

ECON 4432W

INTERNATIONAL FINANCE

Professor Cristina Arellano

Department of Economics, University of Minnesota
Spring, 2009

Lectures: T-Th 9:45-11:00 a.m., Blegan Hall 145

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Office hours: Thursday, 1 - 2:30 pm, 4-171 Hanson Hall

Course Website: www.econ.umn.edu/~arellano/E4432

Prerequisites: Econ 3101 and Econ 3102. Knowledge of calculus is necessary.

Requirements: The final grade will be based on the writing assignment (30%), homework assignments (20%), a midterm exam (20%), and a final exam (30%).

Midterm Exam: Tuesday, March 10 in class.

Final Exam: 10:30am-12:30pm Saturday, May 16, in lecture room.

Students who wish re-grading of the midterm or the final examinations must submit a request in written form, clearly explaining the case.

Writing Assignment: The class requires students to write a research paper that studies a topic in International Finance. Students must complete the writing project to pass the class.

Schedule for Writing Assignment

February 12, Topic
March 5, Outline
April 2, First draft
May 7, Final draft

Grading of Writing Assignment

Topic: 5/100
Outline of the paper: 15/100
First Draft: 30/100
Final Paper: 50 /100

See the writing assignment handout for specific instructions.

Homework Assignments: There will be bi-weekly problem sets. These can be done in pairs. Only one problem set needs to be turned-in if working in pairs. Problem sets are due one week after they are distributed.

Texts:

Stephanie Schmitt-Grohé and Martin Uribe, International Macroeconomics. Lecture notes available on the course's website.

Paul Krugman and Maurice Obstfeld, International Economics, Theory and Policy, Addison-Wesley. This is a useful textbook to have as background material, but I will not follow it closely.

Course Description:

This course will cover basic concepts, tools and facts needed to understand the functioning of the global economy and international financial markets. We develop a theoretical framework for the analysis of the determinants of current account deficits, international capital movements, real and nominal exchange rates. We also examine the relationship between interest rates and exchange rates, and discuss various measures of global capital market integration. This framework is then used to discuss relevant policy issues such as the emergence of the US as a foreign debtor, the developing country external debt crises and balance-of-payment crises.

Course Outline

1. Balance of Payments Accounting
2. Current Account Deficits and Sustainability
3. Theory of Current Account Determination
4. External Adjustment to Shocks
5. Fiscal Deficits and the Current Account
6. Interest Rates and Nominal Exchange Rates
7. The Law of One Price and Purchasing Power Parity
8. Real Exchange Rate Determination
9. The Macroeconomics of External Debt
10. Monetary Policy and Nominal Exchange Rate Determination