

School of Economics and Finance

ECON 413 INTERNATIONAL ECONOMICS: MONETARY

Trimester 2, 2013

COURSE OUTLINE

Names and Contact Details

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Any administrative matters should be brought to the attention of Julie-Mary Boles de Boer, RH321, ext 5380, Julie-Mary.BolesdeBoer@vuw.ac.nz. Office hours are 9am-1pm.

Trimester Dates

Teaching Period: Monday 15 July – Friday 18 October

Study Period: Monday 21 October – Thursday 24 October

Examination Period: Friday 25 October – Saturday 16 November (inclusive)

Withdrawal from Course

1. Your fees will be refunded if you withdraw from this course on or before Friday 26 July 2013.
2. The standard last date for withdrawal from this course is Friday 27 September. 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 Thursdays, between 2:40PM and 4:30PM, in RWW125.

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

By the end of this course, students should be able to:

1. demonstrate their grasp of key theoretical issues in international money and finance, with a focus on exchange rate determination
2. describe the major empirical regularities of exchange rates, and the areas where theoretical and empirical results are in conflict
3. analyse key driving factors behind the historical development of the international financial system
4. create basic computer programmes to estimate basic applied econometric time series models and use applied numerical techniques to solve dynamic asset price models.

Course Delivery

The course will primarily comprise lectures.

Expected Workload

ECON413 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.

Prescription

Key issues and analytical techniques in modern open economy macroeconomics and international monetary economics. The course examines the role of intertemporal considerations in determining external balances, exchange rates, and monetary policy in small open economies like New Zealand.

Group Work

Not applicable for this course.

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 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

Obstfeld, 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 and other readings

Materials and Equipment

There are no specific materials and equipment for the course.

Assessment Requirements

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

The final exam will last 2 hours and will be scheduled by the University.

The midterm test will take place in the week of August 20. There will be no make-up test. If you miss the midterm test, 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 test, 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.

Quality Assurance 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 FCom 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 25 October – Saturday 16 November (inclusive).

Penalties

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

Mandatory Course Requirements

There are no mandatory requirements for passing the course, other than obtaining an overall course mark of 50% or better. If you cannot complete an assignment or sit a test or examination, refer to www.victoria.ac.nz/home/study/exams-and-assessments/aegrotat

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.

Student feedback

Student feedback on University courses may be found at www.cad.vuw.ac.nz/feedback/feedback_display.php

Link to general information

For general information about course-related matters, go to <http://www.victoria.ac.nz/vbs/studenthelp/general-course-information>

Note to Students

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 academic audit. The findings may be used to inform changes aimed at improving the quality of VBS programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.
