**International Monetary and Financial Relations**

**Economics 5510/6510**

Girton Office Hours: Tue/Wed. 4-6pm

Fall 2013 and by appointment

Off. OSH 344 [Girton@economics.utah.edu](mailto:Girton@econ.sbs.utah.edu)

**Course Prerequisites**: Introductory Economics, both Macro and Micro

**Overview of the Course**

There is no assigned text for the course. However, two international textbooks are on reserve. Melvin’s, International Money & Finance, 7th ed. 2004 (M&F), is brief and straightforward; and Caves, Frankel, and Jones, World Trade and Payments, 9th ed. (WTP), is a leading graduate level text. (Also on reserve is Krugman’s International Theory and Policy.) Chapters from these texts and other readings are recommended for each class meeting. I have tried to find material on the Web. Other recommended readings are from the supplemental reading list.

You will be responsible for the material covered in class lectures. The recommended readings are intended to introduce and review the material covered in the lectures. In addition, you are expected to keep abreast of international financial and monetary developments by regular reading of current periodicals. We will use current events to illustrate and illuminate broader principles.

The main emphasis in the course is on the development of your ability to understand and analyze international monetary and financial issues and to critically evaluate alternative views and proposals.

**Grades** will be determined by the following:

Class Participation 10%

Numerical Exercises (both take-home and in-class);

Short papers and Book reviews (due on or before the last class meeting); and/or Term paper

(required for graduate credit) (Written work will receive up to two points per page.) 25%

Midterm Exam 25%

Final Exam 40%

100%

**OUTLINE OF LECTURE TOPICS AND READING ASSIGNMENTS**

**PART 1: INTRODUCTION TO INTERNATIONAL MONEY AND FINANCE, AND THE EVOLUTION OF THE INTERNATIONAL MONETARY SYSTEM**

**Aug. 27 INTRODUCTION TO INTERNATIONAL MONETARY**

**AND FINANCIAL RELATIONS**

1. Objectives of course

2. Why the difference between international and ‘domestic’ economics?

3. What is the difference between “Real Trade Theory” and International Monetary and Financial Economics”?

What is the difference between Micro-economics and Macro-economics?

What is the distinction between Money and Finance?

What are the roles of Banks and other Financial Intermediaries in the Monetary and Financial Systems?

4. Importance of the Financial System: The Role of the Financial System in Economic Growth and Development

5. Outline of course:

I. Evolution of the International Monetary System and the Monetary

Standard

II. International Balances and Exchange Rates

III. Open Economy Macroeconomics

IV. International Financial Markets, Institutions, Instruments and

Financial Instability

**Sept. 3 EVOLUTION OF THE INTERNATIONAL MONETARY SYSTEM AND**

**ALTERNATIVE INTERNATIONAL ADJUSTMENT MECHANISMS**

*HANDOUT: History of Prices in the United States; M&F ch. 3; Jastram, The Golden Constant, Eichengreen - see several books listed in the Readings; Girton and Roper, “Gold, Debt, and the Great Depression”; Girton, “The Bretton Woods Experience and After;” From Palgrave’s: “Gold Standard,” Lawrence Officer; “Bretton Woods,” Peter Kenen; “Specie-Flow Mechanism,” William Allen; “International Monetary Institutions,” Stanley Black; “Monetary Policy, History of ,” Michael Bordo; “Monetary Economics, History of,” Robert Dimand*

INTERNATIONAL ADJUSTMENT

1. Alternative international adjustment mechanisms

2. Alternative international monetary and financial systems/orders

THE INTERNATIONAL MONETARY SYSTEM BEFORE BRETTON WOODS

1. Price determination under alternative international monetary systems

2. International adjustment under a gold standard

3. International factors in the Great Depression

THE INTERNATIONAL MONETARY SYSTEM SINCE THE GREAT DEPRESSION

1. The Great Depression and Keynesian Economics

2. Negotiating the Bretton Woods System

3. Inconsistencies in the Bretton Woods System

4. Fixed exchange rates to flexible exchange rates

5. Economic development/growth and international financial crises

**PART 2: THE BALANCE OF PAYMENTS AND EXCHANGE RATES**

**Sept. 10 THE BALANCE OF PAYMENTS AND EXCHANGE RATES**

*HANDOUT: Macro Framework; M&F ch. 1, 2; WTP ch. 15; Balance of Payments of the United States, at* [*www.bea.gov*](http://www.bea.gov)*, Balance of Payments,” at* [*www.newyorkfed.org;*](http://www.newyorkfed.org;) *“Balance of Payments,” at* [*www.Wikipedia.org;*](http://www.Wikipedia.org;) *Balance of Payments Manual, at www.imf.org*

1. The Balance of Payments Accounts

2. BOP accounts and National income accounts

3. Accounting relationships and market equilibrium conditions in goods, money, and non-monetary financial claims

4. Alternative definitions of exchange rates

**Sept. 17**  **FOREIGN EXCHANGE MARKETS, EXCHANGE RATES,**

**AND PRICES**

*M&F ch. 8; WTP ch. 16; For a wealth of information see* [*www.newyorkfed.org*](http://www.newyorkfed.org)

*“Foreign Exchange Markets,” at* [*www.ibfx.com;*](http://www.ibfx.com;) *“Foreign Exchange Markets,” at*

[*www.wikipedia.org;*](http://www.wikipedia.org;) *Palgrave’s: “Real Exchange Rates,” Menzie Chinn; “Nominal Exchange Rates,” Richard Baillie; “Terms of Trade,” Ronald Findlay; “Purchasing Power Parity,” Lucio Sarno*

1. The supply and demand for foreign exchange

2. Official exchange market intervention

3. Open market and exchange market operations

4. The central role of sterilization operations

5. Absolute and relative purchasing power parity

6. Deviations from PPP

7. PPP and international competitiveness

8. Real exchange rates and the Terms of Trade

**PART 3: OPEN ECONOMY MACROECONOMICS**

**Sept. 24 EXCHANGE RATES, INTEREST RATES, AND THE CENTRAL ROLE**

**OF INTERNATIONAL FINANCIAL CAPITAL MOBILITY**

*M&F chs. 5, 6; WTP ch. 21; Palgrave’s: “Covered Interest Parity,” Alper and Ardic; “Uncovered Interest Parity, Peter Isard; “International Capital Flows,” Wei*

1. Present and Future Values

2. Interest rate parity - the arbitrage conditions

3. Covered and uncovered interest rate parity

4. Interest rates, inflation, and exchange rates

5. The term structure of interest rate, inflation, and exchange rates

7. Foreign exchange risk and risk premiums

8. Market efficiency and exchange rates

9. Exchange rate forecasting

**Oct.1 ALTERNATIVE THEORIES OF EXCHANGE MARKET PRESSURE:**

**The Balance of Payments and Exchange Rates**

*M&F ch. 10; Girton and Roper, “Competitive Monies and the Monetary Standard,” 1978; Palgrave’s: “Exchange Market Pressure,” Jager and Klaassen; “Dollarization,”, Roberto Chang; “Absorption Approach to the Balance of Payments,” David Vines; “Monetary Approach to the Balance of Payments,” Blejer and Frenkel*

1. Fixed exchange rates and the BOP

2. Flexible exchange rates and exchange rate determination

3. Current account and financial (capital) account transactions

4. Elasticity and Absorptions Approaches to the current account

5. The Portfolio Balance Approach to the capital account

6. The Monetary Approach to Exchange Market Pressure

7. Theories of Currency Substitution and Competitive Monies

**Oct. 8 OPEN ECONOMY MACROECONOMICS AND MACROECONOMIC POLICIES IN THE OPEN ECONOMY**

*M&F ch. 14; WTP ch. 22, 23*

1. Internal and external balance

2. Keynesian vs Classical Theories

3. Determination of income, interest rates, and the terms of trade

4. Domestic and foreign shocks to the system

5. Monetary, Fiscal, and Commercial Policies

5. The importance of International Capital Mobility

**Oct. 15 Fall Break**

**Oct. 22 MACROECONOMIC POLICY IN THE OPEN ECONOMY** cont.

1. International adjustment with fixed exchange rates

2. Domestic policy objectives

3. Conflicts between international and domestic objectives

4. International adjustment with flexible exchange rates

5. Fixed, flexible, and floating exchange rates

6. Exchange rate objectives

**Oct. 29** **REVIEW AND MIDTERM EXAM**

**PART 4: THE INTERNATIONAL FINANCIAL AND MONETARY SYSTEM: MARKETS, INSTITUTIONS, INSTRUMENTS AND FINANCIAL INSTABILITY**

**Nov. 5 INTERNATIONAL FINANCIAL INSTRUMENTS**

*M&F ch. 4; Palgrave’s: “Foreign Exchange Market Microstructure,” Martin Evans*

1. Bills of Exchange

2. International vs domestic monies

3. Derivatives: futures, forwards, swaps and options

**Nov. 12 INTERNATIONAL INVESTMENT AND CAPITAL FLOWS**

*M&F ch. 7*

1. Risk and portfolio diversification

2. The globalization of capital markets

3. Efficiency in financial markets

4. Direct foreign investment

**Nov. 19 INTERNATIONAL FINANCIAL CRISES: Banking and Exchange Markets**

*Duffie, Darrel, How Big Banks Fail and What to do About it, 2011*

*---, “Replumbing Our Financial System: Uneven Progress”, 2012 (On Web)*

1. Exchange Market Crises

2. Banking Crises

3. The role of Multinational Institutions

The IMF and The World Bank

**Nov. 26 INTERNATIONAL BANKING, DEBT, AND RISK**

1. Offshore banking

2. LIBOR

3. Interest rate spreads and risk

4. IBFs

5. Country risk: Economic and Political

**Dec. 3 REGULATION OF THE INTERNATIONAL MONETARY AND FINANCIAL SYSTEM, MORAL HAZARD, AND INTERNATIONAL FINANCIAL INSTABILITY**

1. Moral Hazard in International Money and Finance

2. Depositor Insurance, Too Big to Fail, Moral Hazard, and Bank Regulation

3. Uniformity vs Competition in Country Regulations

4. Interests, Regulation and Reform

**Dec. 10 THE FUTURE OF INTERNATIONAL MONEY AND FINANCE**

**Dec. 17 FINAL EXAM** (6:00pm - 8:00pm, in classroom)

Guide for Term Papers and Book Reviews

Papers and book reviews will be judged primarily on substance, but grammar and style are also important. Length is less important, but five to ten pages is common for short papers and book reviews. Term papers usually exceed ten pages.

Choose topics from the course that you are interested in exploring in greater depth and that appear to be important. Research the topic and focus the paper. Papers should be properly documented. All references should be given in a manner that makes it easy for me to identify sources.

Papers should be written in a clear and crisp style. The title of the paper should indicate its subject. The first paragraph must give a clear understanding of the content of the paper. Paragraphs should usually begin with a topic sentence. Each sentence should be complete with a verb. The paper should be clearly organized with structure and direction. This is facilitated by working from an outline.

Book reviews should include a clear discussion of the following questions: Why was the book written - what is the purpose of the book? What are the major points made? What are the central arguments? What is the author arguing against? How is the book related to the course? In addition to reporting, also evaluate and critique.

The Elements of Style, by William Strunk and E. B. White, is a good brief guide to clear and effective writing. The bookstore normally has inexpensive paperback copies.

ADA Statement:

“The University of Utah seeks to provide equal access to its programs, services and activities for people with disabilities. If you will need accommodations in the class, reasonable prior notice needs to be given to the Center for Disability Services, 162 Union Building, 581-5020 (V/TDD). CDS will work with you and the instructor to make arrangements for accommodations.”

Faculty Responsibilities:

“All students are expected to maintain professional behavior in the classroom setting, according to the Student Code, spelled out in the Student Handbook. Students have specific rights in the classroom as detailed in Article III of the Code. The Code also specifies proscribed conduct (Article XI) that involves cheating on tests, plagiarism, and/or collusion, as well as fraud, theft, etc. Students should read the Code carefully and kn ow they are responsible for the content. According to Faculty Rules and Regulations, it is the faculty responsibility to enforce responsible classroom behaviors, and I will do so, beginning with verbal warnings and progressing to dismissal from the class and a failing grade. Students have the right to appeal such action to the Student Behavior Committee.”