



## International Monetary Economics

### Prof. Alicia Adsera

### Spring 2008

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#### Course Overview

This course presents International Monetary Economics theory and applies toward gaining an understanding of recent events and current policy issues. The theory presented in this course covers a broad range of topics including exchange rate determination, monetary and fiscal policy in an open economy (that is, an economy that trades goods and assets with the rest of the world), balance of payment crisis, the choice of exchange rate systems and their advantages and disadvantages, currency unions and international debt. The insights provided by these theoretical frameworks will enable us to discuss topics such as the US current account deficit, the single currency in Europe, the Asian and Latin-American financial crises, global finance imbalances, government intervention in the foreign exchange market and the role of international factors on a nation's employment, wage and economic performance.

#### Class Organization

The textbook for the course is *International Economics: Theory and Policy* by Paul Krugman and Maurice Obstfeld, 7<sup>th</sup> Edition, Addison-Wesley, 2005. The accompanying Study Guide by Linda Goldberg, Michael Klein and Jay Shambaugh, Addison-Wesley 2005 is also required. The readings, power point presentations of the classes will be available in blackboard. Any additional notes I may prepare or relevant newspaper articles I may add will be also posted in blackboard and distributed in class. Required readings in the syllabus are noted by (\*).

I would encourage regular reading of relevant articles in newspapers such as the *Financial Times* and the *Wall Street Journal* or in magazines such as *The Economist*. These will enhance your understanding of the material and allow you to apply what you learn to everyday issues.

Your grade for the course will be based on your performance on the following items:

Midterm Exam (March 13th)	30%
Final Exam (TBD May)	45%
Quizzes (see class outline)	15%
Problem Sets	10%

Quizzes will take place in the first 5-10 minutes of class. Dates are noted in the calendar. The intent of the quizzes is to encourage each of the students to the assigned reading and reviewed the material of previous classes. There will be no make-up quizzes. I will drop the lowest 2 quiz grades at the end of the course. This way you do not have worry if you have some other engagement and cannot attend one class.

Exams and Quizzes are closed-book. All the assigned readings are fair game on quizzes and exams.

There will be two problem sets that will include some data mining of the concepts we have been working in the class.

There will be a regular weekly precept. During the precept we will work solutions to the quizzes and problems form end of the chapter and the study guide, and we will go over questions from the lecture material.

Lateness, cell phones, private conversations and any behavior that disrupts me or your colleagues will be considered inappropriate.

## **Course Outline**

### **I. Introduction (February 5)**

“The US Current Account Deficit and the global Economy” by Lawrence Summers. *Per Jacobsson Lecture*, Harvard University. October 2004.

### **II- National Income Accounts and the Balance of Payments (February 7 & 12)**

Text and Study Guide, Chapter 12 KO (\*)

“Global Imbalances: The New Economy, the Dark Matter, the Savvy Investor and the Standard Analysis.” By Barry Eichengreen, March 2006.

“The Trade Gap: How Long Can it Go On?” *Business Week*, November 22, 2004. (\*)

Quizz#1 February 19<sup>th</sup>, start of class

### **III- Exchange Rates and the Foreign Exchange Market (February 14 & 19)**

Text and Study Guide, Chapter 13 KO (\*)

Quizz#2 February 26th, start of class

### **IV- Money, Interest Rates and the Exchange rate (February 21 & 26)**

Text and Study Guide, Chapter 14 KO (\*)

“Dornbusch’s Overshooting Model After Twenty-Five Years” by Kenneth Rogoff. *IMF Staff Papers*, vol 49, Special Issue, 2002. pp.1-35. (\*)

### **V- Price Levels and the Exchange rate in the Long Run (February 28 & March 4)**

Text and Study Guide, Chapter 15 KO (\*)

“The Purchasing Power Parity Debate” by Alan Taylor and Mark Taylor. *Journal of Economic Perspectives*, vol. 18 (4), pp. 135-158.

“How wide is the Border?” by Charles Engel and John H. Rogers. *American Economic Review* vol. 86 (5), p. 1112-1125.

Quizz#3 March 4th, start of class

## **VI-Output and Exchange Rate Determination (March 6 & 11)**

Text and Study Guide, Chapter 16 KO (\*)

**Midterm Exam** will take place on **March 13th**

**HAVE A NICE SPRING BREAK!!!**

## **VII-Fixed Exchange Rates (March 25 & 27)**

Text and Study Guide, Chapter 17 KO (\*)

“Exchange rate Regimes: Is the Bipolar View correct” by Stanley Fischer. *Journal of Economic Perspectives*. Spring 2001. Vol 15 (2), pp.3-24 (\*)

“The Dollarization Debate.” By Andrew Berg and Eduardo Borensztein. *Fiancé and Development*. March 200, vol. 37 (1), pp 38-41. (\*)

Quizz#4 April 1<sup>st</sup>, start of class

## **VIII-The International Monetary System (April 1 & 3)**

Text and Study Guide, Chapter 18 KO (\*)

“The Dollar and the New Bretton Woods System” by Barry Eichengreen. 2004 Henry Thorton Lecture. (\*)

<http://emlab.berkeley.edu/users/eichengr/policy/cityuniversitylecture2jan2-05.pdf>

“An Essay on the Revived Bretton Woods system” by Michael P. Dooley, David Folkerts-Landau and Peter Garber. *NBER Working Paper* N. 9971, September 2003. (\*)

## **IX-Macroeconomic Policy and coordination (April 8)**

Text and Study Guide, Chapter 19 KO (\*)

**Thanksgiving Holiday**

Quizz#5 April 10th, start of class

## **Optimum currency Areas and the European Experience (April 10 & 15)**

Text and Study Guide, Chapter 20 KO (\*)

“The Theory of Optimum currency Areas” by R. Mundell. *American Economic Review* vol. 51, September 1961. pp. 717-725. (\*)

De Grauwe, P. (2006): Flaws in the design of the Eurosystem, *International Finance*, 9:1, pp.137-144. (\*)  
<http://www.econ.kuleuven.ac.be/ew/academic/intecon/degrauwe/>

“European Product Market Integration after the Euro” by Charles Engel and John Rogers. *Economic Policy* 39, July 2004, pp. 347-381.

“The Currency Union Effect on Trade: Early Evidence from EMU” by Alejandro Micco, Ernesto Stein and Guillermo Ordonez. *Economic Policy*, October 2003, pp. 315-356.

### **The global Capital Market: Performance and Policy Options (April 17)**

Text and Study Guide, Chapter 21 KO (\*)

“Domestic Savings and International Capital flows” by Martin Feldstein and Charles Horioka. *Economic Journal* June 1980, vol. 90, pp. 314-329.

“Measuring International Capital Mobility” by J. Frankel. *American Economic Review Papers and Proceedings*, May 1992, pp. 197-202. (\*)

### Quizz#6 April 22nd, start of class

### **Developing Countries: Growth Crisis and Reform (April 22, 24, 29)**

Text and Study Guide, Chapter 22 KO (\*)

Handouts on country case studies: Argentina, Mexico, East Asia (\*)

“A Decline without Parallel”. *The Economist*, Feb 28<sup>th</sup> 2002. (\*)

“Argentina’s Money Monomania” by Paul Krugman. (\*)

“The Global Capital Market: Benefactor or Menace” by Maurice Obstfeld. *Journal of Economic Perspectives*, Fall 1998, vol 12 (4), pp. 9-30. (\*)

*Debt Defaults and Lessons from a decade of Crises*, Federico Sturzenegger and Jeromin Zettlemeyer (Chapters 2 & 12)

Further information on financial crises explore Nouriel Roubini’s site at  
<http://www.rgemonitor.com/AsiaHomepage.html>

### **Wrap-up Session (May 1<sup>st</sup>)**