

Economics 103 — Spring 2011

International Monetary Relations

March 28, 2011

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Class Time: TuTh 12:30pm - 1:50pm
Class Web Page: econ.ucsd.edu/muendler/teach/11s/103
Section ID: 715310

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

2 Prerequisites

Economics 110B or 173A or 175.

3 Readings

Lecture notes become available online at econ.ucsd.edu/muendler/teach/11s/103 before each class.

Textbook: Krugman, Obstfeld, and Melitz (2011)

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.

Albert Yoon and Igor Vaynman will offer three problem set review sections—on April 21 (Albert Yoon), May 12 (Albert Yoon) and June 2 (Igor Vaynman)—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. You can drop the problem sets off at Econ 113 (Albert Yoon’s office) or at Sequoyah 139 (Igor Vaynman’s office), or in Professor Muendler’s mailbox. The three due dates are April 22, May 13 and June 3. Graded problem sets will be available in the immediately following exam review section to help you prepare for the respective exams.

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 120 minutes (no extra time). All exams are cumulative. Midterm exams take place in class and contain seven ten-minute questions each. The final exam contains twelve 10-minute questions. Problem sets have to be handed in *before* 12:30pm 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)	4/22, 5/13, 6/3
Midterm 1 (70 minutes):	70 points	4/26
Midterm 2 (70 minutes):	70 points	5/17
Final (120 minutes):	120 points	6/6
<i>Total:</i>	360 points	

Your final *letter grade* will be inferred from the typical grade distribution (curve) in *economics* classes at UCSD since 2000. The grade distribution is at econ.ucsd.edu/muendler/teach/11s/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 and Igor Vaynman will hold three exam review sections—on April 25 (Albert Yoon), May 16 (Albert Yoon) and June 3 (Igor Vaynman)—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. In particular, the incidence of other exams on the same day is no reason for an excuse from the exam.

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.

6 Class Schedule

I. Open-economy Macroeconomics

1. **Tue, March 29:** Introduction to Open-economy Macroeconomics
(Krugman, Obstfeld, and Melitz 2011/Ch. 13 and 19)

II. Exchange Rate Determination

2. **Thu, March 31:** International Monetary Systems, Past and Present
(Krugman, Obstfeld, and Melitz 2011/Ch. 19; McKinnon 1993)
PROBLEM SET 1 OUT
3. **Tue, April 5:** Exchange Rates and Foreign Exchange Markets
(Krugman, Obstfeld, and Melitz 2011/Ch. 14)
4. **Thu, April 7:** An Asset Approach to the Exchange Rate
(Krugman, Obstfeld, and Melitz 2011/Ch. 14; Menkhoff and Taylor 2007)
5. **Tue, April 12:** A Monetary Approach to the Exchange Rate
(Krugman, Obstfeld, and Melitz 2011/Ch. 15)
6. **Thu, April 14:** Monetary Policy and Exchange Rate Determination
(Krugman, Obstfeld, and Melitz 2011/Ch. 15)
7. **Tue, April 19:** Purchasing Power Parity and the Monetary Approach
(Krugman, Obstfeld, and Melitz 2011/Ch. 16; Rogoff 1996)
8. **Thu, April 21:** Purchasing Power Parity and the Real Exchange Rate
(Krugman, Obstfeld, and Melitz 2011/Ch. 16; Rogoff 1996)

Thu, April 21: REVIEW SECTION FOR PROBLEM SET 1 (Albert Yoon)

Fri, April 22: PROBLEM SET 1 DUE *before* 12.30pm

Mon, April 25: REVIEW SECTION FOR MIDTERM 1 (Albert Yoon)

Tue, April 26: MIDTERM 1

covering lectures 1 through 8,

Krugman, Obstfeld, and Melitz (2011)/Ch. 13 through 16 (Ch. 19 will only be on the following exams); and McKinnon (1993), Menkhoff and Taylor (2007) and Rogoff (1996)

III. Exchange Rate and Current Account Determination

9. **Thu, April 28:** Flexible Exchange Rates and Output in the Short Term
(Krugman, Obstfeld, and Melitz 2011/Ch. 16)
PROBLEM SET 2 OUT
10. **Tue, May 3:** Policy under Floating Exchange Rates
(Krugman, Obstfeld, and Melitz 2011/Ch. 17)

- 11. Thu, May 5:** Flexible, Managed and Fixed Exchange Rates
(Krugman, Obstfeld, and Melitz 2011/Ch. 17 and 18)
- 12. Tue, May 10:** Policy under Fixed Exchange Rates
(Krugman, Obstfeld, and Melitz 2011/Ch. 18; Obstfeld and Rogoff 1995)
- 13. Thu, May 12:** International Monetary Policy
(Krugman, Obstfeld, and Melitz 2011/Ch. 19 and 22; McKinnon 1993)
- Thu, May 12:** REVIEW SECTION FOR PROBLEM SET 2 (Albert Yoon)
- Fri, May 13:** PROBLEM SET 2 DUE *before* 12.30pm
- Mon, May 16:** REVIEW SECTION FOR MIDTERM 2 (Albert Yoon)
- Tue, May 17:** MIDTERM 2
covering lectures 1 through 13,
Krugman, Obstfeld, and Melitz (2011)/Ch. 13 through 19 and 22; Obstfeld and Rogoff (1995),
Rogoff (1996) and McKinnon (1993)

IV. Topics in International Macroeconomics

- 14. Thu, May 19:** International Financial Crises
(Krugman, Obstfeld, and Melitz 2011/Ch. 21 and 22; Stiglitz 2000)
PROBLEM SET 3 OUT
- 15. Tue, May 24:** Optimum Currency Areas and the Euro
(Krugman, Obstfeld, and Melitz 2011/Ch. 20; Allsopp and Artis 2003)
- 16. Thu, May 26:** The Great Recession
(Caballero, Farhi, and Gourinchas 2008; Duffie 2010; Greenspan 2010)
- 17. Tue, May 31:** International Capital Market Integration
(Krugman, Obstfeld, and Melitz 2011/Ch. 21, Appendix to Ch. 6 and Postscript to Ch. 21)
- 18. Thu, June 2:** Current Account Sustainability
(McKinnon 2001; Eichengreen 2006)
- Thu, June 2:** REVIEW SECTION FOR PROBLEM SET 3 (Igor Vaynman)
- Fri, June 3:** PROBLEM SET 3 DUE
REVIEW SECTION FOR FINAL EXAM
- Fri, June 3:** REVIEW SECTION FOR FINAL (Igor Vaynman)
- Mon, June 6 (Finals Week): 11:30am - 1:30pm** FINAL EXAM (120 minutes)
covering lectures 1 through 18,
Krugman, Obstfeld, and Melitz (2011)/Ch. 13 through 22, Appendix to Ch. 6, Postscript
to Ch. 21; and McKinnon (1993), Menkhoff and Taylor (2007), Rogoff (1996), Obstfeld and
Rogoff (1995), McKinnon (2001), Eichengreen (2006), Allsopp and Artis (2003), Stiglitz (2000),
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- 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.