

Viktoria Hnatkovska

office hours: Wednesdays 4pm - 6pm and by appointment

office: Buchanan Tower 922, tel: 822 5941

email: hnatkovs@interchange.ubc.ca

web: <http://www.econ.ubc.ca/vhnatkovska/teaching.htm>

TA: TBD

office hours: TBD

office: TBD

email: TBD

Course Description: This is a field course in International Finance and Macroeconomics. We start by reviewing main concepts and developing a theoretical framework for the study of current account, international asset allocations and capital flows, as well as nominal and real exchange rates. This framework is then implemented to examine the contemporary issues in the field: emergence of global imbalances; globalization of financial markets; financial crisis. **Prerequisites:** One of ECON 202, ECON 207, ECON 302, ECON 305.

Background texts:

I will not be using a specific textbook for the course. Instead, I will be relying on the lecture notes that I will post on the course webpage. These notes will draw on the following readings:

1. “*International Macroeconomics*”, unpublished textbook, Stephanie Schmitt-Grohe and Martin Uribe, Columbia University (SGU) - link is provided on the course webpage.

Other texts: (On reserve at Koerner library)

2. “*International Economics: Theory and Policy*”, 8th edition, Paul Krugman and Maurice Obstfeld, Addison-Wesley (KO). You may use an older or more recent edition of the textbook. You will need to check the correspondence of the exercises between different editions for the problem sets assigned from this textbook.

3. “*Foundations of International Macroeconomics*” (1996), Maurice Obstfeld and Kenneth Rogoff, Cambridge, MA: MIT Press (OR).

4. Additional readings from *The Economist*, *Financial Times*, *World Economic Outlook*, etc., as well as homework assignments will be posted on the course webpage.

Grading: Homeworks and class participation (20%), Midterm exam (30%), a cumulative Final exam (50%).

Course requirements:

- Midterm exam is scheduled for Monday, February 7, 12:00 - 13:00 pm. You must write the midterm exam at its scheduled time as no make-up exam will be given. If you have to miss the Midterm exam, I will shift 15% from its weight onto the Final exam, but you will lose the remaining 15%.

Also, if you perform poorly on the Midterm exam you will have a chance to improve your overall grade

by shifting some of that Midterm weight onto the Final exam. In particular, for the Midterm exam and a Final you will get a 30% - 50% OR 20% - 60% grade allocation, whichever gives you a higher grade.

- Final exam will be scheduled during exams period.
- There will be seven problem sets assigned in the duration of the course. These exercises will give you an opportunity to apply the concepts and theory presented in class and make sure you understand the topics. I advise you to work through all of the problems to prepare for the exams.

Course outline:

Each of the topics below should be covered in approximately 1 week of classes. Readings that are advised but not required are denoted with (*).

I. Current Account

1. National Income accounting for an open economy. Balance of payments and current account sustainability.
 - KO Chapter 12
 - SGU Chapter 1.
2. Intertemporal approach to current account determination
 - SGU Chapter 2, section 2.1-2.2
 - OR Chapter 1
 - *Obstfeld, Maurice and Kenneth Rogoff (2005). "The Unsustainable US Current Account Position Revisited", NBER WP 10869.
3. Current account adjustment to shocks
 - SGU Chapter 2, section 2.3-2.4
4. External adjustment in small and large economies
 - SGU Chapter 4
5. Budget deficits and the current account
 - SGU Chapter 5 section 5.1, 5.3-5.4
 - Cavallo, M. (2005). "Understanding the Twin Deficits: New Approaches, New Results" SF FED Economic Letters.

II. Exchange rates

6. Asset markets approach to exchange rate determination
 - KO Chapter 13 and Appendix to chapter 13
 - OR Section 8.7.5: Forward premium anomaly
7. Money, interest rates and exchange rates.
 - KO Chapter 14
 - OR section 9.1-9.3: The Mundell-Fleming-Dornbush model
8. Determinants of the real exchange rate in the long-run
 - KO Chapter 15

- SGU Chapter 7
- OR Chapter 4
- *Cumby, R (1996). “Forecasting Exchange Rates and Relative Prices with the Hamburger Standard: Is What You Want What You Get With McParity?”, NBER Working Paper No. 5675.

III. Exchange rates, current account and the macroeconomy

9. Current account and the real exchange rate: the TNT model

- SGU Chapter 8

10. The globalization of financial markets

- KO Chapter 21
- SGU Chapter 6
- OR pp. 161-164
- Rodrik, D. (2000). “How Far Will International Economic Integration Go?”, *Journal of Economic Perspectives*, Volume 14, Number 1, pages 177-186.
- Prasad, E., K. Rogoff, S-J. Wei, and M. Ayhan Kose (2003). “Effects of Financial Globalization on Developing Countries: Some Empirical Evidence”, *International Monetary Fund*, Occasional Paper No. 220.
- Aizenman, J. (2005) “Financial Liberalization: How Well Has it Worked for Developing Countries?” *FRB San Francisco Economic Letter*.
- *Obtfield, Maurice and Kenneth Rogoff (2000). “The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?” in B. Bernanke and K. Rogoff (eds.), *NBER Macroeconomic Annual 2000*, Cambridge, MIT Press.

11. Developing countries: current account, external debt, and financial crisis.

- KO Chapter 22
- SGU Chapter 9