

School of Economics and Finance

## **ECON 413 INTERNATIONAL ECONOMICS B**

Second Trimester 2006

### **COURSE OUTLINE**

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#### **Contact Details**

##### **Course Coordinator & Lecturer**

Dr Kunhong Kim

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#### **Class Times and Room Numbers**

Tuesday 15:40 – 17:30 am

RWW 222

The final examination will be held at the place and the time, in the period of 19 October – 11 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](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](http://www.rbnz.govt.nz/research/bulletin/1997_2001/1999sep62_3HargreavesMcDermott.pdf)

### **Expected Workload**

Total workload = 150 hours.

Hours expected per week = 12 (over 13 weeks), or 13 (over 12 weeks).

### **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 and Academic Services Office

The Faculty's Student and Academic Services 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. To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

### Easterfield (EA) - FCA/Education/Law Kelburn Office

The Kelburn Campus Office for the Faculties of Commerce and Administration, Education 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 is available for the following:

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

To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

## **General University Policies and Statutes**

Students should familiarise themselves with the University's policies and statutes, particularly the Assessment Statute, the Personal Courses of Study Statute, the Statute on Student Conduct and any statutes relating to the particular qualifications being studied; see the Victoria University Calendar available in hard copy or under 'About Victoria' on the VUW home page at [www.vuw.ac.nz](http://www.vuw.ac.nz).

## **Student 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 are to be taken if there is a complaint. For information about complaint procedures under the Statute on Student Conduct, contact the Facilitator and Disputes Advisor or refer to the statute on the VUW policy website at [www.vuw.ac.nz/policy/studentconduct](http://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](http://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; class representatives may be able to help you in this. If you are not satisfied with the result of that meeting, see the Head of School or the relevant Associate Dean; VUWSA Education Coordinators are available to assist in 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 at [www.vuw.ac.nz/policy/academicgrievances](http://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. The University defines plagiarism as follows:

*The presentation of the work of another person or other persons as if it were one's own, whether intended or not. This includes published or unpublished work, material on the Internet and the work of other student or staff.*

It is still plagiarism even if you re-structure the material or present it in your own style or words.

*Note: It is however, perfectly acceptable to include the work of others as long as that is acknowledged by appropriate referencing.*

Plagiarism is prohibited at Victoria and is not worth the risk. Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct and may be penalised severely. Consequences of being found guilty of plagiarism can include:

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

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

### **Students with Impairments**

The University has a policy of reasonable accommodation of the needs of students with disabilities. The policy aims to give students with disabilities the same opportunity as 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, 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 (DSS) to discuss your individual needs and the available options and support on a confidential basis. DSS are located on Level 1, Robert Stout Building, telephone (04) 463 6070, email [disability@vuw.ac.nz](mailto:disability@vuw.ac.nz). The name of your School's Disability Liaison Person is in the relevant prospectus or can be obtained from the School Office or DSS.

### **Student Support**

Staff at Victoria want students to have positive learning experiences at the University. Each Faculty has a designated staff member who can either help you directly if your academic progress is causing you concern, or quickly put you in contact with someone who can. Assistance for specific groups is also available from the Kaiwawao Māori, Manaaki Pihipihinga or Victoria International.

In addition, the Student Services Group (email [student-services@vuw.ac.nz](mailto:student-services@vuw.ac.nz)) is available to provide a variety of support and services. Find out more at [www.vuw.ac.nz/st\\_services/](http://www.vuw.ac.nz/st_services/).

VUWSA employs 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 (tel. (04) 463 6983 or (04) 463 6984, email [education@vuwsa.org.nz](mailto:education@vuwsa.org.nz)) is located on the ground floor, Student Union Building.

**Manaaki Pihipihinga - Māori and Pacific Mentoring Programme (Faculty of Commerce and Administration)**

This is a mentoring service for Māori and Pacific students studying at all levels. Weekly one hour sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade, and Room 210 and 211, Level 2, Railway West Wing. Sessions cover drafting and discussing assignments, essay writing, and any questions that may arise from tutorials and/or lectures. A computer suite networked to Cyber Commons is available for student use.

To register with Manaaki Pihipihinga, please contact one of the following:

Puawai Wereta  
Room 210, Level 2  
Railway West Wing  
Tel. (04) 463 8997  
Email: [Puawai.Wereta@vuw.ac.nz](mailto:Puawai.Wereta@vuw.ac.nz)

Fa'afai Seiuli  
Room 109 B  
14 Kelburn Parade  
Tel. (04) 463 5842  
Email: [Faafoi.Seiuli@vuw.ac.nz](mailto:Faafoi.Seiuli@vuw.ac.nz)