1 Course Objectives

This course examines the macro-economy in an international setting. The course covers the exchange rate and the current account, and relates their determination to world capital markets and the domestic macro-economy. The course discusses economic policies and their effects under different exchange rate regimes—ranging from floating rates to fixed rates to monetary unions—and presents implications for the current account and the economy as a whole. A final part of the course turns to recent issues including global financial crises and the present US current account imbalance.

2 Prerequisites

Economics 110A-B.

3 Readings

Lecture notes become available online at econ.ucsd.edu/muendler/teach/04s/103 before each class.


The readings help you review the lecture material. The readings (articles) are available as custom materials from AS Soft Reserves (copyright fees apply). Most readings can also be accessed through the class web page (no copyright charges on campus; see link above) and the UCSD electronic library.

4 Problem Sets

There will be three problem sets, due on scheduled dates throughout the quarter. You are encouraged to work on the problems with your classmates. The first problem set will have eight questions, the latter two will have six questions each. Correct answers count for four points per question.

Your teaching assistant Rosalin Wu will hold review sections to help you approach the problems. Rosalin will determine the section time with you at the beginning of the quarter. Your solutions to the problem sets will be graded and your performance on them will be part of the final grade. Problem sets have to be handed in before 9:30am on the due date. You may bring them to class before it starts.

5 Assessment

There will be two midterm exams and a final exam. The two midterm exams will take 80 minutes each and the final exam will take 120 minutes. All exams are cumulative.

Your final raw score will be your total points from the three exams and the three problem sets:

<table>
<thead>
<tr>
<th>Problem sets:</th>
<th>80 points (32+24+24 points)</th>
<th>4/20, 5/11, 6/3</th>
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<tbody>
<tr>
<td>Midterm 1 (80 minutes):</td>
<td>80 points</td>
<td>4/27</td>
</tr>
<tr>
<td>Midterm 2 (80 minutes):</td>
<td>80 points</td>
<td>5/18</td>
</tr>
<tr>
<td>Final (120 minutes):</td>
<td>120 points</td>
<td>finals week</td>
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<tr>
<td><strong>Total:</strong></td>
<td>360 points</td>
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Midterm exams last for the time of a lecture. (Problem sets have to be handed in before 9:30am on the due date.) The final exam lasts 120 minutes.

Your final letter grade will be inferred from the typical grade distribution (curve) in economics classes at UCSD. You can find this grade distribution at econ.ucsd.edu/muendler/teach/04s/103. So, the difficulty or simplicity of problem sets and exams will not matter, whereas your relative performance in comparison to your classmates will determine your final letter grade. The overall curve will be shifted in your favor to account for the typical students’ GPA in Econ 103, which tends to be higher than average.
6 Class Schedule

1. Tue, March 30: Introduction to International Monetary Relations
   (Krugman and Obstfeld 2003/Ch. 12 and 18)

2. Thu, April 1: International Monetary Systems, Past and Present
   (Krugman and Obstfeld 2003/Ch. 18; McKinnon 1993)
   **Problem set 1 out**

3. Tue, April 6: Exchange Rates and Foreign Exchange Markets
   (Krugman and Obstfeld 2003/Ch. 13)

4. Thu, April 8: An Asset Approach to the Exchange Rate
   (Krugman and Obstfeld 2003/Ch. 13)

5. Tue, April 13: A Monetary Approach to the Exchange Rate
   (Krugman and Obstfeld 2003/Ch. 14)

6. Thu, April 15: Monetary Policy and Exchange Rate Determination
   (Krugman and Obstfeld 2003/Ch. 14)

7. Tue, April 20: Purchasing Power Parity
   (Krugman and Obstfeld 2003/Ch. 15; Rogoff 1996)
   **Problem set 1 due**

8. Thu, April 22: Purchasing Power Parity
   (Krugman and Obstfeld 2003/Ch. 15; Rogoff 1996)
   **Problem set 2 out**

**Tue, April 27:** *Midterm 1*
covering lectures 1 through 8,
Krugman and Obstfeld (2003)/Ch. 12 through 15 (Ch. 18 will only be on
the following exams); and McKinnon (1993), and Rogoff (1996)

9. Thu, April 29: Flexible Exchange Rates
   (Krugman and Obstfeld 2003/Ch. 16)

10. **Tue, May 4:** Policy under Floating Exchange Rates
    (Krugman and Obstfeld 2003/Ch. 16)

11. **Thu, May 6:** Flexible, Managed and Fixed Exchange Rates
    (Krugman and Obstfeld 2003/Ch. 16, 17)

12. **Tue, May 11:** Policy under Fixed Exchange Rates
    (Krugman and Obstfeld 2003/Ch. 17; Obstfeld and Rogoff 1995)
    **Problem set 2 due**

13. **Thu, May 13:** International Monetary Policy
    (Krugman and Obstfeld 2003/Ch. 18 and 19)
    **Problem set 3 out**
Tue, May 18: Midterm 2
covering lectures 9 through 13,
Krugman and Obstfeld (2003)/Ch. 12 through 19; and Obstfeld and Rogoff (1995)

14. Thu, May 20: The US Current Account Deficit
(McKinnon 2001)

15. Tue, May 25: Optimum Currency Areas and the Euro
(Krugman and Obstfeld 2003/Ch. 20; Allsopp and Artis 2003)

16. Thu, May 27: Capital Market Integration
(Krugman and Obstfeld 2003/Ch. 21; Obstfeld 1998)

17. Tue, June 1: International Financial Crises
(Krugman and Obstfeld 2003/Ch. 22; Stiglitz 2000)

18. Thu, June 3: International Financial Crises
(Krugman and Obstfeld 2003/Ch. 22; Stiglitz 2000)
Problem set 3 due

Thu, June 10 (Finals Week): 8:00am to 11:00am Final Exam
covering lectures 1 through 18,

References


