

International Finance
Spring 2007
City University

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City University, Spring 2007

In this course, you will learn some tools to analyze international flows of goods, services and capital, and the way various economic policies affect them. In particular, we will see how exchange rates are determined and why it is actually interesting and important to understand them. My hope is that you will gradually build your own understanding of international finance issues you read about in the news everyday.

The rules:

This is a 10 week course (January 22 till March 26), with 2 hours of lecture and 1 hour of small class each week. (so 30 hours total).

The 10 lectures will cover the topics listed below.

There will be one problem set per week, starting on week 2 (January 29), and we will discuss solutions together during small classes. I won't grade these problem sets, but strongly advise you to attempt to solve them before the class, since they are meant to prepare you for the mid term and final exams (where there will be the exact same type of questions)

On week 7, Monday 5 March, we will start at 9.30 with a short mid term exam until 10.20. So you all have to be there that day. The grade will account for 20% of the final grade (the remaining 80% being your final exam in May). The mid term will be made of short questions, based on material covered in problem sets and lectures up to February 19.

As required by the school, you will also be provided a mock exam and model answers (but this is also precisely the purpose of small classes to provide you with that weekly).

Lecture notes and problem sets will be posted on the course webpage.

References:

The main textbook I will draw upon is International Economics, by Paul Krugman and Maurice Obstfeld.

You do NOT have to buy it (textbooks can be pretty expensive and you have lots of courses): I will make sure you get everything you are expected to know for the exams during the lectures and classes. (of course, if you really like international finance and would like to work in a related field when you graduate, it can't hurt to own a good book of your choice)

In addition to these main references, other readings, often freely accessible online, will be mentioned throughout the course.

Topics to be covered:
(see course website for lecture notes and problem sets)

Topic 1: Balance of payments accounting; exchange rates (definitions), overview of foreign exchange markets.

Sources: Mankiw Chapter 5, Krugman-Obstfeld Chapters 12 and 13

Topic 2: Output and exchange rate in the short run: The Mundell-Fleming Model

Source: chapter 12 in "Macroeconomics", by Gregory Mankiw.

Topic 3: Asset approach to exchange rate determination

Sources: Krugman-Obstfeld Chapter

Topic 4: Price levels and the exchange rate in the long run

Source: chapter 5 in "Macroeconomics", by Gregory Mankiw.

Topic 5: The Balassa-Samuelson model

Source: International Macroeconomics, by Stephanie Schmitt-Grohé and Martin Uribe, chapter 7.

Topic 6: The Dornbusch overshooting model

Source: IMF Lecture, by Kenneth Rogoff

Topic 7: Fixed exchange rates and foreign exchange intervention

Source: Krugman-Obstfeld

Topic 8: Developing countries

Source: Krugman-Obstfeld

Topic 9: Currency crises, speculative attacks

Source: Krugman-Obstfeld chapters 17 and 19

The above topics will take us to week 9. On week 10, for the last lecture and class, there will be a problem set on currency crises (week 9's lecture) and a review session (bring questions about any part of the course)