

Economics 103 — Spring 2005

# International Monetary Relations

May 23, 2005

Instructor:	Marc-Andreas Muendler	
Office:	Economics 312	
Office hours:	Tue 11:15am - 12:15pm, Wed 9:30am - 10:30am	
Phone:	(858) 534-4799	
E-mail:	muendler@ucsd.edu	
Classroom:	Center Hall, room 214	
Class Time:	TuTh 12:30pm - 1:50pm	
Class Web Page:	<a href="http://econ.ucsd.edu/muendler/teach/05s/103">econ.ucsd.edu/muendler/teach/05s/103</a>	
Section ID	528606	
Teaching Assistants:	Shalini Jhatakia	Christopher Nekarda
E-mail:	<a href="mailto:sjhatakia@ucsd.edu">sjhatakia@ucsd.edu</a>	<a href="mailto:cnekarda@ucsd.edu">cnekarda@ucsd.edu</a>
Office:	Econ 114	Econ 117
Office hours:	Tue 10:00am-11:00am	Mon 10:00am-12:00pm

## 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 global financial crises and the present U.S. current account imbalance.

## 2 Prerequisites

Economics 110A-B.

## 3 Readings

Lecture notes become available online at [econ.ucsd.edu/muendler/teach/05s/103](http://econ.ucsd.edu/muendler/teach/05s/103) before each class.

**Textbook:** Krugman and Obstfeld (2003)

**Readings:** McKinnon (1993), Rogoff (1996);  
Obstfeld and Rogoff (1995);  
McKinnon (2001), Allsopp and Artis (2003), Stiglitz (2000)

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. 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 assistants Shalini Jhatakia and Christopher Nekarda will hold sections over the course of the quarter to help you approach 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. 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:

Problem sets:	80 points (32+24+24 points)	4/19, 5/10, 6/2
Midterm 1 (80 minutes):	80 points	4/26
Midterm 2 (80 minutes):	80 points	5/17
Final (120 minutes):	120 points	6/7
<i>Total:</i>	360 points	

Midterm exams last for the time of a lecture. (Problem sets have to be handed in *before* 12:30pm 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/05s/103](http://econ.ucsd.edu/muendler/teach/05s/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.

We will offer review sessions to prepare you for the exams.

## 6 Class Schedule

### I. Exchange Rate Determination

1. **Tue, March 29:** Introduction to International Monetary Relations  
(Krugman and Obstfeld 2003/Ch. 12 and 18)
  2. **Thu, March 31:** International Monetary Systems, Past and Present  
(Krugman and Obstfeld 2003/Ch. 18; McKinnon 1993)  
PROBLEM SET 1 OUT
  3. **Tue, April 5:** Exchange Rates and Foreign Exchange Markets  
(Krugman and Obstfeld 2003/Ch. 13)
  4. **Thu, April 7:** An Asset Approach to the Exchange Rate  
(Krugman and Obstfeld 2003/Ch. 13)
  5. **Tue, April 12:** A Monetary Approach to the Exchange Rate  
(Krugman and Obstfeld 2003/Ch. 14)
  6. **Thu, April 14:** Monetary Policy and Exchange Rate Determination  
(Krugman and Obstfeld 2003/Ch. 14)
  7. **Tue, April 19:** Purchasing Power Parity and the Monetary Approach  
(Krugman and Obstfeld 2003/Ch. 15; Rogoff 1996)  
PROBLEM SET 1 DUE
  8. **Thu, April 21:** Purchasing Power Parity and the Real Exchange Rate  
(Krugman and Obstfeld 2003/Ch. 15; Rogoff 1996)
- Tue, April 26:** 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)

### II. Exchange Rate and Current Account Determination

9. **Thu, April 28:** Flexible Exchange Rates  
(Krugman and Obstfeld 2003/Ch. 16)  
PROBLEM SET 2 OUT
10. **Tue, May 3:** Policy under Floating Exchange Rates  
(Krugman and Obstfeld 2003/Ch. 16)
11. **Thu, May 5:** Flexible, Managed and Fixed Exchange Rates  
(Krugman and Obstfeld 2003/Ch. 16 and 17)
12. **Tue, May 10:** Policy under Fixed Exchange Rates  
(Krugman and Obstfeld 2003/Ch. 17; Obstfeld and Rogoff 1995)  
PROBLEM SET 2 DUE

**13. Thu, May 12:** International Monetary Policy  
(Krugman and Obstfeld 2003/Ch. 18 and 19; McKinnon 1993)

**Tue, May 17:** MIDTERM 2  
covering lectures 1 through 13,  
Krugman and Obstfeld (2003)/Ch. 12 through 19; Obstfeld and Rogoff  
(1995) and McKinnon 1993

### III. Topics in International Macroeconomics

**14. Thu, May 19:** Current Account Sustainability  
(McKinnon 2001)  
PROBLEM SET 3 OUT

**15. Tue, May 24:** International Capital Market Integration

**16. Thu, May 26:** Optimum Currency Areas and the Euro  
(Krugman and Obstfeld 2003/Ch. 20; Allsopp and Artis 2003)

**17. Tue, May 31:** International Financial Crises  
(Krugman and Obstfeld 2003/Ch. 22; Stiglitz 2000)

**18. Thu, June 2:** International Financial Crises  
(Krugman and Obstfeld 2003/Ch. 22; Stiglitz 2000)  
PROBLEM SET 3 DUE

**Tue, June 7 (Finals Week): 11:30am to 1:30pm** FINAL EXAM  
covering lectures 1 through 18,  
Krugman and Obstfeld (2003)/Ch. 12 through 22; and McKinnon (1993),  
Rogoff (1996), Obstfeld and Rogoff (1995), McKinnon (2001), Allsopp and  
Artis (2003), Stiglitz (2000)

## References

- ALLSOPP, C., AND M. J. ARTIS (2003): "The Assessment: EMU, Four Years On," *Oxford Review of Economic Policy*, 19(1), 1–29.
- KRUGMAN, P. R., AND M. OBSTFELD (2003): *International economics: Theory and policy*. Addison Wesley, Boston, 6th edn.
- MCKINNON, R. I. (1993): "The Rules of the Game: International Money in Historical Perspective," *Journal of Economic Literature*, 31(1), 1–44.
- (2001): "The International Dollar Standard and the Sustainability of the US Current Account Deficit," *Brookings Papers on Economic Activity*, pp. 227–39.
- OBSTFELD, M., AND K. ROGOFF (1995): "The Mirage of Fixed Exchange Rates," *Journal of Economic Perspectives*, 9(4), 73–96.
- ROGOFF, K. (1996): "The Purchasing Power Parity Puzzle," *Journal of Economic Literature*, 34(2), 647–68.

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.