

hopefully interesting. Many are controversial, partisan, and contradictory to each other. I give these to you, not to convince you of any point of view. I want you to read these critically and decide whether you agree or disagree, and why.

Evaluation

Class Participation	10%
Homework One	5%
Exam One (tentatively March 6)	30%
Homework Two	5%
Exam Two (tentatively May 1)	30%
Take-Home Final (due May 8 th)	20%

There will be NO make-ups for either exam. Given a valid excuse (e.g. documented illness) all of the weight of the missed exam will be assigned to the other exam. Homework assignments will be handed out roughly two weeks before an exam and will be due roughly a week before the exam. Participation includes regular attendance and an effort to engage in classroom discussions. Instructions for the take-home final can be found below.

Course Outline

1. Introduction

Readings: FT, Chapter 12

2. The foreign exchange market. Exchange rates, market structure, arbitrage relationships.

Readings: FT, Chapter 13

3. The monetary approach to exchange rates

5. National Income Accounting and the Balance of Payments. How do international transactions interact with the domestic economy? Current accounts and international trade in assets. Measuring external debt.

Readings: FT, Chapter 16

BOP handout

Hausmann and Sturzenegger, "U.S. and Global Imbalances: Can Dark Matter Prevent the Big Bang," 2005

Higgins, Klitgaard, and Tille, "The Income Implications of Rising U.S. International Liabilities," 2006

6. The gains from financial globalization. Intertemporal trade. Consumption smoothing. Efficient investment. Financial diversification. What are the sources of "global imbalances?"

Readings: FT, Chapter 17

FT, Chapter 22, pp. 940-951.

7. Open Economy Macroeconomics. A Keynesian model. Stabilization policies.

Readings: FT, Chapter 18

Goldberg and Dillon, "Why a Weak Dollar May Not Close the U.S. Trade Deficit," 2007.

8. Fixed versus floating? What tradeoffs do countries face in their choice of their exchange rate regime?

Readings: FT, Chapter 19.

Frankel, "On the Renminbi: the Choice between Adjustment under a Fixed or Floating Regime," 2006.

The Economist, "Misleading Misalignments," July 2007.

9. Exchange Rate Crises. What are exchange rate crises and why are they so destructive? What is the cause of exchange rate crises? Old-style versus new style models.

Readings: FT, Chapter 20.

FT, Chapter 22, pp. 956-977.

Pesenti and Tille, "The Economics of Currency Crises and Contagion," 2000.

10. Issues in global capital markets. How efficient are global capital markets? What are the implications of China's peg to the U.S. dollar? Should China change its policies?

Readings: FT, Chapter 22, pp. 911-939.

Froot and Thaler, "Anomalies: Foreign Exchange," 1990.

Rogoff, "Rethinking capital controls: When should we keep an open mind?"

Reinhart and Rogoff, "Serial Default and the 'Paradox' of Rich-to-Poor' Capital Flows," 2004

Instructions for the Take-Home Final

University policies

Campus policy regarding disabilities requires that faculty adhere to the recommendations of Disability Services. In addition, campus policy regarding religious observances requires that faculty make every effort to reasonably and fairly accommodate all students who, because of religious obligations, have conflicts with scheduled examinations, assignments or required attendance. Any student eligible for and needing academic adjustments or accommodations because of disability or religious practice should arrange to meet with me immediately. Those with disabilities should immediately submit a letter from Disability Services describing appropriate adjustments or accommodations.¹

Students and faculty share responsibility for maintaining an appropriate learning environment. All are subject to the University's policies