

Economics 103 — Summer II 2014

International Monetary Relations

August 7, 2014

Instructor:	Marc-Andreas Muendler
Office:	Economics 312
Office hours:	Thu 5:00p-6:00p
Phone:	(858) 534-4799
E-mail:	muendler@ucsd.edu
Classroom:	Peterson Hall 102
Class Time:	TueThu 2:00p-4:50p
Class Web Page:	econ.ucsd.edu/muendler/teach/14x/103
Section ID	813067
Teaching Assistant:	Andrew Walcher
E-mail:	awalcher@ucsd.edu
Office:	Sequoayah 232
Office hours:	Tue 1:00p-1:50p

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 current policy topics including recent global financial crises, the Great Recession of 2008, and prevailing global imbalances.

2 Prerequisites

Econ 102 or Econ 110B or Econ 173A (previously Econ 110B or 173A or 175).

3 Readings

Lecture notes become available online at econ.ucsd.edu/muendler/teach/14x/103 before each class.

Textbook: Krugman, Obstfeld, and Melitz (2011b)/Ch. 13 through 22

Textbook supplement: Muendler (2014)/Ch. 1, 3, 14 and 20

Background Readings: Calvo and Reinhart (2002); McKinnon (2001), Eichengreen (2006), Stiglitz (2000), Diamond and Dybvig (1983), Duffie (2010), Greenspan (2010)

The relevant chapters of the first textbook are compiled in a custom reader: Krugman, Obstfeld, and Melitz (2011a), provided for Econ 103 by Pearson Learning Solutions. This special extract is available for purchase from the bookstore. The complete textbook Krugman, Obstfeld, and Melitz

(2011b), which also covers the material of Econ 101 and Econ 102, is available for purchase online. Library copies are on reserve.

The textbook supplements Muendler (2014)/Ch. 1, 3, 14 and 20 are available for download from the class web page (see link above) prior to the respective lectures. Further textbook supplements may become available over the course of the quarter. The supplements are zipped and password protected. The password is given out on the first day in class.

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 summer session. You are encouraged to work on the problems with your classmates. Your teaching assistant will hold sections over the course of the summer session to help you solve the problems, and you can receive assistance during any of the scheduled office hours.

Your solutions to the problem sets will be checked by question (check/no check) and your performance on them will be a part of the final grade. The first problem set will have eight questions, the latter two will have six questions each. Correct answers count five points per question.

Your teaching assistant Andrew Walcher will offer three problem set review sections to help you solve the problems. Problem sets 1, 2 and 3 have to be handed in on paper *before* 2:00p on the due date. You can drop the problem sets off prior to the start of lecture, at Andrew Walcher's office (SH 232), or in Professor Marc Muendler's mailbox.

5 Assessment

There will be one midterm exam and a final exam. The midterm exam will take 90 minutes and the final exam will take 120 minutes (no extra time). The final exam is cumulative. The midterm exam contains nine 10-minute questions, the final exam contains twelve 10-minute questions. Problem sets have to be handed in *before* 2:00pm on the due date to be considered.

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

Problem sets:	100 points (40+30+30 points)	8/14, 8/28, 9/4
Midterm (90 minutes):	90 points	8/19
Final (120 minutes):	120 points	9/6
<i>Total:</i>	310 points	

Your final *letter grade* will be inferred from the typical grade distribution (curve) in *economics* classes at UC San Diego. You can find this grade distribution at econ.ucsd.edu/muendler/teach/14x/103. Therefore 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* will not depend on the curve but on a minimal performance standard.

There will be review sections to help you prepare for the exams.

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. In particular, the incidence of other exams on the same day is no reason for an excuse from the exam. Under its current rules, Student Health Services offers access to medical excuses that document illness only under extreme circumstances (severe, prolonged illness that

necessitates dropping a class or obtaining specific accommodations for class/lab participation, test taking or make-up). To be excused from the midterm because of illness, the student must inform the instructor *before* the midterm exam. To be excused from the final exam, however, the illness must be sufficiently severe so that Student Health Services or another health-care provider does document the illness.

During exams, only a pen, a pencil, a ruler and an eraser are permitted for use. No other material is allowed. Principles of academic honesty are strictly applied.

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. An appeal may be denied if the exam was written with a pencil.

6 Class Schedule

I. Open-economy Macroeconomics

1. **Tue, August 5:** Introduction to Open-economy Macroeconomics
(Krugman, Obstfeld, and Melitz 2011b/Ch. 13 and 19; Muendler 2014/Ch. 1 and 14)

II. Exchange Rate Determination

2. **Tue, August 5:** International Monetary Systems, Past and Present
(Krugman, Obstfeld, and Melitz 2011b/Ch. 19)
PROBLEM SET 1 OUT
 3. **Thu, August 7:** Exchange Rates and Foreign Exchange Markets
(Krugman, Obstfeld, and Melitz 2011b/Ch. 14)
 4. **Thu, August 7:** An Asset Approach to the Exchange Rate
(Krugman, Obstfeld, and Melitz 2011b/Ch. 14)
 5. **Tue, August 12:** A Monetary Approach to the Exchange Rate
(Krugman, Obstfeld, and Melitz 2011b/Ch. 15)
 6. **Tue, August 12:** Monetary Policy and Exchange Rate Determination
(Krugman, Obstfeld, and Melitz 2011b/Ch. 15)
- Wed, August 13, time TBA:** *Problem set 1 review section*
7. **Thu, August 14:** Purchasing Power Parity and the Monetary Approach
(Krugman, Obstfeld, and Melitz 2011b/Ch. 16)
 8. **Thu, August 14:** Purchasing Power Parity and the Real Exchange Rate
(Krugman, Obstfeld, and Melitz 2011b/Ch. 16, Muendler 2014/Ch. 3)
PROBLEM SET 1 DUE
- Mon, August 18, time TBA:** *Midterm review section*
- Tue, August 19, 2:00p - 3:30p:** MIDTERM (90 minutes)
covering lectures 1 through 7,
Krugman, Obstfeld, and Melitz (2011b)/Ch. 13 through 16 (Ch. 19 will only be on the final);
Muendler 2014/Ch. 1 and 14

III. Exchange Rate and Current Account Determination

- 9. Thu, August 21:** Flexible Exchange Rates and Output in the Short Term
(Krugman, Obstfeld, and Melitz 2011b/Ch. 16; Muendler 2014/Ch. 20)
PROBLEM SET 2 OUT
- 10. Thu, August 21:** Policy under Floating Exchange Rates
(Krugman, Obstfeld, and Melitz 2011b/Ch. 17; Muendler 2014/Ch. 20)
- Fri, August 20:** *Online Review:* International Monetary Policy (Historic Review with Model and Exercises)
(Krugman, Obstfeld, and Melitz 2011b/Ch. 19 and 22)
- 11. Tue, August 26:** Managed and Fixed Exchange Rates
(Krugman, Obstfeld, and Melitz 2011b/Ch. 17 and 18)
- 12. Tue, August 26:** Policy under Managed Exchange Rates
(Krugman, Obstfeld, and Melitz 2011b/Ch. 18; Calvo and Reinhart 2002)
- Wed, August 27, time TBA:** *Problem set 2 review section*

IV. Topics in International Macroeconomics

- 13. Thu, August 28:** Optimum Currency Areas
(Krugman, Obstfeld, and Melitz 2011b/Ch. 20; Allsopp and Artis 2003)
PROBLEM SET 2 DUE; PROBLEM SET 3 OUT
- 14. Thu, August 28:** Currency Crises
(Krugman, Obstfeld, and Melitz 2011b/Ch. 21 and 22; Stiglitz 2000)
- 15. Tue, September 2:** Banking and Debt Crises
(Diamond and Dybvig 1983; Duffie 2010; Greenspan 2010)
- 16. Tue, September 2:** International Capital Market Integration
(Krugman, Obstfeld, and Melitz 2011b/Ch. 21, Appendix to Ch. 6 and Postscript to Ch. 21; Muendler 2014/Ch. 14)
- Wed, September 3, time TBA:** *Problem set 3 review section*
- 17. Thu, September 4:** Competitiveness and the Real Exchange Rate
(Muendler 2014/Ch. 3, and Ch. 15 if ready)
PROBLEM SET 3 DUE
- 18. Thu, September 4:** Current Account Sustainability
(McKinnon 2001; Eichengreen 2006)
- Fri, September 5, time TBA:** *Final review section*
- Sat, September 6, 3:00p - 5:00p:** FINAL EXAM (120 minutes)
covering lectures 1 through 7, lectures 9 through 16 and 18,
Krugman, Obstfeld, and Melitz (2011b)/Ch. 13 through 22, Appendix to Ch. 6, Postscript to Ch. 21; Muendler (2014)/Ch. 1, 3, 14 and 20; and Calvo and Reinhart (2002), McKinnon (2001), Eichengreen (2006), Allsopp and Artis (2003), Stiglitz (2000), Diamond and Dybvig (1983), Duffie (2010), Greenspan (2010)

References

- ALLSOPP, C., AND M. J. ARTIS (2003): "The Assessment: EMU, Four Years On," *Oxford Review of Economic Policy*, 19(1), 1–29.
- CALVO, G. A., AND C. M. REINHART (2002): "Fear of Floating," *Quarterly Journal of Economics*, 117(2), 379–408.
- DIAMOND, D. W., AND P. H. DYBVIK (1983): "Bank Runs, Deposit Insurance, and Liquidity," *Journal of Political Economy*, 91(3), 401–19.
- DUFFIE, D. (2010): "The Failure Mechanics of Dealer Banks," *Journal of Economic Perspectives*, 24(1), 5172.
- EICHENGREEN, B. (2006): "Global Imbalances: The New Economy, the Dark Matter, the Savvy Investor, and the Standard Analysis," *Journal of Policy Modeling*, 28(6), 645–52.
- GREENSPAN, A. (2010): "The Crisis," Greenspan Associates LLC, unpublished manuscript.
- KRUGMAN, P. R., M. OBSTFELD, AND M. J. MELITZ (2011a): *International Economics: Theory & Policy*, Pearson Custom Business Resources. Pearson Learning Solutions, New York, special extract compiled for UC San Diego.
- (2011b): *International economics: Theory and policy*. Pearson, Boston, 9th edn.
- MCKINNON, R. I. (2001): "The International Dollar Standard and the Sustainability of the US Current Account Deficit," *Brookings Papers on Economic Activity*, pp. 227–39.
- MUENDLER, M.-A. (2014): "The Economics of Globalization," University of California, San Diego, unpublished textbook manuscript.
- STIGLITZ, J. E. (2000): "Lessons from the Global Financial Crisis," in *Global financial crises: Lessons from recent events*, ed. by J. R. Bisignano, W. C. Hunter, and G. G. Kaufman, pp. 89–107. Kluwer Academic, Boston, Dordrecht and London.