

Economics 103 — Spring 2010

# International Monetary Relations

March 29, 2010

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## 1 Course Objectives

This course examines the macroeconomy 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 macroeconomy. 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 the present U.S. current account imbalance and global financial crises.

## 2 Prerequisites

Economics 110A-B.

## 3 Readings

Lecture notes become available online at [econ.ucsd.edu/muendler/teach/10s/103](http://econ.ucsd.edu/muendler/teach/10s/103) before each class.

**Textbook:** Krugman and Obstfeld (2005) or Krugman and Obstfeld (2009)

**Readings:** McKinnon (1993), Rogoff (1996);  
Obstfeld and Rogoff (1995);

McKinnon (2001), Eichengreen (2006), Allsopp and Artis (2003), Stiglitz (2000), Caballero, Farhi, and Gourinchas (2008), Duffie (2010), Greenspan (2010)

The readings (articles) help you review the lecture material beyond the textbook. They are available through the class web page (see link above). Web links to copyrighted readings only work from on-campus domains.

## 4 Problem Sets

There will be three problem sets, due on scheduled dates throughout the quarter. The first problem set will have eight questions, the latter two will have six questions each. Correct answers count for four points per question.

Marc Muendler and Albert Yoon will offer three sections, on April 22, May 17 and June 3 to help you solve the problems. 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* 12:30pm on the due date. The three due dates are April 23, May 18 and June 4. Graded problem sets will be available in the immediately following exam review section to help you prepare for subsequent exams.

## 5 Assessment

There will be two midterm exams and a final exam. The two midterm exams will take 60 minutes each and the final exam will take 100 minutes. All exams are cumulative. Midterm exams take place in class and contain six ten-minute questions each. The final exam contains ten 10-minute questions. Problem sets have to be handed in *before* 12:30pm on the due date to be considered. If due on class days, problem sets can be submitted *before* class in the classroom. Otherwise, they are due in the responsible teaching assistant's office (or mailbox).

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

Problem sets:	80 points (32+24+24 points)	4/23, 5/18, 6/4
Midterm 1 (60 minutes):	60 points	4/29
Midterm 2 (60 minutes):	60 points	5/20
Final (100 minutes):	100 points	6/7
<i>Total:</i>	300 points	

Your final *letter grade* will be inferred from the typical grade distribution (curve) in *economics* classes at UCSD since 2000. You can find this grade distribution at [econ.ucsd.edu/muendler/teach/10s/103](http://econ.ucsd.edu/muendler/teach/10s/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. Grades of *D* or *F*, however, will not depend on the curve but on a minimal performance standard.

Albert Yoon will hold three review sections for exams, on April 28, May 19 and June 4, to help you prepare for the exams.

Appeals of scores on exams must be submitted in writing, along with all prior exams and problem sets. Following the appeal, all questions on all exams will be reconsidered. Participation in exams is mandatory and excused only under the conditions that also permit an incomplete grade: course work must be of non-failing quality and absence must be for a cause beyond the student's control.

## 6 Class Schedule

### I. Open-economy Macroeconomics

1. **Tue, March 30:** Introduction to Open-economy Macroeconomics  
(Krugman and Obstfeld 2009/Ch. 12 and 18)
2. **Thu, April 1:** International Capital Market Integration  
(Krugman and Obstfeld 2009/Ch. 21 and Appendix 2 to Ch. 7)

### II. Exchange Rate Determination

3. **Tue, April 6:** International Monetary Systems, Past and Present  
(Krugman and Obstfeld 2009/Ch. 18; McKinnon 1993)  
PROBLEM SET 1 OUT
  4. **Thu, April 8:** Exchange Rates and Foreign Exchange Markets  
(Krugman and Obstfeld 2009/Ch. 13)
  5. **Tue, April 13:** An Asset Approach to the Exchange Rate  
(Krugman and Obstfeld 2009/Ch. 13; Menkhoff and Taylor 2007)
  6. **Thu, April 15:** A Monetary Approach to the Exchange Rate  
(Krugman and Obstfeld 2009/Ch. 14)
  7. **Tue, April 20:** Monetary Policy and Exchange Rate Determination  
(Krugman and Obstfeld 2009/Ch. 14)
  8. **Thu, April 22:** Purchasing Power Parity and the Monetary Approach  
(Krugman and Obstfeld 2009/Ch. 15; Rogoff 1996)
- Thu, April 22:** REVIEW SECTION FOR PROBLEM SET 1 (Marc Muendler)
- Fri, April 23:** PROBLEM SET 1 DUE

**9. Tue, April 27:** Purchasing Power Parity and the Real Exchange Rate  
(Krugman and Obstfeld 2009/Ch. 15; Rogoff 1996)

**Wed, April 28:** REVIEW SECTION FOR MIDTERM 1  
(Albert Yoon)

**Thu, April 29:** MIDTERM 1  
covering lectures 1 through 9,  
Krugman and Obstfeld (2009)/Ch. 12 through 16, Ch. 21 and Appendix 2  
to Ch. 7 (Ch. 18 will only be on the following exams); and McKinnon  
(1993), Menkhoff and Taylor (2007) and Rogoff (1996)

### III. Exchange Rate and Current Account Determination

**10. Tue, May 4:** Flexible Exchange Rates and Output in the Short Term  
(Krugman and Obstfeld 2009/Ch. 16)  
PROBLEM SET 2 OUT

**11. Thu, May 6:** Policy under Floating Exchange Rates  
(Krugman and Obstfeld 2009/Ch. 16)

**12. Tue, May 11:** Flexible, Managed and Fixed Exchange Rates  
(Krugman and Obstfeld 2009/Ch. 16 and 17)

**13. Thu, May 13:** Policy under Fixed Exchange Rates  
(Krugman and Obstfeld 2009/Ch. 17; Obstfeld and Rogoff 1995)

**Mon, May 17:** REVIEW SECTION FOR PROBLEM SET 2 (Marc Muendler)

**14. Tue, May 18:** International Monetary Policy  
(Krugman and Obstfeld 2009/Ch. 18, 19 and 22; McKinnon 1993)  
PROBLEM SET 2 DUE

**Wed, May 19:** REVIEW SECTION FOR MIDTERM 2  
(Albert Yoon)

**Thu, May 20:** MIDTERM 2  
covering lectures 1 through 13,  
Krugman and Obstfeld (2009)/Ch. 12 through 19 and 22; Obstfeld and  
Rogoff (1995), Rogoff (1996) and McKinnon (1993)

### IV. Topics in International Macroeconomics

**15. Tue, May 25:** Current Account Sustainability  
(McKinnon 2001; Eichengreen 2006)  
PROBLEM SET 3 OUT

**16. Thu, May 27:** Optimum Currency Areas and the Euro  
(Krugman and Obstfeld 2009/Ch. 20; Allsopp and Artis 2003)

- 17. Tue, June 1:** International Financial Crises  
(Krugman and Obstfeld 2009/Ch. 21 and 22; Stiglitz 2000)
- 18. Thu, June 3:** The Great Recession  
(Caballero, Farhi, and Gourinchas 2008; Duffie 2010; Greenspan 2010)
- Thu, June 3:** REVIEW SECTION FOR PROBLEM SET 3 (Albert Yoon)
- Fri, June 4:** PROBLEM SET 3 DUE  
REVIEW SECTION FOR FINAL EXAM  
(Albert Yoon)
- Mon, June 7 (Finals Week): 11:30am - 1:10pm** FINAL EXAM (100 minutes)  
covering lectures 1 through 18,  
Krugman and Obstfeld (2009)/Ch. 12 through 22; and McKinnon (1993),  
Menkhoff and Taylor (2007), Rogoff (1996), Obstfeld and Rogoff (1995),  
McKinnon (2001), Eichengreen (2006), Allsopp and Artis (2003), Stiglitz  
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