

School of Economics and Finance

Econ 413 INTERNATIONAL ECONOMICS: MONETARY

Trimester Two 2011

COURSE OUTLINE

Names and Contact Details

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Office hours: Tuesday 1PM-3PM

Trimester Dates

Teaching Period: Monday 11 July – Friday 14 October

Study Period: Monday 17 October – Thursday 20 October

Examination Period: Friday 21 October – Saturday 12 November (inclusive)

Withdrawal from Course

1. Your fees will be refunded if you withdraw from this course on or before July 22, 2011.
2. The standard last date for withdrawal from this course is September 23, 2011. After this date, students forced to withdraw by circumstances beyond their control must apply for permission on an '*Application for Associate Dean's Permission to Withdraw Late*' including supporting documentation

The application form is available from either of the Faculty's Student Customer Service Desks.

Class Times and Room Numbers

Lectures are on Wednesdays, between 11:30 and 13:20, in RWW128

Course Content

This course provides an introduction to the key issues and analytic techniques used in international macroeconomics. The course investigates a set of standard modern dynamic intertemporal models of the economy, in an international setting. The models have microeconomic foundations and provide a basis for understanding international investment flows and current account issues. The course is based on Obstfeld and Rogoff's classic text, "Foundations of International Macroeconomics".

Course Learning Objectives

Use standard maximisation techniques (Lagrange methods) to calculate optimising solutions to economic problems (with applications to international and intertemporal problems).

Use various econometric methods to evaluate economic hypotheses based on time series data.

Use numeric methods to find solutions to non-linear economic problems.

Read and understand technical journal articles on international economics.

Evaluate and participate in debates about international economic policy.

Course Delivery

The course will primarily comprise lectures.

Expected Workload

Econ 413 is a 15-point course, so students are expected to put in a total of 150 hours over the 15 week period (the 12 teaching weeks, mid-trimester break, study week and the examination period). Time spent on work outside class has to be an estimate for an average student.

Readings

Main textbook: *Foundations of International Macroeconomics* (1996), Obstfeld, Maurice and Kenneth Rogoff, Cambridge, MIT Press (OR)

Another useful, less technical text: *International Macroeconomics*, (2011), unpublished textbook, Stephanie Schmidt-Grohe and Martin Uribe
<http://www.columbia.edu/~mu2166/UIM/notes.pdf>

If you wish to refresh the basic concepts consider: *International Economics: Theory and Policy*, 9th edition, Paul Krugman and Maurice Obstfeld, Addison-Wesley.

We will also be using a number of articles to supplement the main text, deepen our understanding of selected topics, and follow the most recent debate in the literature and policy circles. Articles will be added as we progress, and posted on the Blackboard.

Last but not least, treat this list of topics as a wish-list. Time constraints will force us to deviate at times.

Topics

0. Preliminaries
 - a. Basic methods of constrained optimization
OR, 715-718 and other basic math textbooks
1. Current account
 - a. Intertemporal approach to current account determination

OR 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.

- b. Adjustment of current account to shocks

OR Ch 2

Nason, James, and John H. Rogers, (2006), "The present-value model of the current account has been rejected: Round up the usual suspects", *Journal of International Economics*, 68(1), 159-187

Kim, Kunhong, Viv Hall and Robert Buckle (2006) "Consumption-smoothing in a small, cyclically volatile open economy: Evidence from New Zealand" *Journal of International Money and Finance* 25(8) 1277-1295

- c. Current account in small and large economies

Parts of OR Ch 1, 2

- d. Government spending and the current account

OR Ch 3

2. Exchange rates and terms of trade

- a. Real and nominal exchange rates

OR Ch 4.1-4.4

SGU Ch 7 (easier)

Balassa, B. (1964) "The Purchasing Power Parity Doctrine: A Reappraisal." *Journal of Political Economy* v72 584 - 596

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

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), 3 - 24.

- b. Terms of trade

OR Ch. 4.5

3. Monetary policy, globalization, and financial markets

a. Globalization of financial markets

OR Ch 6

Obtfeld, Maurice and Kenneth Rogoff(2000). "The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?" in B. Bernanke and K. Rogoff (eds.), NBER Macroeconomic Annual 2000, Cambridge, MIT Press.

Feldstein, Martin, and Charles S. Horioka (1980) "Domestic savings and international capital flows," *Economic Journal* 90 314-319

Rodrik, D. (2000). "How Far Will International Economic Integration Go?", *Journal of Economic Perspectives*, Volume 14, Number 1, pages 177-186.

Prasad, E., K. Rogoff, S-J. Wei, and M. Ayhan Kose (2007). "Effects of Financial Globalization on Developing Countries", in A. Harrison (ed.), *Globalization and Poverty*, University of Chicago Press.

b. Monetary policy under flexible and sticky prices

Selected parts of OR Ch 8, 9, 10

c. External debt and financial crises

SGU Ch 9

Assessment Requirements

The grade will consist of assignments (25%), midterm exam (25%), and a cumulative final exam (50%).

The final exam will last 2 hours and will be announced on Blackboard after it is scheduled by the University.

The midterm exam will take place on Tuesday August 16, 12:00-13:00. There will be no make-up exam. If you miss the midterm exam, you will have the opportunity to shift half of its weight (12.5%) to the final exam, but the other half will be lost.

In addition, if you are not satisfied with your performance on the midterm exam, you will have the opportunity to improve your overall grade by changing the weight distribution between the midterm and the final exam. Specifically, you will be able to choose one of two midterm-final weighting schemes: either 25%-50%, or 15%-60%.

There will be five assignments handed out during the course, each worth 5% of your grade. These will give you an opportunity to apply and confirm the concepts you learn in the course.

Except with class agreement, work that is handed in late without prior arrangement will be penalised at 20% per day.

Note: Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning objectives as required for accreditation and audit purposes. The findings may be used to inform changes aimed at improving the quality of FCA programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.

Examinations

Students who enrol in courses with examinations are obliged to attend an examination at the University at any time during the formal examination period.

The final examination for this course will be scheduled at some time during the period from Friday 21 October – Saturday 12 November.

The outcome will be a standard grade (A+ to E).

Class Representative

A class representative will be elected in the first class, and that person's name and contact details made available to VUWSA, the Course Coordinator and the class. The class representative provides a communication channel to liaise with the Course Coordinator on behalf of students.

Communication of Additional Information

Lecture notes and assignments will be handed out in class and posted on Blackboard. Subject to class permission, I would like to email to all class members additional information if needed.

Use of Turnitin (if applicable)

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine <http://www.turnitin.com>. Turnitin is an on-line plagiarism prevention tool which compares submitted work with a very large database of existing material. At the discretion of the Head of School, handwritten work may be copy-typed by the School and subject to checking by Turnitin. Turnitin will retain a copy of submitted materials on behalf of the University for detection of future plagiarism, but access to the full text of submissions will not be made available to any other party.

For the following important information follow the links provided:

Academic Integrity and Plagiarism

<http://www.victoria.ac.nz/home/study/plagiarism.aspx>

General University Policies and Statutes

Find key dates, explanations of grades and other useful information at www.victoria.ac.nz/home/study

Find out about academic progress and restricted enrolment at
<http://www.victoria.ac.nz/home/study/academic-progress.aspx>

The University's statutes and policies are available at www.victoria.ac.nz/home/about/policy,
except qualification statutes, which are available via the Calendar webpage at
<http://www.victoria.ac.nz/home/study/calendar.aspx> (See Section C).

Further information about the University's academic processes can be found on the website of
the Assistant Vice-Chancellor (Academic) at
www.victoria.ac.nz/home/about_victoria/avcadademic/default.aspx

**AVC (Academic) Website: information including: Conduct, Academic Grievances, Students
with Impairments, Student Support**

http://www.victoria.ac.nz/home/about_victoria/avcadademic/Publications.aspx

Faculty of Commerce and Administration Offices

<http://www.victoria.ac.nz/fca/studenthelp/>

Te Putahi Atawhai

Maori and Pacific Mentoring Programme

http://www.victoria.ac.nz/st_services/tpa/index.aspx