

MACQUARIE  
UNIVERSITY



FACULTY OF  
BUSINESS AND ECONOMICS

**ECON303**

**International Money and Finance**

**Semester 1, Year 2012**

*Department of Economics*

**MACQUARIE UNIVERSITY  
FACULTY OF BUSINESS AND ECONOMICS  
UNIT GUIDE**

**First Semester, 2012**

**Unit Convenor: Dr. Ha Vu**

**Credit points: 3**

Students in this unit should read this unit guide carefully at the start of semester. It contains important information about the unit. If anything in it is unclear, please consult the unit convenor.

**ABOUT THIS UNIT**

This unit studies macroeconomic theory and policy in a global context. We start by studying the balance of payments, followed by an in-depth study of an integrated model of exchange rate and output determination in open economies. This model is constructed step by step so students obtain a firm understanding of each component as well as the manner in which these components fit together. The resulting model presents a single unifying framework admitting the entire range of exchange rate regimes from pure float to managed float to fixed rates. The model may be used to analyze both comparative static and dynamic time path results arising from temporary or permanent policy changes or exogenous shocks in an open economy. The unit also studies the determination of the current account, discusses international macroeconomic policy and global imbalances, and provides historical and institutional background to complement the theoretical presentation.

**TEACHING STAFF AND CONTACTING STAFF**

Dr. Ha Vu,

Room: E4A room 444

Phone: 9850 8586

Email: [ha.vu@mq.edu.au](mailto:ha.vu@mq.edu.au)

Consultation hours: To be announced in the unit web page.

You are encouraged to seek help at a time that is convenient to you from me during my regular consultation hours. In special circumstances, an appointment may be made outside regular consultation hours.

Students experiencing significant difficulties with any topic in the unit must seek assistance immediately.

## CLASSES

### Lecture & Tutorial: Monday 12-3pm E6A 102 Theatre

The timetable for classes can be found on the University web site at:

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

Class attendance is only one part of university study. In addition to class attendance, students will need to spend around six hours per week in private study in order to perform well in this unit.

## REQUIRED AND RECOMMENDED TEXTS AND/OR MATERIALS

### Required Text:

\* Krugman, P., M. Obstfeld, and M.J. Melitz (2012), *International Economics: Theory and Policy*, 9<sup>th</sup> ed., Global Edition, Pearson. (Hereafter referred to as KOM)

The book is available for purchase at the Co-op Bookshop.

\* Schmitt-Grohe S. and M. Uribe (2007), *International Macroeconomics* (Hereafter referred to as SGU).

The text can be downloaded at

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

## UNIT WEB PAGE

Course 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 the learning management system (iLearn) that can be accessed via

<https://ilearn.mq.edu.au/login/MQ/>

## LEARNING OUTCOMES

### The learning outcomes of this unit are:

1. To understand and explain the assumptions and structure of standard theoretical models that form the body of modern international macroeconomics;
2. To apply these models to interpret and analyse real problems in international macroeconomics;
3. To understand the associated empirical implications and important policy issues in the global economy;
4. To familiarize with the analytical tools used in the field of international finance and show how these tools can be applied in examining key policy issues;

- To be intellectually ready to participate in public policy discussions arising in business and government environments.

## GRADUATE CAPABILITIES

In addition to the discipline-based learning objectives, all academic programs at Macquarie seek to develop the capabilities the University's graduates will need to develop to address the challenges, and to be effective, engaged participants in their world.

This unit contributes to this by developing the following graduate capabilities:

- Critical, Analytical and Integrative Thinking
- Problem Solving and Research Capability
- Creative and Innovative
- Effective Communication
- Capable of Professional and Personal Judgement and Initiative
- Commitment to Continuous Learning

## LEARNING AND TEACHING ACTIVITIES

This unit is taught as a mix of tutorials and lectures. The lectures are designed to provide the tools which can then be applied in tutorials. Tutorial questions will be discussed in the third hour in some weeks where the lectures are shorter than others. Together with understanding lectures, practising tutorial questions helps you to prepare for the class test and final exam as well as to solve problem sets.

The unit diary is as follows and *subject to change*.

Week/Date	Lecture Topic	Readings
1/ 27 February	1. Introduction: what is international money and finance?; National income accounting and balance of payments.	KOM Chs. 1 & 13 SGU Ch. 1
2/ 5 March	2. Exchange rates and the foreign exchange market; National money market and the equilibrium interest rates.	KOM Chs. 14 & 15
3/ 12 March	3. Law of one price and PPP; a long-run exchange rate model. * Problem Set 1 available in the Unit web	KOM Ch. 16

	page. Covering topics 1, 2 and 3.	
<b>4/ 19 March</b>	<b>4.</b> Output and exchange rates in short run: DD-AA model;	KOM: Ch. 17
<b>Problem Set 1 due 5pm, <u>21 March</u> at BESS</b>		
<b>5/ 26 March</b>	<b>5.</b> Fixed exchange rates and foreign exchange intervention; balance of payment crisis.	KOM: Ch. 18
<b>6/ 2 April</b>	<b>CLASS TEST</b>  Problem Set 2 available, covering topics 4 and 5	
<b>Mid-Semester Break: Monday 9 April to Friday 20 April 2012</b>		
<b>7/ 23 April</b>	<b>6.</b> International monetary systems: a historical overview.; the case for floating exchange rates	KOM: Ch. 19 * R.N. Cooper. 1982. The Gold Standard: Historical Facts and Future Prospects. Brookings Papers on Economic Activity, Vol. 1982, No. 1, pp. 1-56. * J. Frankel. 1999. No Single Currency Regime is Right for All Countries or At All Times. Essays In International Finance, 205, Princeton <a href="http://www.princeton.edu/~ies/IES_Esays/E215.pdf">http://www.princeton.edu/~ies/IES_Esays/E215.pdf</a>
<b>Problem Set 2 due 5pm, <u>24 April</u> at BESS</b>		
<b>8/ 30 April</b>	<b>7.</b> Current account determination in an endowment and a production economy; fiscal deficits.	KOM Ch.17 p 488-489 SGU Chs. 2-5
<b>9/ 7 May</b>	<b>8.</b> Optimum Currency Areas and European experience.  * Problem set 3 available covering topics 6, 7 and 8.	KOM: 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. Institute for International Economics,

		Policy Brief 05-1 <a href="http://www.iie.com/publications/pb/pb05-1.pdf">http://www.iie.com/publications/pb/pb05-1.pdf</a>
<b>10/ 14 May</b>	<b>9.</b> Global imbalances and financial crisis	* Blanchard, O. and G.M. Milesi-Ferretti (2009). Global Imbalances: In Midstream? IMF Staff Position Paper SPN/09/29, December 22, Washington, D.C. <a href="http://www.imf.org/external/pubs/ft/spn/2009/spn0929.pdf">http://www.imf.org/external/pubs/ft/spn/2009/spn0929.pdf</a> * M. Obstfeld and K. Rogoff. 2009. Global Imbalance and the financial crisis: Products of common causes <a href="http://www.econ.berkeley.edu/~obstfeld/santabarbara.pdf">http://www.econ.berkeley.edu/~obstfeld/santabarbara.pdf</a>
<b>Problem Set 3 due 5pm, 16 May at BESS</b>		
<b>11/ 21 May</b>	<b>10.</b> Global capital markets; capital controls and regulation.	KOM: 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). <a href="http://ksghome.harvard.edu/~drodrik/essay.PDF">http://ksghome.harvard.edu/~drodrik/essay.PDF</a> * P.B. Henry. 2003. Capital-account liberalization, the cost of capital, and economic growth. American Economic Review. Nashville: May.Vol.93, No. 2, pp 91-96 <a href="https://faculty-gsb.stanford.edu/henry/Homepage/PDF/Liberalization.pdf">https://faculty-gsb.stanford.edu/henry/Homepage/PDF/Liberalization.pdf</a>
<b>12/ 28 May</b>	11. Developing countries: growth, crisis, and reform	KOM: Chapter 22
<b>13/ 4 June</b>	<b>REVIEW</b>	

## RESEARCH AND PRACTICE

- This unit uses research from external sources (as listed in the table above).
- This unit gives you practice in applying research findings in your problem sets.

## RELATIONSHIP BETWEEN ASSESSMENT AND LEARNING OUTCOMES

Assessment will be based on the following THREE activities:

	Assessment Task 1	Assessment Task 2	Assessment Task 3
Title/Name	Problem sets	Class Test	Final Exam
Description of task	There are 3 problem sets to be submitted for marking. Each Problem set may include multiple choice questions, written short and long answer questions, and real problem analyses.	90 minute class test, including both short and long answer questions.	A two hour <u>closed book</u> final exam, including both short and long answer questions.
Due date	Problem set 1: 5pm, 21 March  Problem set 2: 5pm, 24 April  Problem set 3: 5pm, 16 May  All must be submitted via BESS	2 April	Check the University Examination Timetable, which 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. <a href="http://www.timetables.mq.edu.au/exam">http://www.timetables.mq.edu.au/exam</a>
% Weighting	15 (5% for each problem set)	35	50
Grading method	Raw marks will be given on each question. Judgement will be based on your understanding, correctness and coverage.	Multiple choice: One mark per correct answer, and zero otherwise. Written answer: Raw marks will be given on each question.	Raw marks will be given on each question. Judgement will be based on your understanding, correctness and coverage.
Submission method	At BESS by the due date	In-class test	Follow the University Examination Policy
Feedback	Grade and some feedback via the unit web page two weeks following the submission.	Grade via the unit web page three weeks after the test. Feedback through consultation times.	Final overall course result

Estimated student workload	3 hours lecture and 6 hours self-study each week	3 hours lecture and 6 hours self-study each week	3 hours lecture and 6 hours self-study each week
Learning outcomes assessed			
1	x	x	x
2	x	x	x
3	x	x	x
4	x	x	x
5	x	x	x
Graduate capabilities assessed			
1	x	x	x
2	x	x	x
3	x	x	x
4	x	x	
5	x	x	x
6			x

### ***Compulsory Class Test and Problem sets***

Failure to submit Problem sets at BESS by the deadline or to attend the class test will result in a mark of **zero**. Students who experience *serious misadventure* and are unable to attend the test should contact the unit convenor and provide full documentation explaining their non-attendance. As a matter of justice to all students, flimsy excuses will be rejected outright. If the documented evidence is accepted, the final exam mark will be converted to a higher percentage of the total marks.

### ***Final Examination***

A two hour closed book final examination for this unit will be held at the end of the semester.

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 at [http:// exams.mq.edu.au/](http://exams.mq.edu.au/).

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. The University's policy on special consideration process is available at

[http://www.mq.edu.au/policy/docs/special\\_consideration/policy.html](http://www.mq.edu.au/policy/docs/special_consideration/policy.html)

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. (Individual Faculties may wish to signal when the Faculties' Supplementary Exams are normally scheduled.)

The Macquarie university examination policy details the principles and conduct of examinations at the University. The policy is available at:

<http://www.mq.edu.au/policy/docs/examination/policy.htm>

As indicated in the event of documented adverse personal circumstances, such as accident, illness, etc., a supplementary exam **may be** granted. However, when a student has extra time to prepare while suffering only a minor ailment, a higher standard is expected in the deferred exam. Also, students who sit the regular final exam and then request a supplementary exam should know that, if a supplementary exam is granted, his/her performance in the supplementary exam may raise or lower the result obtained in the regular final exam. **Also, the format of the supplementary exam could be different from the final exam, even though the coverage of the course material is the same.**

## ACADEMIC HONESTY

The nature of scholarly endeavour, dependent as it is on the work of others, binds all members of the University community to abide by the principles of academic honesty. Its fundamental principle is that all staff and students act with integrity in the creation, development, application and use of ideas and information. This means that:

- all academic work claimed as original is the work of the author making the claim
- all academic collaborations are acknowledged
- academic work is not falsified in any way
- when the ideas of others are used, these ideas are acknowledged appropriately.

Further information on the academic honesty can be found in the Macquarie University Academic Honesty Policy at

[http://www.mq.edu.au/policy/docs/academic\\_honesty/policy.html](http://www.mq.edu.au/policy/docs/academic_honesty/policy.html)

## GRADES

Macquarie University uses the following grades in coursework units of study:

HD - High Distinction

D - Distinction

CR - Credit

P - Pass

F - Fail

Grade descriptors and other information concerning grading are contained in the Macquarie University Grading Policy which is available at:

<http://www.mq.edu.au/policy/docs/grading/policy.html>

## GRADING APPEALS AND FINAL EXAMINATION SCRIPT VIEWING

If, at the conclusion of the unit, you have performed below expectations, and are considering lodging an appeal of grade and/or viewing your final exam script please refer to the following website which provides information about these processes and the cut off dates in the first instance. Please read the instructions provided concerning what constitutes a valid grounds for appeal before appealing your grade.

[http://www.businessandconomics.mq.edu.au/for/new\\_and\\_current\\_students/undergraduate/admin\\_central/grade\\_appeals](http://www.businessandconomics.mq.edu.au/for/new_and_current_students/undergraduate/admin_central/grade_appeals)

## SPECIAL CONSIDERATION

The University is committed to equity and fairness in all aspects of its learning and teaching. In stating this commitment, the University recognises that there may be circumstances where a student is prevented by unavoidable disruption from performing in accordance with their ability. A special consideration policy exists to support students who experience serious and unavoidable disruption such that they do not reach their usual demonstrated performance level. The policy is available at:

[http://www.mq.edu.au/policy/docs/special\\_consideration/procedure.html](http://www.mq.edu.au/policy/docs/special_consideration/procedure.html)

## 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>.

## IT CONDITIONS OF USE

Access to all student computing facilities within the Faculty of Business and Economics is restricted to authorised coursework for approved units. Student ID cards must be displayed in the locations provided at all times.

Students are expected to act responsibly when utilising University IT facilities. The following regulations apply to the use of computing facilities and online services:

- Accessing inappropriate web sites or downloading inappropriate material is not permitted. Material that is not related to coursework for approved unit is deemed inappropriate.
- Downloading copyright material without permission from the copyright owner is illegal, and strictly prohibited. Students detected undertaking such activities will face disciplinary action, which may result in criminal proceedings.

Non-compliance with these conditions may result in disciplinary action without further notice.

Students must use their Macquarie University email addresses to communicate with staff as it is University policy that the University issued email account is used for official University communication.