

# ECON 362 International Finance

## Spring 2017

### Contact details

Instructor: Luigi Bocola

Email: [luigi.bocola@northwestern.edu](mailto:luigi.bocola@northwestern.edu)

Office hours: Tuesdays, 4:00-5:30pm, Global Hub, Room 3449.

The class will meet twice a week, on Tuesdays and Thursdays at 9:30am. The location is Harris Hall L07.

Victor Luo is the TA for the course, her email address is [victor.xi.luo@gmail.com](mailto:victor.xi.luo@gmail.com). Discussion sections will be held on Fridays at 12 pm. The location is Tech L150. His office hours are held on Mondays, 4:00-5:30pm in the Global Hub, Room 3198.

### Overview of the class

This is a first course in open economy macroeconomics. We will cover topics such as international capital flows, the determination of exchange rates, currency and debt crises. The objective is to help students think clearly about these issues using simple economic models. While a significant portion of the course will be theoretical, there will be several occasions for linking the theory to real-world events.

Prerequisites for the course are Econ 201, 202, 281, 310-1, 311, Math 220, Stats 210. Students are expected to be comfortable with basic differential calculus.

The textbooks for the course are "International Finance" [tenth edition] by P. Krugman, M. Obstfeld and M. Melitz (henceforth KOM), and "International Macroeconomics" by S. Schmitt-Grohe, M. Uribe and M. Woodford (henceforth SGUW). The latter is available free of charge at <http://www.columbia.edu/mu2166/UIM/index.html>. Material from these two sources will be complemented at times by articles and supplementary notes.

## Topics and references

The plan is to cover the following topics in order. I will keep you informed of potential adjustments to the syllabus as we proceed with the course.

1. The Balance of Payments and the determinants of the current account (7 lectures)
  - National income accounting and the balance of payments [KOM, Ch. 2]
  - The intertemporal approach to the current account part 1: a small open endowment economy [SGUW, Ch. 3.1-3.6]
  - The intertemporal approach to the current account part 2: adding production [SGUW, Ch. 4.1-4.3]
  - Adjustment in small and large open economies [SGUW, Ch. 6.1-6.2, 6.4]
  - A case study: the current account deficit in the U.S. [SGUW, Ch. 6.5; Roger W. Ferguson, Jr., "U.S. current account deficit: causes and consequences"]
  - Sovereign debt crises with applications [supplementary notes]
  
2. Exchange rate determination (8 lectures)
  - Interest parity and the demand for currency [KOM, Ch. 3, pp. 41-49 and pp. 59-66; SGUW, Ch. 8.2.1 and 8.3.1]
  - The money market [KOM, Ch. 4, pp. 78-86]
  - The law of one price, and exchange rates in the long run [KOM, Ch. 5, 111-117]
  - Exchange rates overshooting in the short run [KOM, Ch. 4, 99-102]
  - Exchange rates and output in the short run [KOM, Ch. 6, 153-169]
  - Exchange rate regimes: fixed vs. floating [KOM, Ch. 7, pp. 193-207]
  - Currency crises with applications [KOM, Ch. 7, pp. 207-211]

## Evaluation

There will be five problem sets. Each problem set will count for 6% of your grade. The assignments are due in the discussion session or in class, with the following tentative

schedule

- Problem Set 1 due on April 11th
- Problem Set 2 due on April 25st
- Problem Set 3 due on May 9th
- Problem Set 4 due on May 19th
- Problem Set 5 due on May 26th

I expect that students will work together when solving the problem sets. However, I encourage you to write the answers **separately**, as this is a good way to check if you understand the material. Please, type in the problem set or write it very **neatly**. Also, mention the names of the colleagues you worked with.

The midterm exam will be held in class on April 27th. It will count for 30% of your grade. The final will be held on June 8th, 12-2pm, Harris Hall L07, and it will count for 40% of your grade.

The midterm and final dates/times are not negotiable. However, you can take a proctored exam (at the same date/time of the one administered in Evanston) in case you are outside the Chicago area for an internship during exam week. In this latter case, please send me an email to me by May 1st.