

Economics 103 — Spring 2006

International Monetary Relations

April 3, 2006

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Office hours:	Tue 9:00-10:00am, Wed 9:30am-10:00am	
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Classroom:	Center Hall room 105	
Class Time:	TueThu 2:00-3:20pm	
Class Web Page:	econ.ucsd.edu/muendler/teach/06s/103	
Section ID	560020	
Teaching Assistants:	Ben Gillen	Christopher Nekarda
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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 global financial crises and the present U.S. current account imbalance.

Compared to other classes on international economic integration, such as International Trade, this international macroeconomics class focuses on short-term movements of the trade balance and the current account. Part I of class is dedicated to a partial equilibrium analysis of the foreign exchange market under an asset and a monetary approach. Part II of class presents a short-term approach to open-economy macroeconomics, embedding the foreign exchange market into a Keynesian macroeconomic framework. Part III applies the insights from both prior parts to policy issues related to international macroeconomics.

2 Prerequisites

Economics 110A-B.

3 Readings

Lecture notes become available online at econ.ucsd.edu/muendler/teach/06s/103 before each class.

Textbook: Krugman and Obstfeld (2006)

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 2.5 points per question.

Your teaching assistants Ben Gillen 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* 2:00pm 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 70 minutes each and the final exam will take 110 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:	50 points (20+15+15 points)	4/19, 5/10, 6/2
Midterm 1 (70 minutes):	70 points	4/26
Midterm 2 (70 minutes):	70 points	5/17
Final (110 minutes):	110 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. You can find this grade distribution at econ.ucsd.edu/muendler/teach/06s/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, April 4:** Introduction to International Monetary Relations
(Krugman and Obstfeld 2006/Ch. 12 and 18)
 2. **Thu, April 6:** International Monetary Systems, Past and Present
(Krugman and Obstfeld 2006/Ch. 18; McKinnon 1993)
PROBLEM SET 1 OUT
 3. **Tue, April 11:** Exchange Rates and Foreign Exchange Markets
(Krugman and Obstfeld 2006/Ch. 13)
 4. **Thu, April 13:** An Asset Approach to the Exchange Rate
(Krugman and Obstfeld 2006/Ch. 13)
 5. **Fri, April 14:** A Monetary Approach to the Exchange Rate
(Krugman and Obstfeld 2006/Ch. 14)
room and time TBA
- Tue, April 18:** *no class*
6. **Thu, April 20:** Monetary Policy and Exchange Rate Determination
(Krugman and Obstfeld 2006/Ch. 14)
- Mon, April 24:** *Problem set 1 review section*
room and time TBA
7. **Tue, April 25:** Purchasing Power Parity and the Monetary Approach
(Krugman and Obstfeld 2006/Ch. 15; Rogoff 1996)
PROBLEM SET 1 DUE
- Wed, April 26:** *Midterm 1 review section* (problem set 1 back)
room and time TBA
- Thu, April 27:** MIDTERM 1
covering lectures 1 through 8,
Krugman and Obstfeld (2006)/Ch. 12 through 15 (Ch. 18 will only be on
the following exams); and McKinnon (1993), and Rogoff (1996)

II. Short-term Current Account Determination

8. **Tue, May 2:** Purchasing Power Parity and the Real Exchange Rate
(Krugman and Obstfeld 2006/Ch. 15; Rogoff 1996)
9. **Thu, May 4:** Flexible Exchange Rates
(Krugman and Obstfeld 2006/Ch. 16)
PROBLEM SET 2 OUT

- 10. Tue, May 9:** Policy under Floating Exchange Rates
(Krugman and Obstfeld 2006/Ch. 16)
- 11. Thu, May 11:** Flexible, Managed and Fixed Exchange Rates
(Krugman and Obstfeld 2006/Ch. 16 and 17)
- 12. Tue, May 16:** Policy under Fixed Exchange Rates
(Krugman and Obstfeld 2006/Ch. 17; Obstfeld and Rogoff 1995)
- Wed, May 17:** *Problem set 2 review section*
room and time TBA
- 13. Thu, May 18:** International Monetary Policy
(Krugman and Obstfeld 2006/Ch. 18 and 19; McKinnon 1993)
PROBLEM SET 2 DUE
- Mon, May 22:** *Midterm 2 review section* (problem set 2 back)
room and time TBA
- Tue, May 23:** MIDTERM 2
covering lectures 1 through 13,
Krugman and Obstfeld (2006)/Ch. 12 through 19; Obstfeld and Rogoff
(1995) and McKinnon 1993

III. Topics in International Macroeconomics

- 14. Thu, May 25:** Current Account Sustainability
(McKinnon 2001)
PROBLEM SET 3 OUT
- 15. Tue, May 30:** International Capital Market Integration
(Krugman and Obstfeld 2006/Ch. 21)
- 16. Thu, June 1:** Optimum Currency Areas and the Euro
(Krugman and Obstfeld 2006/Ch. 20; Allsopp and Artis 2003)
- 17. Tue, June 6:** International Financial Crises
(Krugman and Obstfeld 2006/Ch. 21&22; Stiglitz 2000)
- Wed, June 7:** *Problem set 3 review section*
room and time TBA
- 18. Thu, June 8:** International Financial Crises
(Krugman and Obstfeld 2006/Ch. 21&22; Stiglitz 2000)
PROBLEM SET 3 DUE
- Fri, June 9:** *Final review section* (problem set 3 back)
room and time TBA

Wed, June 14 (Finals Week): 3:00pm to 5:00pm FINAL EXAM

covering lectures 1 through 18,

Krugman and Obstfeld (2006)/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 (2006): *International economics: Theory and policy*. Addison Wesley, Boston, 7th 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.