

ECON 581
Fall 2010

COURSE OUTLINE & READINGS

(Required and recommended readings are indicated by ** and *, respectively.)

A. Introduction to International Finance (~3 weeks)

1. Basic Concepts: Exchange Rates and Balance of Payments

- ** Gandolfo, Chapters 2, 3, 5, 6.
- * Hallwood & MacDonald, Chapter 2.

2. International Parity Conditions

- ** Gandolfo, Chapters 4, 15.1.
- * Hallwood & MacDonald, Chapters 2.3, 3.2-3.5, 7.

Froot, K. and K. Rogoff, 1995, "Perspectives on PPP and Long-Run Real Exchange Rates," Chapter 32 in *Handbook of International Economics*.

Mark, N.J., 1995, "Exchange Rates and Fundamentals: Evidence on Long-Horizon Predictability," *American Economic Review*, 85(1), 201-18.

Rogoff, K., 1996, "The Purchasing Power Parity Puzzle," *Journal of Economic Literature*, 107, 507-38.

B. Traditional Approaches to Balance of Payments and Exchange Rate Adjustments (~6 weeks)

1. Elasticity and Multiplier Approaches

- ** Gandolfo, Chapters 7-9.
- * Hallwood & MacDonald, Chapter 3.1, 4.

2. Mundell-Fleming Model

- ** Gandolfo, Chapters 10, 11.
- * Hallwood & MacDonald, Chapters 5, 6.1.
- Stevenson et al., Chapters 7.1, 8.1, 10.1.

3. Monetary and Portfolio Balance Models

- ** Gandolfo, Chapters 12, 13, 15.3.
- * Hallwood & MacDonald, Chapters 8, 9, 11.
- Stevenson et al., Chapters 7.2, 7.3, 8.2-8.4.

Dornbusch, R., 1976, "Expectations and Exchange Rate Dynamics," *Journal of Political Economy*, 84(6), 1161-86.

Frankel, J.A. and A.K. Rose, 1995, "Empirical Research on Nominal Exchange Rates," Chapter 33 in *Handbook of International Economics*.

C. Exchange Rate Regimes, Currency Crises, and Speculative Attacks (~5 weeks)

1. Choice of Exchange Rate Regime

** Gandolfo, Chapter 17.

Baxter, M. and A. Stockman, 1989, "Business Cycles and the Exchange Rate Regime," *Journal of Monetary Economics*, 23, 377-400.

* De Grauwe, P., 1996, *International Money: Postwar Trends and Theories*, Oxford: Oxford University Press, Chapters 3-4.

* Fischer, S., 2001, "Distinguished Lecture on Economics in Government - Exchange Rate Regimes: Is the Bipolar View Correct?" *Journal of Economic Perspectives*, Spring, 3-24.

Friedman, M., 1953, "The Case for Flexible Exchange Rates," in: *Essays in Positive Economics*, Chicago: University of Chicago Press.

Garber, P.M. and L.E.O. Svensson, 1995, "The Operation and Collapse of Fixed Exchange Rate Regimes," Chapter 36 in *Handbook of International Economics*.

McKinnon, R. 1993, "Why Floating Exchange Rates Fail: A Reconsideration of the Liquidity Trap," Chapter 21 in P.K. Das (ed.), *International Finance: Contemporary Issues*, London: Routledge.

Obstfeld, M. and K. Rogoff, 1995, "The Mirage of Fixed Exchange Rates," *Journal of Economic Perspectives*, Fall, 73-96.

Tornell, A. and A. Velasco, 1995, "Fixed versus Flexible Exchange Rates: Which Provides More Fiscal Discipline?" NBER Working Paper # 5108.

2. Models of Currency Crises and Speculative Attacks

** Gandolfo, Chapter 16.

* Hallwood & MacDonald, Chapter 14.

Agénor, P.-R. and R.P. Flood, 1994, "Macroeconomic Policy, Speculative Attacks, and Balance of Payments Crises," Chapter 8 in F. Van der Ploeg (ed.), *The Handbook of International Macroeconomics*, Cambridge: Basil Blackwell.

Aghion, P., P. Bacchetta, and A. Banerjee, 2000, "A Simple Model of Monetary Policy and Currency Crises," *European Economic Review*, 44, 728-38.

Chang, R. and A. Velasco, 2001, "A Model of Financial Crises in Emerging Markets," *Quarterly Journal of Economics*, 126, 489-517.

Christiano, L.J., C. Gust, and J. Roldos, 2002, "Monetary Policy in a Financial Crisis," NBER Working Paper #9005.

Kaminsky, G. and C. Reinhart, 1999, "The Twin Crises: The Causes of Banking and Balance of Payments Problems," *American Economic Review*, 89, 473-500.

Krugman, P., 1979, "A Model of Balance of Payments Crises," *Journal of Money, Credit, and Banking*,

11, 311-25.

Krugman, P., 1996, "Are Currency Crises Self-Fulfilling?" *NBER Macroeconomics Annual*, Cambridge: MIT Press.

3. Exchange Rate Target Zones (time permitting)

** Hallwood & MacDonald, Chapter 15.

* De Grauwe, P., 1996, *International Money: Postwar Trends and Theories*, Oxford: Oxford University Press, Chapter 10.

Ito, T., 1993, "Was There a Target Zone?" Chapter 20 in P.K. Das (ed.), *International Finance: Contemporary Issues*, London: Routledge.

Krugman, P., 1991, "Target Zones and Exchange Rate Dynamics," *Quarterly Journal of Economics*, 116, 669-82.

Svensson, L.E.O., 1992, "An Interpretation of Recent Research on Exchange Rate Target Zones," *Journal of Economic Perspectives*, 6, 119-144.

Sarno, L. and M.P. Taylor, 2001, "Official Intervention in the Foreign Exchange Market: Is It Effective and, If So, How Does It Work?" *Journal of Economic Literature*, September, 839-68.

D. International Monetary System (~2 weeks)

1. History and Key Events

** Gandolfo, Chapter 22.

* Hallwood & MacDonald, Chapters 16, 17.

Reinhart, C.M. and K.S. Rogoff, 2002, "The Modern History of Exchange Rate Arrangements: A Reinterpretation," NBER Working Paper #8963.

2. Current Problems and Reform Issues

** Gandolfo, Chapter 24.

* Hallwood & MacDonald, Chapter 24.

Bordo, M.D. and A.P. Murshid, 2002, "Globalization and Changing Patterns in the International Transmission of Shocks in Financial Markets," NBER Working Paper # 9019.

Eichengreen, B., 1999, *Toward a New International Financial Architecture: A Practical Post-Asia Agenda*, Washington, DC: Institute for International Economics.

Eichengreen, B., 1994, "History of the International Monetary System: Implications for Research in International Macroeconomics and Finance," Chapter 6 in F. Van der Ploeg (ed.), *The Handbook of International Macroeconomics*, Cambridge: Basil Blackwell.

Fischer, S., 1999, "On the Need for an International Lender of the Last Resort," *Journal of Economic Perspectives*, Fall, 85-104.

Kenen, P.B., 2001, *The International Financial Architecture: What's New? What's Missing?*, Washington, DC: Institute for International Economics.

Mendoza, E.G., 2002, "Why Should Emerging Economies Give up National Currencies: A Case for 'Institutions Substitution'," NBER Working Paper #8950.

Obstfeld, M. and K. Rogoff, 2000, "Do We Really Need a New Global Monetary Compact?" NBER Working Paper #7864.

Rogoff, K., 1999, "International Institutions for Reducing Global Financial Instability," *Journal of Economic Perspectives*, Fall, 21-42.

E. Selected Additional Topics in International Finance (for self-study)

1. International Monetary Integration: Monetary Unions and Dollarization

Gandolfo, Chapters 20, 21.

Hallwood & MacDonald, Chapter 18.

De Grauwe, P., 2009, *Economics of Monetary Union* (9th edition).

Levy-Yeyati, E. and F. Sturzenegger (eds.), 2003, *Dollarization: Debates and Policy Alternatives*.

Salvatore, D., J.W. Dean, and T. Willett (eds.), 2003, *The Dollarization Debate*.

2. Intertemporal Approach to the Current Account and Real Exchange Rates

Gandolfo, Chapter 18.

Hallwood & MacDonald, Chapter 4.6.

Obstfeld & Rogoff, Chapters 1-3.

Obstfeld, M. and K. Rogoff, 1995, "The Intertemporal Approach to the Current Account," Chapter 34 in *Handbook of International Economics*.

Sen, P., 1994, "Savings, Investment, and the Current Account," Chapter 15 in F. Van der Ploeg (ed.), *The Handbook of International Macroeconomics*, Cambridge: Basil Blackwell.

3. Foreign Exchange Market Efficiency and Microstructure of Foreign Exchange Markets

Hallwood & MacDonald, Chapters 12, 13.

Lewis, K.K., 1995, "Puzzles in International Financial Markets," Chapter 37 in *Handbook of International Economics*.

4. Puzzles in International Macroeconomics

Obstfeld, M. and K. Rogoff, 2000, "The Six Puzzles in International Macroeconomics: Is There a Common Cause?" *NBER Macroeconomics Annual*, Cambridge: MIT Press.