Faculty of Business and Economics

ECON846

INTERNATIONAL MONETARY POLICY

Semester 1 2011

UNIT OUTLINE

Introduction

International monetary policy is about public-sector decisions concerning inflation, interest and exchange rates and involving more than one country or currency.

The topics covered in this course include national income accounting and the balance of payments, exchange rates and the foreign exchange market, money and interest rates, price levels and exchange rates in the long run, output and the exchange rate in the short run, fixed exchange rates and foreign exchange intervention, the international monetary system, macroeconomic policy and coordination under floating exchange rates, optimum currency areas, the global capital market and the distinctive problems of developing countries.

ECON846 International Monetary Policy provides students with analytical tools that enable them to understand macroeconomic phenomena and policy debates in an international context. Upon completing the course students will be able to interpret the continuous flow of data on the state of the world economy and to participate with confidence in debates about international economic policy.

Prescribed text

Paul Krugman and Maurice Obstfeld, *International Economics: Theory and Policy*, 8th edition, Pearson/Addison-Wesly.

We will only be using Parts 3 & 4 of this text, ie, we will not use Parts 1 & 2.

Lecturers

1. **Geoff Kingston**

Office: E4A 411. Email: geoff.kingston@mq.edu.au

Note: except in emergencies, emails will only be answered during consultation times.

Consultation times: Thursday 2-5pm

2. **Ben Wang**

Office: E4A453. Email: ben.wang@mq.edu.au

Note: except in emergencies, emails will only be answered during consultation times.

Consultation times: Thursday 10-11, Friday 12-14 hours.

Lecture/Tutorial Times and Venues

Thursday:	18-20 hours ie 6pm-9pm (Lecture/Tutorial)	W6B 320

Assessment

Mid-session examination, in Week 7 (7 April) & in place of lectures that week*	20%
Review essay, due by Thursday 12 May **	20%
*Final examination***	<u>60%</u>
Total	100%

*Mid-session examination: each week students will work through a set of tutorial questions on the topics discussed during the lecture of the previous week (see below for topics week by week). Your mid-session examination is 50 minutes plus 10 minutes reading time. It will be based primarily on questions along the lines of the numeric/short answer tutorial questions on lectures presented from weeks 1 to 6 (see below).

**Review essay: write a 1800 word summary and evaluation of any single one of the 6 classic articles on international monetary policy (listed below.) By "review essay" I mean a summary <u>in your own words</u> of the article you have chosen to review, together with an appraisal of it. Choose your own preferred proportions of summary and appraisal. You will receive a <u>slightly</u> higher mark if, other things equal, the article you choose to review is comparatively difficult. Your bibliography need not be extensive. Keep a copy of your essay.

***Final examination: to be held at a time and place to be announced in due course by the administration. It will be based on lectures and tutorials from weeks 1 to 13 (see below), with an emphasis on material presented after the mid-session examination.

LECTURE PROGRAM

Week 1 (Thursday 24 February)

NATIONAL INCOME ACCOUNTING &THE BALANCE OF PAYMENTS   Chapters 12 (pp288-312)

NB: The week 1 lecture will be short. There is no tutorial in Week 1.

Week 2 (Thursday 3 March)

EXCHANGE RATES & THE FOREIGN EXCHANGE MARKET: AN ASSET APPROACH   Chapter 13 (pp318-348)

Week 3 (Thursday 10 March)

MONEY, INTEREST RATES, AND EXCHANGE RATES   Chapter 14 (pp351-380)

Week 4 (Thursday 17 March)

PRICE LEVELS &THE EXCHANGE RATE IN THE LONG RUN   Chapter15 (pp382-419)

Week 5 (Thursday 24 March)

OUTPUT & THE EXCHANGE RATE IN THE SHORT RUN   Chapter 16 (pp420-459)

Week 6 (Thursday 31 March)

FIXED EXCHANGE RATES & FOREIGN EXCHANGE INTERVENTION   Chapter 17 (pp460-500)

Week 7 (Thursday 7 April)

MIDSESSION EXAMINATION, in place of lectures and tutorials. Mid-session examination value: 20%.

Monday 11 April—Tuesday 26 April

MIDSESSION BREAK

Week 8 (Thursday 28 April)

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THE INTERNATIONAL MONETARY SYSTEM 1870-1973   Chapter 18 (pp501-531)

Week 9 (Thursday 5 May)

MACROECONOMIC POLICY & COORDINATION UNDER FLOATING EXCHANGE RATES   Ch 19 (pp532-564)

Week 10 (Thursday 12 May)

OPTIMUM CURRENCY AREAS &THE EUROPEAN EXPERIENCE   Chapter 20 (pp565-593)

NB: your review essay is due by 12 May. Essay value: 20%.

Week 11 (Thursday 19 May)

THE GLOBAL CAPITAL MARKET: PERFORMANCE & POLICY PROBLEMS   Chapter 21 (pp594-620)

Week 12 (Thursday 26 May)

DEVELOPING COUNTRIES: GROWTH, CRISIS, & REFORM   Chapter 22 (pp621-664)

Week 13 (Thursday 2 June)

REVIEW.

NB: tutorials in Week 13 will be brief.

Six classic articles on international monetary policy

1. Blanchard , O, M Dass & H Faruque, 2010, The Initial Impact of the Crisis on Emerging
        Market Countries, IMF working paper.

2. Krugman , P, 1979, A Model of Balance-of-Payments Crises, *Journal of Money, Credit and Banking*, pp. 311-
        325

3. Krugman, P, 1994, The Myth of Asia's Miracle , *Foreign Affairs*, Nov./Dec., pp.62-

4. McKinnon, R, 2001, After the Crisis, The East Asian Dollar Standard Resurrected:
        An Interpretation of High Frequency Exchange Rate Pegging, Stanford University Working paper.

5. Obstfeld, M, 2009, International Finance and Growth in Developing Countries: What Have we Learned?,
        NBER Working Paper 14691.

6. Rogoff, K, and V Stavrakeva, 2008, The Continuing Puzzle of Short Horizon Exchange Rate Forecasting, available from Rogoff's website at Harvard University

Unit web page

Students will be able to access the unit web page by using their normal university Student ID Number and Password on http://learn.mq.edu.au. Further help may also be provided by the Learning and teaching Centre: http://www.mq.edu.au/learningandteachingcentre.

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 the University's rules and carries significant penalties. You must read the University's 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/plagiarism

The policies and procedures explain what plagiarism is, how to avoid it, the procedures that will be taken in cases of suspected plagiarism, and the penalties if you are found guilty. Penalties may include a 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 standardized numerical grade (SNG). On occasion your raw mark for a unit (i.e., the total of your marks for each assessment item) may not be the same as the SNG which 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 achieve similar results. It is important that you realize that the policy does not require that a minimum number of students are to be failed in any unit. In fact it does something like the opposite, in requiring examiners to explain their actions if more than 20% of students fail in a unit. The process of scaling does not change the order of marks among students. A student who receives a higher raw mark than another will also receive a higher final scaled mark. For an explanation of the policy see:http://senate.mq.edu.au/rules/Guidelines2003.doc, http://senate.mq.edu.au/rules/detailedguidelines.doc