

MACQUARIE  
UNIVERSITY



FACULTY OF  
BUSINESS AND ECONOMICS

**ECON303**

**International Money and Finance**

**Semester 1, 2010**

*Department of Economics*

## ABOUT THIS UNIT

This unit studies macroeconomic theory and policy in a global context. The evolution of international money and capital markets is described. The operation of the foreign exchange market is examined. The models of open economies are used to understand important issues in international macroeconomics including: the exchange rate; the current account; international capital mobility; exchange rate regimes; monetary unions. The unit also develops the macroeconomic implications of monetary and fiscal policies for small and large open economies for different regimes.

## TEACHING STAFF

Natalia Ponomareva (unit coordinator), Room: E4A428

Phone: 98506194, email: [nponomar@efs.mq.edu.au](mailto:nponomar@efs.mq.edu.au)

Consultation hours Monday 11am-1pm or by appointment

## CLASSES

**Lecture&Tutorial:** Monday 2-5pm E5A 107

## REQUIRED AND RECOMMENDED TEXTS

### Recommended Text:

Krugman, P. and M. Obstfeld (2008), *International Economics, Theory and Policy*, 8<sup>th</sup> ed., Addison-Wesley, Pearson, Boston.

The text is available for purchase at Co-op Bookshop.

## UNIT WEB PAGE

Lecture and tutorial material as well as up to date information concerning any aspect of the unit, including any changes to the schedule, will be available to students by logging on to Blackboard at <http://learn.mq.edu.au>.

## LEARNING OBJECTIVES AND OUTCOMES

**Subject specific learning outcomes:**

- To understand and explain the assumptions and structure of standard theoretical models that form the body of modern international macroeconomics;
- To apply these models and to interpret and analyze real problems in international macroeconomics;
- To understand the associated empirical implications and important policy issues in the global economy.

**Generic learning outcomes:**

- To be open to new ways of thinking and appreciate the importance of intellectual curiosity and reflection as the foundation for continuous learning.
- To identify, define and analyse problems and recommend creative solutions within real-world constraints.
- To demonstrate a capacity to work independently including the ability to plan and achieve goals.
- To critically evaluate underlying theories, concepts, assumptions, limitations and arguments in disciplinary and cross-disciplinary fields of study.
- To be intellectually ready to participate in public policy discussions arising in business and government environments;
- To manage, analyse, evaluate and use information efficiently and effectively.

**ECON201 ONLINE QUIZZES**

There will be 3 online quizzes in this course.

Quiz	Availability
1	3pm 10.03 – 6pm 15.03
2	3pm 31.09 – 6pm 5.04
3	3pm 26.05 – 6pm 31.05

**ASSESSMENT**

The components of assessment in this course are as follows:

	%
Online quizzes	10
Mid Semester Test	30

Final exam	60
Total	100

Failure to attend mid-semester or final exam without the submission of an Application for Special Consideration on the grounds of illness or other unavoidable disruption together with the required supporting documentation will result in a mark of zero for the assessment.

If you wish to advise of your absence from a mid-semester test for reason of illness or other unavoidable disruption you must fill out an Application for Special Consideration. The forms are available from the Student Enquiry Service or online at <http://www.reg.mq.edu.au/Forms/APSCon.pdf>. The completed form with appropriate supporting documentation must be submitted to the Student Enquiry Service, not to the Faculty of Business and Economics.

For absence related to illness you will need to include an EFS Professional Authority Advice Form. Students granted Special Consideration for a missed mid semester test will not be allowed to sit the test at a different time. The value of the final exam will be increased on a pro rata basis. Granting of Special Consideration for the final exam will permit students to sit for a supplementary examination.

More detail on the policy and required documentation can be found at [http://www.mq.edu.au/policy/docs/s/procedure\\_specialconsideration.htm](http://www.mq.edu.au/policy/docs/s/procedure_specialconsideration.htm)

A 2 hour final examination for this unit will be held during the University Examination period.

You are expected to present yourself for examination at the time and place designated in the University Examination Timetable. The timetable will be available in Draft form approximately eight weeks before the commencement of the examinations and in Final form approximately four weeks before the commencement of the examinations.

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

The only exception to not sitting an examination at the designated time is because of documented illness or unavoidable disruption. In these circumstances you may wish to consider applying for Special Consideration. Information about unavoidable disruption and the special consideration process is available at the policy and required documentation can be found at [http://www.mq.edu.au/policy/docs/s/procedure\\_specialconsideration.htm](http://www.mq.edu.au/policy/docs/s/procedure_specialconsideration.htm)

If a Supplementary Examination is granted as a result of the Special Consideration process the examination will be scheduled after the conclusion of the official examination period

You are advised that it is Macquarie University policy not to set early examinations for individuals or groups of students. All students are expected to ensure that they are available until the end of the teaching semester, the final day of the official examination period.

## 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.

## DETERMINATION OF OVERALL GRADE

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

## STUDENT SUPPORT SERVICES

Macquarie University provides a range of Academic Student Support Services. Details of these services can be accessed at <http://www.student.mq.edu.au>.

## TOPIC GUIDE

This is an approximate topic guide.

**Topic 1** (22 February)

Introduction; national income and balance of payments, exchange rates and the foreign exchange market, interest parity

KO Chs. 1, 2, 12, 13

**Topic 2** (1 March)

Interest rates and exchange rates in monetary equilibrium, PPP, real exchange rate determination

KO Chs. 14, 15

**Topic 3** (8 March)

The Mundell-Fleming model under flexible exchange rates (AA-DD model), sticky prices.

KO Ch. 16

**Quiz 1 starts 10 March, ends 15 March**

**Topic 4** (15 March)

Fixed exchange rates and foreign exchange intervention; exchange rate crises

KO: Ch. 17

\* M. Goldstein. 2006. Renminbi Controversies. Peterson Institute for International Economics

*Cato Journal*, Vol. 26, No. 2

<http://www.cato.org/pubs/journal/cj26n2/cj26n2-5.pdf>

**Topic 5** (22 March)

The international monetary system before 1973

KO: Ch. 18

\* R.N. Cooper, 1982. The Gold Standard: Historical Facts and Future Prospects. *Brookings Papers on Economic Activity*, 1982 Issue 1, 1-56.

**Topic 6** (29 March)

The mixed exchange rate system since 1973; fixed vs. flexible exchange rates

KO: Ch. 19

\*\* J. Frankel 1999. No Single Currency Regime is Right for All Countries or At All Times. *Essays In International Finance*, 205, Princeton

[http://www.princeton.edu/~ies/IES\\_Essays/E215.pdf](http://www.princeton.edu/~ies/IES_Essays/E215.pdf)

\* A. R. Ghosh, A. Gulde, H. Wolf. 2000. Currency boards: More than a quick fix?

Economic Policy 15 (31), 269–335.

\* R.N. Cooper 2009 The Future of the Dollar, Peterson Institute for International Economics Policy Brief 09-21.  
<http://www.iie.com/publications/pb/pb09-21.pdf>

**Quiz 2 starts 31 March, ends 5 April**

**MID-SEMESTER TEST: Monday 19 April, in class.**

**Topic 7** (3 May)

A dynamic model of real exchange rates and the current account

\*\* R. Dornbusch & S. Fischer. 1980. Exchange Rates and the Current Account. American Economic Review, Vol. 70, No. 5. Dec. 960-971.

\* M Obstfeld and K Rogoff 2004 The Unsustainable US Current Account Position Revisited NBER WP10869  
<http://www.nber.org/papers/w10869>

**Quiz 2 starts 20 April, ends 24 April**

**Topic 8** (10 May)

Current account determination in an endowment and a production economy; fiscal deficits.

KO Ch. 16 p 455-456

\*\* Schmitt-Grohe and Uribe: International Macroeconomics Chs 2, 3, 4, 5

<http://www.econ.duke.edu/~uribe/econ196s/lecture.pdf>

**Topic 9** (17 May)

Global imbalances: do deficits matter?

KO: Ch. 19 (pp. 545-5351)

\* R.N. Cooper, 2006 Living with Global Imbalances: A Contrarian View. Journal of Policy Modeling, September 2006, Vol. 28, iss. 6, pp. 615-27

**Topic 10** (24 May)

Optimum Currency Areas; adjustment difficulties in Europe; Australia and NZ

KO: Ch. 20

\*\* O. Blanchard 2007 Adjustment within the Euro. The Difficult Case of Portugal. Portuguese Economic Journal, Vol. 6, No. 1, pp. 1-21

\* J. Williamson. 2005. A Currency Basket for East Asia, Not Just China. Peterson Institute for International Economics Policy Brief 05-1 <http://www.iie.com/publications/print.cfm?doc=int&ResearchID=526>

\* D. Kim and J. Sheen 2007. Consumption Risk-Sharing within Australia and with New Zealand. Economic Record March, Vol. 83 Issue 260

**Quiz 3 starts 26 May, ends 31 May**

**Topic 11 (31 May)**

Global capital markets; capital controls and regulation. Overview and conclusions.

KO: Ch 21

\*\* D. Rodrik 1998 Who Needs Capital Account Liberalization? in Peter B. Kenen (ed.), Should the IMF Pursue Capital Account Convertibility? : Princeton University Press (1998).

<http://ksghome.harvard.edu/~drodrik/essay.PDF>

\* P. Krugman. 1998. An Open Letter To Prime Minister Mahathir and his Slate piece on Capital Control Freaks (search for these on [www.pkarchive.org](http://www.pkarchive.org))

\*P.B. Henry. 2003. Capital-account liberalization, the cost of capital, and economic growth. American Economic Review. Nashville: May. Vol.93, Iss. 2; pg. 91

<https://faculty-gsb.stanford.edu/henry/Homepage/PDF/AER.pdf>

**End-Of-Semester Exam: 2 hours, TBA**