

Econ 321 - International Monetary Theory

Spring 2008

TuTh 2:30-3:45 pm, Machmer W-26

Instructor: Arslan Razmi

Course website: <http://courses.umass.edu/econ321>

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Office Hours: 11:45 AM – 12:45 PM, TuTh (or by appointment).

COURSE OVERVIEW

This course essentially consists of two components; (1) international finance, and (2) open economy macroeconomics. While the former component will be designed to investigate the nature of the international financial system, the latter will aim to look at the linkages between macroeconomic policies, output, growth, employment, inflation, exchange rates and other interesting issues.

This course is being offered at a very interesting time. The US current account deficits are at record levels while the dollar has finally started adjusting in a downward direction. American visitors to Europe find that their dollar buys much less. Meanwhile, back in the US, the federal government and the Federal Reserve Bank attempt to avoid a looming recession by providing fiscal and monetary stimulus. Developing countries accumulate record levels of foreign exchange reserves, and to a substantial extent fund the US current account and budget deficits. Debates surrounding the process of “globalization” continue to arouse much interest both in academic circles and amongst global citizenry.

This course will provide an excellent opportunity to discuss some of these issues and to use simple theoretical tools to make sense of the main arguments involved. We will discuss issues such as: What determines the value of exchange rates? What are the consequences of international trade for national and global income? How do countries gain or lose from interacting with other economies? Are current account deficits good or bad for a country? What effects are likely to arise from fiscal and monetary policy measures? What is the nature of global capital flows and how do these affect economic policy options? Student participation will be sought and encouraged.

Class Website

The course homepage is at <http://courses.umass.edu/econ321>. The website will display announcements, assignments, handouts, relevant links, and other useful information. It will also be used for sending e-mail messages to class participants. *Students are responsible for accessing the class website regularly.*

Course Materials

Required Text:

Caves, Frankel, and Jones (CFJ), *World Trade and Payments: An Introduction*, Tenth Edition, Boston: Addison Wesley, 2007.

Suggested Supplementary Texts:

Krugman, P., and Obstfeld. M., *International Economics: Theory and Policy*, Seventh Edition, Boston: Addison Wesley, 2006.

In addition, handouts will be given occasionally. Whenever possible, links will also be provided to supplementary readings.

Work Requirements and Grading

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| Problem Sets (about 3-4) and pop quizzes | 25% |
| Midterm | 35% |
| Final exam | 40% |

The problem sets are designed to help you practice for the exams; they will be graded mostly for completeness and effort. The **midterm** will be held during regular class hours on **Thursday, March 27. It is your responsibility to discuss any schedule conflicts with me individually at least 2 weeks before an exam.**

Course Outline

NOTE: This tentative schedule is subject to adjustment as we proceed through the semester.

***CFJ denotes Caves, Frankel, and Jones.**

Tuesday, Jan. 29: Introduction and overview.

Thursday, Jan. 31: The Balance-of-Payments Accounts. CFJ chapter 15.

Tuesday, Feb. 5: The Balance-of-Payments Accounts. CFJ chapter 15 (contd.).

Thursday, Feb. 7: Global financial markets. CFJ chapter 21.

Tuesday, Feb. 12: The Foreign Exchange Market. CFJ chapter 16.

Thursday, Feb. 14: The Foreign Exchange Market. CFJ chapter 16.

Tuesday, Feb. 19: No class, MWF schedule

Thursday, Feb. 21: Spending and the exchange rate in the Keynesian model. CFJ chapter 17.

Tuesday, Feb. 26: Spending and the exchange rate ... CFJ chapter 17 (contd.).

Thursday, Feb. 28: National income and the trade balance. CFJ chapter 18 (contd.).

Tuesday, March 4: National spending and the exchange rate. CFJ chapter 18 (contd.).

Thursday, March 6: National spending and the exchange rate. CFJ chapter 18 (contd.).

Tuesday, March 11: Purchasing power parity. CFJ chapter 19

Thursday, March 13: Purchasing power parity. CFJ chapter 19 (contd.)

SPRING BREAK!

Tuesday, March 25: Review for midterm

Thursday, March 27: Midterm

Tuesday, April 1: The Mundell-Fleming model with fixed or flexible exchange rates. CFJ chapter 22, 23.

Thursday, April 3: The Mundell-Fleming model with fixed or flexible exchange rates. CFJ chapter 22, 23 (contd.).

Tuesday, April 8: The Mundell-Fleming model with fixed or flexible exchange rates. CFJ chs. 22, 23 (contd.).

Thursday, April 10: The Mundell-Fleming model with fixed or flexible exchange rates. CFJ chs. 22, 23 (contd.).

Tuesday, April 15: The Mundell-Fleming model with fixed or flexible exchange rates. CFJ chs. 22, 23 (contd.).

Thursday, April 17: Macroeconomic policy coordination between countries. CFJ ch. 25.

Tuesday, April 22: Macroeconomic policy coordination between countries. CFJ ch. 25 (contd.).

Thursday, April 24: Recent global financial crises. CFJ chapter 24.

Tuesday, April 29: Recent global financial crises. CFJ chapter 24 (contd.).

Thursday, May 1: Macroeconomic policies, exchange rates, and inflation. CFJ chapter 26.

Tuesday, May 6: Macroeconomic policies, exchange rates, and inflation. CFJ chapter 26 (contd.).

Thursday, May 8: Macroeconomic policies, exchange rates, and inflation. CFJ chapter 26 (contd.).

Tuesday, May 13: Review for final exam