

**Economics 656S**  
**International Monetary Economics**

Texts: Caves, Richard E., Frankel, Jeffrey A., and Jones, Ronald W. World Trade and Payments. Reading, MA: Addison Wesley, 2007.

Kimbrough, Kent P. and Gardner, Grant W., Notes on International Economics.

If you have not previously had a course in international trade it might be a good idea to read chapters 2, 3, and 10 in Caves, Frankel, and Jones. Chapters 2 and 3 discuss international equilibrium and the gains from trade while chapter 10 explores tariffs, the terms of trade, and welfare. The basic concepts appear again in some of the open economy macro models we will be studying.

**1. Balance of Payments Accounting**

Caves, Richard E., Frankel, Jeffrey A., and Jones, Ronald W. World Trade and Payments. New York: Addison-Wesley, 2007. Ch. 15.

**2. The Elasticities Approach**

Caves, Richard E., Frankel, Jeffrey A., and Jones, Ronald W. World Trade and Payments. New York: Addison-Wesley, 2007. Ch. 16.

Haberler, Gottfried. "The Market for Foreign Exchange and the Stability of the Balance of Payments: A Theoretical Analysis." Kyklos 3 (1949): 193-218.

**3. A Two-Country Keynesian Model**

Caves, Richard E., Frankel, Jeffrey A., and Jones, Ronald W. World Trade and Payments. New York: Addison-Wesley, 2007. Ch. 17.

**4. The Mundell-Fleming Model**

Caves, Richard E., Frankel, Jeffrey A., and Jones, Ronald W. World Trade and Payments. New York: Addison-Wesley, 2007. Chs. 22 & 23.

Mundell, Robert A. "Capital Mobility and Stabilization Policy under Fixed and Flexible Exchange Rates." Canadian Journal of Economics and Policy Science 29 (November 1963): 475-85. Reprinted as Ch. 18 in his International Economics. New York, Macmillan, 1968.

## **5. The Trade Balance**

Kimbrough and Gardner, International Economics, Ch. 12.

Obstfeld, Maurice and Rogoff, Kenneth. Foundations of International Macroeconomics. Cambridge: MIT Press, 1996. Ch. 1.

Obstfeld, Maurice and Rogoff, Kenneth. "The Intertemporal Approach to the Current Account." In G.M. Grossman and K. Rogoff, Handbook of International Economics, Amsterdam: North-Holland, 1995, pp. 1731-1799.

## **6. Fiscal Policy and the Trade Balance**

Kimbrough and Gardner, International Economics, Ch 13.

## **7. Investment and the Trade Balance**

Kimbrough and Gardner, International Economics, Ch. 14.

## **8. International Parity Conditions**

Barro, Robert J. Macroeconomics. Cambridge: MIT Press, 1997. Ch. 16.

Froot, Kenneth A. and Rogoff, Kenneth. "Perspectives on PPP and Log-Run Real Exchange Rates." In G.M. Grossman and K. Rogoff, Handbook of International Economics, Amsterdam: North-Holland, 1995 pp. 1647-1688.

## **9. Flexible Exchange Rates**

Kimbrough and Gardner, International Economics, Chs. 17 & 18.

Frankel, Jeffrey A. and Rose, Andrew K. "Empirical Research on Nominal Exchange Rates." In G.M. Grossman and K. Rogoff, Handbook of International Economics, Amsterdam: North-Holland, 1995, pp. 1689-1729.

Mussa, Michael. "The Exchange Rate, the Balance of Payments, and Monetary and Fiscal Policy under a Regime of Controlled Floating." Scandinavian Journal of Economics 78 (May 1976): 229-48. Reprinted in Frenkel, J.A. and Johnson, H.G. (eds.), The Economics of Exchange Rates: Selected Studies. Reading, MA: Addison-Wesley, 1978. Ch. 3.

## **10. Fixed Exchange Rates**

Kimbrough and Gardner, International Economics, Ch. 20.

## **11. Real Exchange Rates**

Kimbrough and Gardner, International Economics, Ch. 19.

Stockman, Alan C. "The Equilibrium Approach to Exchange Rates." Federal Reserve Bank of Richmond Economic Review 73 (March/April 1987): 12-30.

### **Course Grades**

Your grade for the course will be based on your performance on a *group* problem set and class discussion (20%) and a research project that will be comprised of two papers and two oral presentations (first paper 20%, second paper 30%, and each oral presentation 15%).

When the problem is handed out you will have one week to complete it. It is due *in class* on the assigned date. Problem sets that are not turned in on time will receive a grade of zero.

The research project is to be a case study of international macroeconomic issues in any non-industrialized country (sorry, no papers on the U.S., Canada, Europe, or Japan). Overall the goal of the research project is to use the tools developed in the course to explain the effects of various policies and world shocks on key macroeconomic variables such as the trade balance and the exchange rate.

The first paper, which is due in class on **Thursday, February 14**, is basically a research proposal. It should include data on the relevant variables for your country and topic and a description of the general economic conditions and policies for the country and time period you have chosen to study. References, as well as all data, must be provided. The paper *must* also outline your plans for your second paper. When you turn in your first paper you *must* provide copies of the paper for me and for your classmates so that everyone can read the papers prior to the oral presentations.

The first oral presentations will be given on **February 19, 21, 26, and 28**. These presentations will be workshops in which your classmates will try and give you constructive criticism on your proposed research. For example, they might suggest additional issues they feel it might be interesting for you to incorporate into your research. Your oral presentation grade will depend equally on your own presentation and your *active participation* in discussing the research proposals of your classmates.

The second paper is due in class on **Tuesday, April 2**. It is to use the theories we have discussed in *this* class to try to explain the behavior of important open economy macroeconomic variables in light of (a) the country's economic policies and (b) changes in world economic conditions facing the country. Diagrams describing the effects of various shocks on the economy are encouraged. Those of you that have had an econometrics course are encouraged to do a formal empirical study as part or all of your analysis. For example, you might choose to study the behavior of Indonesia's trade balance from 1970 to the present. Your analysis would need to consider the impact of income shocks,

investment, fiscal policy, and terms of trade changes on Indonesia's trade balance. You would therefore need to collect and present data on each of these variables and then describe how they affected the trade balance. Once again, when you turn in your paper you *must* provide copies of the paper for me and for your classmates so that everyone can read the papers prior to the oral presentations.

*Only one student can write on each topic.* For instance, if someone chooses the topic just described, another student couldn't write on Indonesia's trade balance behavior from 1960-1990. However, someone could write on Indonesia's trade balance from 1950-1970 or on Indonesia's exchange rate from 1970 to the present. Since topics cannot be duplicated, you will want to give some thought to your topic very, very early in the semester. As soon as you have a topic you should come and see me to get it approved. The sooner you do this the better.

Oral presentations of your research project are scheduled for the last for the last four classes, **April 4, 9, 11, and 16**. Each presentation will be 25 minutes long. As of now, the plan is to have a 15-20 minute presentation and then 10 minutes of discussion for each project. Your grades for the oral presentation will again be based on your own presentation *and* your participation in discussing the other presentations.

**Contact Information:**

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**Note:** The subject line of all e-mails should start with ECON 656S