ECON846: INTERNATIONAL MONETARY POLICY  
2003

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 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 ASSESSMENT

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

There will be a 2 hour examination in the last week of semester (same time and day) with a weight of 80 percent. The remaining 20 percent will be allocated to an essay (see below) drawn from tutorial topics. 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.) No essay will be accepted after the exam date.

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 may also be used to download lecture notes but you will need your usernumber and password for the latter.
III. LECTURE TOPICS

1. - 2. INTERATIONAL MONETARY SYSTEM AND EXCHANGE RATE REGIMES. Functioning of the present international monetary system; perceived weaknesses; role of International Monetary Fund; 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. REVIEW/CATCH-UP

14. EXAM
IV. REFERENCES

1. INTERNATIONAL MONETARY SYSTEM AND EXCHANGE RATE REGIMES


2. CONFIDENCE PROBLEM


3. **ADJUSTMENT PROBLEM**


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


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

5. INTERNATIONAL LIQUIDITY

**Buira, A. op. cit. 6 –23.**


6. MONETARY UNION AND OPTIMAL CURRENCY AREAS


v. TUTORIAL EXERCISES AND ESSAY QUESTIONS

PRINCIPLES AND INTERNATIONAL MONETARY SYSTEM
(Week beginning August 11; Buira (1995), pp. 1-6; 23-27); Ghosh and others (2000)

(a) Discuss critically the main perceived weaknesses of the present international monetary system, including Buira’s argument. How have post-1995 developments affected Buira’s argument? Would a return to fixed exchange rates for all countries resolve these weaknesses?

(b) Explain and discuss critically the role and significance of the Nth country concept. 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) Does the exchange rate regime matter for the functioning of the international monetary system? Examine and discuss critically the main findings of Ghosh and others (2000).

CONFIDENCE PROBLEM
(Week beginning August 25; reading; Radelet and Sachs (2000); Donovan (1999))

(a) Examine and discuss critically Radelet and Sach’s analysis of the Asian crisis. What implications for a global confidence problem in the present international monetary system may be drawn from your discussion?

(b) How might the role of the IMF be strengthened in addressing a global confidence problem? Compare and discuss critically the arguments of Donovan and Radelet and Sachs on this question.

ADJUSTMENT PROBLEM AND CURRENT ACCOUNT
(Week beginning September 15; reading; Buira, pp. 23- 29; Corden (1991))

(a) Examine and discuss critically Buira’s analysis of the external adjustment process and role of the IMF. Does an adjustment problem exist under flexible exchange rates?

(b) Examine and discuss critically Corden’s analysis of situations when a persistent current account imbalance warrants a policy response. Which, if any scenario is relevant for Australia or the U.S. or Japan? What policy response would you recommend?

EXTERNAL DEBT
(Week beginning September 22; reading: Cohen; Katsela; Eaton)

(a) Compare and discuss critically the frameworks used by Cohen and Eaton for analysing external debt solvency. Which interpretation best fits HIPC countries?.

(b) Examine and discuss critically Greene’s analysis of the debt situation of low income African countries. To what extent does the HIPC initiative resolve these problems?
INTERNATIONAL LIQUIDITY
(Week beginning October 13; reading; Buira, pp. 6-23): Horne and Nahm, pp. 368-371.

(a) Examine and discuss critically the concept of adequacy of international liquidity and measures used to assess adequacy. How useful are Buira’s estimates of demand for international reserves for this purpose?

(b) Examine and discuss critically the problem of inequitable reserve distribution and Buira’s policy solution. What role should the IMF play?

MONETARY UNION
(Week beginning October 20: reading, Eudey in King, ch. 24; Tavlas in King, ch.25)

(a) Examine and discuss critically Eudey’s 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 topic may be taken from any one of the above tutorial exercises. References are minimal: you are expected to develop your own.

Essay length should not exceed 2,000 words.
Deadline for submission: Monday 13 October, 2003, 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.