



Division of Economic and Financial Studies

UNIT OUTLINE

ECON 846: INTERNATIONAL MONETARY POLICY

Semester 1, 2007

Unit convenor: Professor Jocelyn Horne

Prerequisite: intermediate macroeconomics or equivalent

- I. GENERAL**
- II. TEXT AND MATERIALS**
- III. COURSE FORMAT AND ASSESSMENT**
- IV. LECTURE TOPICS**
- V. REFERENCES**
- VI. ESSAY**

Professor Jocelyn Horne (Rm. 430 E4A)

ECON846: INTERNATIONAL MONETARY POLICY

S1: 2007

I. GENERAL

Unit description

3 credit points

The objective of this unit is to examine selected policy issues in international monetary economics seen from a country, regional and global perspective. The course assumes completion of an intermediate course (two or more semesters) in macroeconomics. Emphasis is on economic argument, critical economic analysis and understanding rather than advanced mathematical expertise. The reading for each topic is designed to cover a broad range of technical skills and relevant policy issues of the international monetary system.

Unit rationale

Course is related to several units, especially ECON867 International Financial Management (provides an understanding of the overall macro international financial framework for business firms) and ECON303 International Economics (policy issues related to globalisation). Unit is also relevant for developing a critical awareness of global implications of recent economic developments and appropriate policy response, eg widening of U.S current account deficit and 1997 Asian crisis.

Teaching staff

Convenor : Professor Jocelyn Horne (jhorne@efs.mq.edu.au): 9850 7287; rm. 430, E4A.

Consultation hours: Monday: 3-5 (other times, TBA).

Classes

Class timetable can be found on university website at:

<http://www.timetables.mq.edu.au/>

Change of program

See Masters of Economics 2007 Handbook, p. 23.

II. TEXT AND MATERIALS

There is no single text for this unit. A list of recommended reading is given below. All journal papers are available as e-readings and can be downloaded from the university library website: www.lib.mq.edu.au

Owing to copyright laws, some book chapters (Ghosh (2005); Pollard (2005)) are not available as e-readings but are available by borrowing the book King and King (2005) held in the Reserve section of the University library.

Lecture notes covering each topic are available and can be downloaded from the the above library website (you need your usernumber and password). Any problems in using this website, please see the library staff in the Reserve section.

Unit web page

There is no web page for this unit. All material (lecture notes and most readings) can be downloaded from the University library website (see above).

Learning outcomes

In terms of discipline content, the main learning outcome is a clear understanding of the post -Bretton Woods international monetary system and identification of key issues relating to relevant policy debates centred around the confidence, adjustment and liquidity problems. Students are expected to gain a better awareness of the workings of the present international monetary system including the role of the IMF and the impact of recent developments, eg 1997 Asian crisis on national, regional and the global economy.

In terms of generic skills, the main outcome is that students strengthen their skills in the following areas: critical economic analysis, interpreting economic data, communication of ideas both orally and written, ability to link concepts with operational measures, eg external solvency with operational measures and ability to see linkages across topics, eg choice of exchange rate regime and EMU and creative problem solving, eg developing a forward-looking indicator of an impending confidence crisis.

III. COURSE FORMAT AND ASSESSMENT

Teaching/learning strategies

Course format is lecture-based (1 x 2 hour lecture) but with ample time for questions/discussion within this followed by tutorial/discussion period as needed. Lecture notes are intended as a guide to the reading and to help identify key issues but not as a substitute for reading or class attendance. To receive maximum benefit from the unit, you are encouraged and expected to attend all lectures. While there are no penalties for non-attendance, the onus is on the student to catch up.

Interspersed in the lecture notes are questions for discussion. You are strongly encouraged to read the notes as well as relevant reading material before and after each class. You are encouraged to think about and discuss your answers in class in order to strengthen your critical thinking and oral communication skills. Analytical skills are the core of the economics discipline. Presentation skills are also useful and all participants are encouraged to give a short review of any reading material and essay (critical feedback will be provided!) Feedback on written skills is given via essay comments by lecturer. Students are also encouraged to follow current developments

in the macro framework of international finance such as the US current account deficit and oil prices and HIPC (debt relief to poor developing countries).

Assessment

Assessment is made up of:

- (a) 2 hour written exam: 80 percent**
- (b) essay assignment: 20 percent**

IT IS A REQUIREMENT OF THE ECONOMICS DEPARTMENT THAT STUDENTS MUST PASS THE EXAM (PASS GRADE OR ABOVE) TO PASS THE UNIT.

(a) Exam

A 2 hour written examination (3/7 essay questions) will be held in class at the usual class time on Monday 4 June, 2007 in the last week of semester 1. Please note that no dictionaries may be taken into exam (calculators not needed). You are expected to present yourself for examination at the time and place as given above.

The **only** exception to not sitting an examination at the designated time is because of documented illness (at time of exam) and/or documented unavoidable disruption . Under certain circumstances, you may wish to consider applying for Special Consideration. Information about unavoidable disruption and the special consideration process is available at: <http://www.reg.mq.edu.au/Forms/APSCon.pdf>

You are advised that it is Macquarie University policy **not** to set early (or late) exams for individuals or groups of students outside what has already been designated. All students are expected to ensure that they are available as required by the exam schedule.

(b) Essay

The remaining 20 percent will be allocated to an essay (for details, see section VI below). The essay is individual work although discussion with other classmates and lecturer are strongly encouraged. The essay is an integral component of the coursework. Failure to submit an essay without a satisfactory medical certificate (covering the date/s of late submission and/or unavoidable disruption will result in a F grade being awarded). There are penalties for late submission, see below. No essay will be accepted on or after the date of the final exam. Essays are normally graded (mark out of 20) and returned with written comments within a few weeks of the essay deadline.

Plagiarism

The university defines plagiarism in its rules: ‘Plagiarism involves using the work of another person and presenting it as one’s own’. Plagiarism is a serious breach of University rules and carries significant penalties. You are advised to read the University practices and procedures on plagiarism. These can be found in the Handbook of Undergraduate Studies or on the web at:

<http://www.student.mq.edu.au/plagiaris/>

The policies and procedures explain what plagiarism is, how to avoid it, procedures taken in cases of suspected plagiarism and penalties if found guilty. Penalties may include deduction of marks, failure in the unit, and/or referral to the University discipline committee.

University Policy on grading

Academic senate has a set of guidelines on the distribution of grades across the range from fail to high distinction. Your final result will include one of these grades plus a standardised numerical grade (SNG). On occasion, your raw mark for a unit (ie, the total of your marks for each assessment item) may not be the same as the SNG grade you receive. Under the senate guidelines, results may be scaled to ensure that there is a degree of comparability across the university, so that units with the same past performances of their students should receive similar results.

It is important that you realise that the policy does not require that a minimum number of students are to be failed in any unit. The process of scaling (if done) does not change the order of marks among students. For an explanation of the policy, see: <http://www.mq.edu.au/senate/MQUonly/Issues/Guidelines2003.doc> or <http://www.mq.edu.au/senate/MQUonly/Issues/detailedguidelines.doc>

Relationship between assessment and learning outcomes

Mode of assessment is on demonstrated written (rather than oral) skills that cover broadly the above learning outcomes. (Strengthening of oral communication skills is addressed through class discussion but not assessed directly although it is expected that stronger oral skills will help clarify issues and tighten critical reasoning, as reflected in written assessment.) It is important to note that what is being assessed is the standard reached in above areas (discipline, generic skills) and not ability to write per se, eg perfect English and/or literature.

IV. LECTURE TOPICS

1. - 2. INTERNATIONAL MONETARY SYSTEM AND EXCHANGE RATE REGIMES.

Principles and problems. Functioning of the present international monetary system; perceived weaknesses; role of International Monetary Fund; reform options.

3. - 4. CONFIDENCE PROBLEM AND INTERNATIONAL MONETARY CRISES. Policy issues and reform options. Case study: 1997 Asian crisis.

5. --6. ADJUSTMENT PROBLEM. SAVING, INVESTMENT AND CURRENT ACCOUNT. Persistent current account imbalances ; Feldstein-Horioka puzzle and debate on capital mobility. Policy issues. Case study: U.S. current account deficit.

7. --8. EXTERNAL DEBT AND SOLVENCY. Theory and applications. Debt overhang. Case study : HIPC initiative.

9. --10. INTERNATIONAL RESERVES AND LIQUIDITY. Issues of adequacy and equity. Theory and applications. Role of SDR. Policy issues and reform options.

11.--12. EUROPEAN MONETARY UNION AND CURRENCY UNIONS. Optimal currency areas. Case study: EMU.

13. EXAM

V. REFERENCES/READING

1. INTERNATIONAL MONETARY SYSTEM AND EXCHANGE RATE REGIMES

(e in front denotes available as e-reading; ASTERISK DENOTES PRIORITY READING)

*eBuire, A. (1995) “Reflections on the International Monetary System”, *Essays in International Finance*, No. 195, International Finance Section, Princeton University, January.

eDavidson, P. (1992-93) “Reforming the World’s Money” *Journal of Post-Keynesian Economics*, Vol. 15, Winter, 1992-93, 153-179.

Ghosh, A. and others (2005) “Does the Exchange Rate Regime Matter for Inflation and Growth?” in P. King and S. King (eds.) *International Economics and International Economic Policy. A Reader*, McGraw Hill, United States, ch.25, 276-284.

eHorne, J. (2004) “Eight Conjectures about Exchange Rates”, *Journal of Economic Studies*”, Vol. 31, no.6, 524-548.

eMcKinnon, R. (1992-93) “Monetary and Exchange Rate Policies for International Financial Stability: A Proposal,” *Journal of Economic Perspectives*, Winter, 1988, 83-103.

*eMcKinnon, R. (1993) “The Rules of the Game: International Money in Historical Perspective”, *Journal of Economic Literature*, Vol. XXX1, March , 1- 44..

eWilliamson, J. (1992-93) “On Designing an International Monetary System”, *Journal of Post-Keynesian Economics*, Vol. 15, Winter 1992-93, 181-191.

2. CONFIDENCE PROBLEM

eKrugman, P. (1979) “A Model of Balance of Payments Crises” *Journal of Money, Credit and Banking*, Vol. 11, 311 – 25.

eCabalu, H (1999) “A Review of the Asian Crisis: Causes, Consequences and Policy Responses” *The Australian Economic Review*, Vol 32, 304 – 13.

*eDonovan, D (1999) “The IMF and the Asian Crisis: Handling Risk and Uncertainty” *Economic Papers*, 18, December, 20-25.

*eRadelet, S. and J. Sachs (2005) “The Onset of the East Asian Financial Crisis.” In King and King, op.cit, ch.33, 369-408.

*IMF (2000) “Progress in Strengthening the Architecture of the International Financial System”, Factsheet. Download from:
www.imf.org/external/np/exr/facts/arcguide.htm

3. ADJUSTMENT PROBLEM

eBayoumi, T. (1990) “Saving-Investment Correlations: Immobile Capital, Government Policy, or Endogenous Behavior?”, *I.M.F. Staff Papers*, 37, June, 360-87.

*eCorden, M. (1991) “Does the Current Account Matter? The Old View and the New”, *Economic Papers*, 10, 1-19.

eFeldstein, M. and C. Horioka, (1980) “Domestic Saving and International Capital Flows,” *Economic Journal*, 90, June, 314-29.

*Mann, C (2000) “Is the US Current Account Deficit Sustainable?” Finance and Development, March. Download from:
www.imf.org/external/pubs/ft/fandd/2000/03/mann.htm

*Summers, L (2004) “The US Current Account Deficit and the Global Economy”, Per Jacobsson lecture, Washington, DC. Download from:
www.perjacobsson.org/2004/100304.pdf

4. EXTERNAL DEBT

e Bahram, N. (1990) “Lessons of the Debt Decade, *Finance and Development*, March, 9-13.

*eCohen, D (1985) “How to Evaluate the Solvency of an Indebted Nation” *Economic Policy*, November, 140-156.

*eEaton, J (1990) “Debt Relief and the International Enforcement of Loan Contracts” *Journal of Economic Perspectives*, Vol.4, No. 1, 43-56.

*eKatsela L (1985) “Discussion on Cohen”, op. cit, 157-166.

*Pattillo, C., Poirson, H. and L. Ricci (2002) “External Debt and Growth” *Finance and Development*, Vol. 39, June, 1-7. This paper can be downloaded from <http://www.imf.org/external/pubs/ft/fandd/2002/06/pattillo.htm>

5. INTERNATIONAL LIQUIDITY

*eBuira, A. *op. cit.* 6 –23.

*Clark, P. and J. Polak (2004) “International Liquidity and the Role of the SDR in the International Monetary System”, *IMF Staff Papers*, 51, 47-70. Download from: www.imf.org/External/Pbs/FT/Staffp/2004/01/pdf/Clark.pdf

eHorne, J. and D. Nahm (2001) “International Reserves and Liquidity: a Reassessment”, *Kredit und Kapital*, 34, Heft 3, 356-392.

6. MONETARY UNION AND OPTIMUM CURRENCY AREAS

Pollard, P, G (2005) “The Creation of the Euro and the role of the dollar in international markets” in King and King (eds.), ch. 29, 323-344.

*Mundell, R (1961) “A Theory of Optimum Currency Areas”, *American Economic Review*, 51, September, 657-665.

eBeddoes, Z. (1999) “ From EMU to AMU? The Case for Regional Currencies”, *Foreign Affairs*, Vol. 78, 8 –13.

*ePomfret, R (2005) “Currency Areas in Theory and Practice”, *The Economic Record*, 81, June, 166-176.

VI. ESSAY

Choose ONE question (either (a) or (b)). References given are minimal. You are expected to develop your own but multiple references are not required for a good grade (credit and above). Grade is for generic and discipline skills (critical analysis (eg, ability to weigh strengths and weaknesses of arguments), clear and cohesive, well-structured argument, identification and understanding of

key issues, interpretation and integration of data (if relevant) with written text, introduction and conclusion that link essay argument). MINIMAL GRADE IS GIVEN FOR DESCRIPTIVE WORK AS LECTURER IS UNABLE TO ASSESS ANY OF ABOVE SKILLS. DO NOT CITE REFERENCES YOU HAVE NOT READ! READ RULES ON PLAGIARISM (see above).

See below for date of submission/instructions.

CHOOSE EITHER:

PRINCIPLES AND INTERNATIONAL MONETARY SYSTEM (Buira (1995)); Ghosh and others (2005); McKinnon (1993); Mundell (1961)).

- (a) Why don't all countries adopt a flexible exchange rate regime in the post-Bretton-Woods international monetary regime?

OR

ADJUSTMENT PROBLEM AND CURRENT ACCOUNT (Corden (1991); Mann (2000); Summers (2004))

- (b) Does the US current account deficit require a policy response and, if so, by whom?

Essay length should not exceed 2,000 words.

Deadline for submission: Monday, April 30, 2007, 8pm.

Hand in essay (with attached assessment cover sheet signed stating you have read, and understood University rules on plagiarism) in marked box outside EFS Resource and Information centre (ERIC). (The Assessment cover sheet can also be downloaded from the ERIC website.)

Late essays will be penalised; one mark deducted for each day late without satisfactory medical certificate covering period of late submission. Essay is part of coursework. Failure to submit an essay will result in an F grade being awarded. NO ESSAY ACCEPTED ON OR AFTER DATE OF FINAL EXAM.

Postscript.

Student Support Services

Macquarie university provides a range of Academic Student Support. See

<http://www.student.mq.edu.au>

Practical help is also available from ERIC staff, Reserve Section of University library and lecturer.

Macquarie University

School of Economic and Financial Studies

UNIT: **ECON 846 International Monetary Policy**

ASSIGNMENT: Essay

DUE DATE : Monday 30 April, 2007

LENGTH: Word limit \leq 2,000 words

CONTRIBUTION TO FINAL ASSESSMENT: 20%

INSTRUCTION: Submit to labeled box in ECON REFERENCE ROOM
(outside E4A)

STUDENT NAME:

_____ (Surname)

(Other Names)

STUDENT NUMBER:

ESSAY TOPIC (give full essay question): :

ESSAY GRADE:

MARKER'S COMMENTS:

DEFINITION OF PLAGIARISM

Plagiarism involves using the work of another person and presenting it as one's own. Any of the following acts constitutes plagiarism unless the source of each quotation or piece of borrowed material is clearly acknowledged:

- (a) copying out part(s) of any document of audio-visual material (including computer-based material);
- (b) using or extracting another person's concepts, experimental results, or conclusions;
- (c) summarising another person's work;
- (d) in an assignment where there was collaborative preparatory work, submitting substantially the same final version of any material as another student.

Encouraging or assisting another person to commit plagiarism is a form of improper collusion and may attract the same penalties.

STATEMENT TO BE SIGNED BY STUDENT:

- 1. I have read the definition of plagiarism that appears above.
- 2. In my essay I have carefully acknowledged the source of any material which is not my own work.
- 3. I am aware that the penalties for plagiarism can be very severe.

Name: _____

Signature: _____

Student Number: _____

THIS PAGE MUST BE COMPLETED AND ATTACHED TO THE ESSAY