite hooked up to cyber commons for students to use to produce their assignments.
- Regular skill-based workshops with a learning adviser from Student Learning Support Services.
- Networking with other Maori and Pacific support groups throughout the university.

For more information please contact:

Melissa Dunlop, Programme Coordinator

Ph: 463 6015 or Email: Maori-Pacific-Mentoring@vuw.ac.nz