Economics 441/541-001: International Monetary Theory and Policy (Spring 2024) Online Course Syllabus

Department of Economics

Instructor: Hiro Ito, Professor of Economics
Office: Urban Center Building, #450
Email: ito@pdx.edu
Phone: x5 – 3930
Office Hours: MW 12:00-13:00, or by appointment
Teaching Assistant: Serra Kirsch dehen@pdx.edu
TAs' Office Hours: Tuesday 9am – 12pm
Econ Lab Hours: M-F 9am-4pm

1. Course Objective

This course examines the behavior of international financial markets, the balance of payments, exchange rates, and the interactions between international financial markets and domestic economic activity. Topics covered in this course include the structure of international financial markets; the role of central banks in open macro settings; the interdependency of macroeconomies in the world and policy coordination; exchange rate systems; policy analysis for open economies; the mechanism of financial crises; and the role of the International Monetary Fund.

It is highly recommended that students have taken EC201, EC202, and EC312 before enrolling in this course. Students enrolling in this course should be comfortable with algebraic and graphical analysis. For those who want to brush up on the material taught in EC202 (or EC312), it is highly recommended to read the supplemental textbooks shown in Section 3.

2. COVID-19 Response

This course will be held in person throughout the term, unless the pandemic situation worsens to the extent that the University decides to hold all the instructions remotely.

- How will the instructor communicate course-wide announcements and news?

Reminders for homework assignments, other reading materials, etc. will be posted on Canvas. Each announcement will contain detailed instructions, so it is important for you to regularly check the announcements on Canvas.

- What if you get COVID?

Please follow the [university's protocol]

3. Course Material

The required textbook for this course is: Krugman, Paul, Maurice Obstfeld, Marc Melitz ***International Economics – Theory and Policy***. 12th Edition: Addison Wesley (KOM).

You may use older editions of the textbook, which are usually less expensive than the most recent edition. However, page numbers can differ across different editions, and some of the case studies also differ. When you work on the homework questions from the textbook, it is your responsibility to make sure you are working on the right questions.

If you desire or need to brush up your introductory or intermediate macro, the following standard textbooks are suitable.

<Introductory macro>

William J. Baumol and Alan S. Blinder, *Macroeconomics – Principles and Policy*, any edition. Thomson South-Western.

Paul Krugman and Robin Wells. *Macroeconomics*, any edition.

<Intermediate macro>

Olivier Blanchard, *Macroeconomics*, any edition, Prentice-Hall.

If you are interested in exploring more advanced material, you are highly encouraged to read Feenstra and Taylor's *International Economics* (Worth Publisher).

Other reading materials such as journal and magazine articles are occasionally distributed on Canvas.

I encourage you to develop the habit of reading newspapers and journals such as *The Financial Times* and *The Economist* or listening to [Marketplace].

4. Grading

There will be one midterm and one final exams. Your grade will be determined as follows:

<Undergraduate>

- 20% Weekly discussions on Canvas
- 20% Weekly quizzes on Canvas (with the worst one being removed)
- 30% Midtern (on Canvas)
- 30% Final exam (on Canvas)

<Graduate>

- 40%   Weekly homework assignments
- 10%   Discussions on Canvas
- 50%   Paper summaries

I will not provide “Incomplete” under any circumstances. An exception may be made only if a student provides adequate documentation providing a valid University-excuse. The final grade will be based on the grade records available with me as of the end of the final exam. I will provide no extra credit or make-up assignments for those who want to improve their grades, either. That also means that you cannot get an extension to a homework assignment or an exam just because you overslept, forgot, or have any other unjustifiable reason. However, among the 10 quizzes, the worst one will be removed.

Homework Assignments

There will be ten online quizzes all on Canvas. Any quizzes not submitted by the due time will be suject to reduced credit. However, out of the 10 quizzes, the one with the lowest score will not be considered for the portion of the quizzes.

Discussion Assignments

You are supposed to answer questions I provide. Any discussions not submitted by the due date/time will be suject to point reductions. Unike the quizzes, the discussion assignment with the lowest points will not be removed.

Exams

Both the midterm and the final exams are open-book, on Canvas exams. There will be no makeup exam. If you miss the exam’s deadline without informing me prior to the due date, you will get a zero on the exam. This is not negotiable.
Exams will be based on the material discussed in the lecture. Working on and keeping up with the weekly quiz and discussion assignment will help you prepare for the exams.

5. Course Policies

As for all courses at Portland State University, sanctions for academic dishonesty are severe. Also, students with disabilities will be accommodated, primarily with the help of the Disability Resource Center; please see the instructor about any needs for which you have not yet found accommodations. Please read the following statement for further information for support:

Access and Inclusion for Students with Disabilities

PSU values diversity and inclusion; we are committed to fostering mutual respect and full participation for all students. My goal is to create a learning environment that is equitable, useable, inclusive, and welcoming. If any aspects of instruction or course design result in barriers to your inclusion or learning, please notify me. The Disability

Resource Center (DRC) provides reasonable accommodations for students who encounter barriers in the learning environment.

If you have, or think you may have, a disability that may affect your work in this class and feel you need accommodations, contact the Disability Resource Center to schedule an appointment and initiate a conversation about reasonable accommodations. The DRC is located in 116 Smith Memorial Student Union, 503-725-4150, drc@pdx.edu, http://www.pdx.edu/drc.

- If you already have accommodations, please contact me to make sure that I have received a faculty notification letter and discuss your accommodations.
- Students who need accommodations for tests and quizzes are expected to schedule their tests to overlap with the time the class is taking the test.
- Please be aware that the accessible tables or chairs in the room should remain available for students who find that standard classroom seating is not useable.
- For information about emergency preparedness, please go to the Fire and Life Safety webpage(http://www.pdx.edu/environmental-health-safety/fire-and-life-safety) for information.

Title IX Reporting Obligations

As an instructor, one of my responsibilities is to help create a safe learning environment for my students and for the campus as a whole. We expect a culture of professionalism and mutual respect in our department and class. You may report any incident of discrimination or discriminatory harassment, including sexual harassment, to either the Office of Equity and Compliance or the Office of the Dean of Student Life.

Please be aware that as a faculty member, I have the responsibility to report any instances of sexual harassment, sexual violence and/or other forms of prohibited discrimination. If you would rather share information about sexual harassment or sexual violence to a confidential employee who does not have this reporting responsibility, you can find a list of those individuals. For more information about Title IX please complete the required student module Creating a Safe Campus in your Canvas.

6. Class schedule and reading assignments

Important Dates:

- May 1 (Wednesday): Midterm exam (online)
- June 11 (Tuesday): Final exam (online; comprehensive)

The readings with an asterisk (*) are required, and those with “§” are required for graduate students.

Week 1

- Introduction and review of macroeconomics
- <for review> Baumol-Blinder (BB): Chapter 7,8,10,12,13 & 17; Blanchard (B): Chapter 18
- *KOM: Chapter 13 National Income Accounting and the Balance of Payments
- §Cavallo, M. (2004) "Exchange Rate Movements and the U.S. International Balance Sheet," FRBSF Economic Letter. (CW)
- §Tille, C. 2003. "The impact of exchange rate movements on U.S. foreign debt", Current Issues in Economics and Finance, vol 9, no 1, January. (CW)

- Graduate students: Summarize Cavallo and Tille.

Week 2

- *KO: Chapter 6 The Standard Trade Model – But focus on the section "International Borrowing and Lending" and "Appendix."
- §KO: Chapter 6 Read the whole chapter
- *KO: Chapter 14 Exchange Rates and the Foreign Exchange Market: An Asset Approach
- B: Chapter 19
- Graduate students: TBA.

Week 3

- *KOM: Chapter 14 Exchange Rates and the Foreign Exchange Market: An Asset Approach, continued
- B: Chapter 19
- §Chinn, M. D. and G. Meredith. 2004. "Monetary Policy and Long-Horizon Uncovered Interest Parity," IMF Staff Papers, vol. 51, No. 3.
- Graduate students: TBA.

Week 4

- *KOM: Chapter 15 Money, Interest Rates, and Exchange Rates
- B: Chapter 20
- §Frankel, J. and K. Froot (1990). "Chartists, Fundamentalists, and Trading in the Foreign Exchange Market," American Economic Review, pp.181 – 185. (CW)
- §Frankel, J. and A. Rose (1994). "A Survey of Empirical Research on Nominal Exchange Rates," NBER Working Paper #4865. (CW)

Week 5

- *KOM: Chapter 16 Price Levels and the Exchange Rate in the Long Run
- §Cubmy, R. (1996). "Forecasting Exchange Rates and Relative Prices with the Hamburger Standard: Is What You Want What You Get With McParity?" NBER Working Paper #5675. (CW)
- *KOM: Chapter 17 Output and the Exchange Rate in the Short Run

- May 1 (Wed.)	Midterm Exam (Chapter 6, 13 – 17, on Canvas). Submit it by 11:59PM on the due day.

Week 6

*KOM: Chapter 17 continued

Week 7

- *KOM: Chapter 18, Fixed Exchange Rates and Foreign Exchange Intervention
  B: Chapter 21
- §Krugman, P. (1979). "A Model of Balance-of-Payments Crises," Journal of Money, Credit and Banking, Vol. 11, No.3, pp.311-325. (CW)
- §Glick and Hutchison (1989). "Exchange Rates and Monetary Policy," Economic Review, Federal Reserve Bank of San Francisco, Vol. 2. (CW)

Week 8

- *KOM: Chapter 19, International Monetary System: A Historical Overview
- §Nurkse, R. (1945). "Conditions of International Money Equilibrium," Essays in International Finance, No. 4 (Spring). (CW)
- §Krugman, P. (1993). "What Do We Need to Know About the International Monetary System?" Essays in International Finance, No. 4 (July). (distributed)

Week 9

- *KOM: Chapter 21, Optimum Currency Areas and the Euro
- *Spiegel, M. (2004) "Monetary and Financial Integration: Evidence from the EU," FRBSF Economic Letter. (CW)
- *"Profligacy is not the problem," The Economist, September 17, 2011.
- *"After the fall: The aftermath of disaster is all the more frightening for being incalculable," The Economist, September 17, 2011.

Week 10

- *KOM: Chapter 22 Developing Countries: Growth, Crisis, and Reform
- §Aizenman, J. (2003). "Reforming the Global Financial System," Global Policy Brief, Center for Global, International, and Regional Studies, UCSC. (CW)
- *Aizenman, J. and Hiro Ito. (2013). "The Impossible Trinity, the International Monetary Framework and the Pacific Rim". In I. N. Kaur and N. Singh ed., Handbook of the Economics of the Pacific Rim (Oxford University Press, 2013).
- §Aizenman, J., M.D. Chinn, and H. Ito (2008). "Assessing the Emerging Global Financial Architecture: Measuring the Trilemma's Configurations over Time." NBER Working Paper Series, #14533.
- *Fischer, Stanley (1998). "Lessons from a Crisis," The Economist (October 10). (CW)
- §Rodrik, D. (2000). "How Far Will International Economic Integration Go," Journal of Economic Perspective (Winter). (CW)
- *Coden, Max (2007). "The International Current Account Imbalances: A Sceptical View," Economic Affairs, 2007, vol. 27, issue 2, pages 44-48.

- *Frankel, J. 2011. "Historical Precedents for Internationalization of the RMB," A CGS/IIGG Working Paper. Washington, D.C.: Council on Foreign Relations. (CW)
- *Ito, Takatoshi. 2011. "The Internationalization of the RMB: Opportunities and Pitfalls," CGS/IIGG Working Paper. Washington, D.C.: Council on Foreign Relations.
- §Ito, T. 2017. "A new financial order in Asia: Will a RMB bloc emerge?," Journal of International Money and Finance, vol 74, pages 232-257.
- §Han, W. and S.J. Wei. 2016. "International Transmissions of Monetary Shocks: Between a Trilemma and a Dilemma," NBER Working Paper #22812.
- §Klein, M. W. and J.C. Shambaugh. 2013. "Rounding the Corners of the Policy Trilemma: Sources of Monetary Policy Autonomy," NBER Working Paper #19461.

The final exam will have to be submitted by June 11 (Tues.) at 11:59PM (Canvas).

7. Useful WWW Sources

1. IMF publications (loads slowly)
2. BIS publications
3. The World Bank Group **or** alternate link to The World Bank Group
4. Central bank websites
5. Comprehensive blogs organized by Prof. N. Roubini, NYU
6. US Economic Data (St. Louis Fed)
7. National Bureau of Economic Research (for working papers and data)
8. Econbrowser, blog by Prof. Menzie Chinn, U. of Wisconsin, Madison and James Hamilton, UCSD
9. Businomics, blog by Dr. Bill Conerly, an Oregon CEA