ECON846: INTERNATIONAL MONETARY POLICY
2002

I. COURSE CONTENT

The **objective** of this course is to examine selected policy issues in international monetary economics. **The course assumes completion of an introductory or intermediate course in macroeconomics.** Emphasis is on strengthening **analytical skills, especially the ability** to present a cohesive **economic argument** based upon **economic principles and understanding of policy issues** from a global and regional perspective rather than advanced mathematical expertise or information per se. The lecture notes and reading for each topic are designed to cover a broad range of technical skills and provide considerable opportunities for debate and discussion.

II. COURSE FORMAT AND REQUIREMENTS

Course format is lecture-based with a fortnightly tutorial/group discussion based upon the assigned reading (see an assigned exercises below). **All reading covered in the tutorials is examinable.**

There will be a 2 hour examination paper at the end of the semester with a weight of 80 percent. The remaining 20 percent will be allocated to an essay (see below). The essay is an integral component of the coursework. Failure to submit an essay will result in an F grade being awarded. (There are penalties for late essay submission, see below.)

There is no single text for the course. A list of general and specific references is given below. Reading material marked with two asterisks is in the Reserve Section of the University library; items with one asterisk are available on three-day loan. **Journal (but not books) references can be downloaded from the University library website:** www.lib.mq.edu.au. This website can also be used to download lecture notes but you will need your usernumber and password for the latter.
III. LECTURE TOPICS

1. - 2. ANALYTICAL PRINCIPLES AND EXCHANGE RATE REGIMES: problems of adjustment, confidence and liquidity.
   Functioning of the present international monetary system; perceived weaknesses; role of International Monetary Fund and reform options.


7. --8. EXTERNAL DEBT theory and applications. HIPC initiative.


11.–12. MONETARY UNION AND OPTIMAL CURRENCY AREAS theory and applications (European Monetary Union, East-Asian currency union). Roles of U.S. dollar, euro and SDR in international monetary system.

13. –14. REVIEW/CATCH-UP

IV. REFERENCES

1. PRINCIPLES AND EXCHANGE RATE REGIMNES.
   International monetary system: problems; role of IMF; reform issues.


**2. CONFIDENCE PROBLEM**


3. ADJUSTMENT PROBLEM


4. EXTERNAL DEBT.


5. INTERNATIONAL LIQUIDITY

*Buira, A. op. cit.6 –23.


6. MONETARY UNION AND OPTIMAL CURRENCY AREAS


*International Monetary Fund (1997), World Economic Outlook, Washington D.C., IMF, October, Ch. III (EMU and the World Economy), 51-77.


v. TUTORIAL EXERCISES

PRINCIPLES AND INTERNATIONAL MONETARY SYSTEM
(a) Comment critically on Buira’s discussion of the main weaknesses of the present international monetary system. How have post-1995 developments affected his argument?

(b) What are the advantages and disadvantages of being the Nth country under fixed exchange rates? What role was played by the Nth country problem in the breakdown of Bretton-Woods? Has this problem been resolved for countries that have adopted flexible exchange rates?

(c) Would a return to fixed exchange rates for the main industrial countries solve the perceived weaknesses of the present international monetary system?

(d) Does the exchange rate regime matter? Comment critically on the main findings of Ghosh and others.

ADJUSTMENT PROBLEM AND CURRENT ACCOUNT
(Week beginning April 14; reading; Buira, pp. 23-29; Corden (1991))

(a) Does the adjustment problem exist under flexible exchange rates?

(b) Comment critically on Buira’s analysis of the adjustment process and role of the IMF.

(c) How useful are savings and investment data for interpreting movements in current account imbalances. Illustrate with reference to a country or group of countries.

(d) Comment critically on Corden’s identification of situations when a persistent current account imbalance warrants a policy response. Which, if any scenario is relevant for Australia, U.S. and Japan? What policy would you recommend?

EXTERNAL DEBT
(Week beginning April 28; reading: Cohen; Katsela; Eaton)

(a) How useful is Cohen’s analysis as a framework for assessing external debt solvency? Illustrate with reference to a country or group of countries.

(b) What is the main message of Eaton’s paper? How does it differ from Cohen’s interpretation of the 1980s debt crisis? Which interpretation best fits HIPC countries?

(c) How does the debt situation of low income African countries differ from that of Latin American countries?
(d) What is the rationale for debt relief for the two groups of countries?

INTERNATIONAL LIQUIDITY
(Week beginning May 12; reading; Buira, pp. 6-23): Horne and Nahm, pp. 368-371.

(a) Define the concepts of international reserves and liquidity. What empirical measure best fits each?

(b) Comment critically on Buira’s estimates of demand for international reserves. How useful are the estimates for assessing adequacy of international liquidity?

© Do you agree with Buira’s policy solution to resolving the problem of inequitable reserve distribution? What role should the IMF play?

MONETARY UNION
(Week beginning June 2: reading, Eudey in King, ch.24; Tavlas in King, ch.25)

(a) Comment critically on Eudey’a analysis of the benefits and costs of joining a monetary union. How relevant is the discussion for Asian countries?

(b) What is the difference between the use of money in a single economy vis-a-viz a multi-country setting? What are the implications of this difference for predicting the future roles of the U.S. dollar, euro and S.D.R?

© Comment critically on the main conclusions reached in Tavlas (2000).

VI. ESSAY

Essay length should not exceed 2,000 words.
Deadline for submission: Tuesday May 7, 2002, 8pm. Hand in essay (with attached signed sheet stating you have read, and understood University rules on plagiarism) in marked box in Econ Reference room.
Late essays will be penalised; one mark deducted for each day late without medical certificate.
Essay is part of coursework. Failure to submit an essay will result in an F grade being awarded.

References are minimal; you are expected to develop your own. You have a choice of one topic from the following:

1. Use Berg and Patillo’s analysis to assess the sustainability of the exchange rate regime of a selected country (or group of countries). Discuss critically your findings and policy implications.

   See references under topic 2 confidence problem

2. Use Cohen’s analysis to assess the external debt sustainability of an HIPC country (or group of HIPC countries). Discuss critically your findings and policy implications.

   See references under topic 4 external debt and www.imf.org for material on HIPC.

3. Use Eudey’s analysis to assess the costs and benefits of a non-EMU country (or group of non-EMU) countries joining a currency union. Discuss critically your findings and policy implications.

   See references under topic 6 monetary union.