

School of Economics and Finance

ECON 413 INTERNATIONAL ECONOMICS B

Trimester Two 2008

COURSE OUTLINE

Names and Contact Details

Dr Kunhong Kim

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Office Hour: 3 – 5pm, Thursday

Dr Andrew Coleman

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Office Hour: to be arranged.

Trimester Dates

The start and end dates for the second trimester in 2008, including the examination period, are Monday 7 July to Saturday 8 November 2008.

Class Times and Room Numbers

Thursday 11:30 – 13:20 pm RWW 126

Course Objectives and Content

The objective of this course is to provide an introduction to modern developments in international macroeconomics. The course is composed of two parts. In the first half of the course, various issues on the current account balance is investigated. The main characteristic of the approach taken 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.

In the second half of the course, we examine price determination in international markets. In the first topic, we look at the relationship between goods prices in different countries and exchange rates. In the second topic, we look at commodity prices, with a focus on intertemporal price relationships. The oil market will be examined. In the third topic we examine the relationship between interest rates and exchange rates.

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.

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. Purchasing Power Parity and the Real Exchange Rate

Engel, Charles and John H. Rogers (1996), "How Wide is the Border?", *American Economic Review*, 86(5), pp. 1112-1125.

Fan, C.S. and X. Wei (2006), "The law of one price: evidence from the transitional economy of China", *Review of Economics and Statistics*, 88(4), pp. 682-697.

Flood, Robert P and Mark P. Taylor (1996), "Exchange Rate Economics: What's Wrong with the Conventional Macro Approach?", pp. 261-294 in Jeffrey A. Frankel, Giampaolo Galli, and Alberto Giovannini, *The Microstructure of Foreign Exchange Markets*, Chicago and London: The University of Chicago Press.

Kapetanios, G.Y. Shin and A. Snell (2003), "Testing for a unit root in the non-linear STAR framework", *Journal of Econometrics*, 112, pp. 359-379.

*Meese, Richard A. and Kenneth Rogoff (1983), "Empirical Exchange Rate Models of the Seventies: Do They Fit Out of Sample?", *Journal of International Economics*, 14(1-2), pp. 3-24.

*Rogoff, Kenneth (1996), "The Purchasing Power Parity Puzzle", *Journal of Economic Literature*, 34(2), June, pp. 647-668.

Alan Taylor (2004), "The Purchasing Power Parity Debate," *Journal of Economic Perspectives*, 18(4), pp. 135-158.

6. Commodity Prices

*Deaton, Angus, and Guy Laroque (1992), "On the Behaviour of Commodity Prices", *Review of Economic Studies*, 59, pp. 1-24.

Deaton, Angus and Guy Laroque (1996), "Competitive Storage and Commodity Price Dynamics", *Journal of Political Economy*, 104, pp. 896-923.

Coleman, A.M.G (2008, forthcoming), "A model of spatial arbitrage with transport capacity constraints and endogenous transport prices", *American Journal of Agricultural Economics*.

Hamilton, James D. (2008), "Understanding crude oil prices", mimeo, University of California, San Diego.

Williams, Jeffrey C. and Brian Wright (1991), *Storage and Commodity Markets*, Cambridge: Cambridge University Press.

7. Interest Rate Parity Conditions and the Efficiency of Foreign Exchange Markets

*Froot, Kenneth A. and Thaler, Richard. (1990), "Anomalies: Foreign Exchange", *Journal of Economic Perspectives*, 4(3), pp. 179-192.

Flood, R and A Rose (2001), "Uncovered interest parity in crisis: the interest rate defense in the 1990s", IMF working Paper, 01/207, December.

Mehl, Arnould and L. Cappiello (2007), "Uncovered interest parity at distant horizons. Evidence on emerging economies and non-linearities", European Central Bank, WP 801.

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.

Students with examinations are obliged to be at university until the end of the examination period. **Examination dates for trimester two are: Friday 17 October to Saturday 8 November 2008.** The 2 hour **final examination** will be held at the place and the time, in the period of 17 October – 8 November, to be announced later by the university authority.

Penalties

Unapproved late submission of assignments will incur a penalty of 10% per day up to two days. Unauthorised submissions beyond that will not be marked.

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 on the ground floor (EA005). This counter is the first point of contact for :

- 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.victoria.ac.nz/home/about/policy/students.aspx

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

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

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 students or staff.

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

Note: including the work of others will not be considered plagiarism as long as the work 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:

www.victoria.ac.nz/home/studying/plagiarism.html

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 6015. To contact the Pacific Support Coordinator, email pacific-support-coord@vuw.ac.nz or phone (04) 463 5842.