

School of Economics and Finance

ECON 413 INTERNATIONAL ECONOMICS B

Trimester Two 2007

COURSE OUTLINE

Contact Details

Dr Kunhong Kim (course coordinator and lecturer)

RH 425, Tel. 463 5786

E-mail: kunhong.kim@vuw.ac.nz

Office Hour: 3 – 5pm, Wednesday

Class Times and Room Numbers

Monday 9:30 – 12:20 pm RWW 220

The final examination will be held at the place and the time, in the period of 19 October – 10 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.

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.

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.

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.

Milesi-Ferretti, G. and A. Razin, "Current Account Sustainability: Selected East Asian and Latin American Experiences", *NBER Working Paper Series*, No. 5791, October 1996.

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.

Kim, Kunhong, Viv B Hall, and Robert A Buckle, "Consumption-Smoothing in a Small, Cyclically Volatile Open Economy: Evidence from New Zealand", *Journal of International Money and Finance*, 25, December 2006, pp. 1277-1295.

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.

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.

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.

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

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.

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

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

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

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.

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.

Expected Workload

ECON 413 is a 15-point course, and on the basis of VUW having designated one point = 10 hours work, expected work load would total 150 hours. If that workload were spread over 12 weeks, hours expected would average around 12.5 hours per week. This would involve attending classes, plus reading, studying and completing assignments. The 12.5 hours would of course vary for individual students, depending on the student's previous knowledge and understanding, and the final grade at Honours level to which the student aspires.

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 or go to www.vuw.ac.nz/policy.

For information on the following topics, go to the Faculty's website www.vuw.ac.nz/fca under Important Information for Students:

- Academic Grievances
- Academic Integrity and Plagiarism
- Student and Staff Conduct
- Meeting the Needs of Students with Impairments
- Student Support

Manaaki Pihipihinga Programme

Manaaki Pihipihinga is an academic mentoring programme for undergraduate Māori and Pacific students in the Faculties of Commerce and Administration, and Humanities and Social Sciences. Sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade (back courtyard), Room 109D, and Room 210, Level 2, Railway West Wing. There is also a Pacific Support Coordinator who assists Pacific students by linking them to the services and support they need while studying at Victoria. Another feature of the programme is a support network for Postgraduate students with links to Postgraduate workshops and activities around Campus.

For further information, or to register with the programme, email manaaki-pihipihinga-programme@vuw.ac.nz or phone (04) 463 5233 ext. 8977. To contact the Pacific Support Coordinator, email pacific-support-coord@vuw.ac.nz or phone (04) 463 5842.