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## **ECO365 – International Monetary Economics Fall 2011**

L0101 - Tuesday, 10:00-13:00

L0201 - Tuesday, 14:00-17:00

Instructor: Professor Julian di Giovanni

Office: Max Gluskin House, Room 222

Office Hours: Mondays, 16:00-18:00

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Website: <http://julian.digiovanni.ca/teaching> and Blackboard

Teaching assistant(s): Nathan Halmrast and Li Li

Office Hours: Nathan, 4-5pm Wednesdays, except first week of month, WI 2006

Li Li, 10-11am, GE 40

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### **Course Description**

This course is an introduction to open economy economics and international finance. The core objective of the course is to develop macroeconomic models of open economies that can be applied towards gaining an understanding of recent events such as US deficits, global financial imbalances, financial crises, China's exchange rate policy, and the European debt crisis. The course will also present the evolution of the international monetary system, and discuss institutional players (e.g., the International Monetary Fund). The implications of Canada being a small open economy will be highlighted, as well as relevant current Canadian-specific policy issues.

### **Required Readings**

Paul R. Krugman, Maurice Obstfeld, and Marc J. Melitz (KOM), "International Economics: Theory and Policy" (9th edition, Addison-Wesley, 2009), ISBN: 0-13-214665-7. This book is available at the UofT's bookstore.

Further readings (such as academic articles) will be posted on the course website. Readings from the Financial Times, The Economist, and other press may also be assigned/posted on the website and discussed during the course.

## **Grading Scheme**

- Final exam: 50%
- Midterm test: 30%
- 2 Problem sets: 10% each

## **Important Dates**

September 13: First lecture  
October 11: Problem Set #1 due  
October 25: Midterm (in class)  
November 3: Last day to drop course  
November 4: Make-up midterm, 10:00-12:00, Room TBA  
November 7-8: Fall break (no class on the 8<sup>th</sup>)  
November 29: Problem Set #2 due  
December 6: Last lecture

## **Administrative Information**

1. *Prerequisites:* Intermediate Macroeconomics: EC0202Y1/EC0208Y1/EC0209Y1.  
Please note that the course prerequisites are enforced rigorously, and without exception.

2. *Midterm*: If you miss the midterm you will be given a 0 unless you present me a medical note **within one week** of the midterm, and I accept the note. In this case, a make-up mid-term will be given. Note that the **only medical note** that will be accepted is the University of Toronto Student Medical Certificate (<http://www.healthservice.utoronto.ca/pdfs/medcert.htm>), completed by a medical doctor, including her/his OHIP registration number. Furthermore, the **original** note will only be accepted (no scans, faxes, etc.), which will clearly state what illness you were suffering from.

**Notes on make-up midterm:**

- It may not be the same format as the midterm test itself.
  - Consistent with university policy, there is no “make-up” test for the make-up test. No medical excuses will be accepted, and grade of zero will be applied if a student fails to write the make-up test.
  - The make-up test is AFTER the drop date.
3. *Problem sets*: The problems sets are due in class on the assigned dates (October 11 and November 29, 2011). Ten percentage points will be deducted each day the assignment is late up to one week of the assigned dates, at which point a 0 will be given (October 18 and December 6, 2011).
4. *Academic misconduct*: I have a zero-tolerance policy for any form of academic misconduct. Academic offenses, such as plagiarism or cheating during exams are serious academic offenses and could result in punishments ranging from failing the course to suspension or expulsion from the university. Please review the University’s Code of Behaviour on Academic Matters regarding what constitutes academic misconduct (<http://www.governingcouncil.utoronto.ca/policies/behaveac.htm>).
5. *Appealing an exam*: Appeals regarding the grading of a test must be submitted to me or the TA in writing, within one week of your receipt of the graded work. You must include the test with your written appeal. I shall re-grade the **entire exam**, therefore this might result in a lower grade than the original.
6. *E-mail policy*: Please use e-mails only for appointments, administrative or urgent matters. I shall **not** answer e-mails concerning course material – this is what office hours are for. Please include ECO365 in the subject heading of your e-mail, and use your UofT e-mail to avoid the possibility of the e-mail being quarantined or treated as spam.

7. *Class attendance and participation:* Class attendance is not compulsory, but you are responsible for all material covered during lectures. Class participation is encouraged and will count positively for marginal adjustments.
8. *Accessibility needs:* The University of Toronto is committed to accessibility. If you require accommodations for a disability, or have any accessibility concerns about the course, the classroom or course materials, please contact Accessibility Services as soon as possible: [disability.services@utoronto.ca](mailto:disability.services@utoronto.ca) or <http://studentlife.utoronto.ca/accessibility>.
9. *UofT's Double-Sided Printing Initiative:* To conserve paper, please print double-sided (learn how at <http://printdoublesided.sa.utoronto.ca>).

## Course Outline

Lectures will primarily rely on the assigned textbook (KOM), but will also be supplemented by additional readings, and other material presented on lecture slides.

**All course material** (readings, assignments, solutions, etc.) will be posted on the course website, so please visit it frequently during the semester.

### 1. *National Income Accounting and the Balance of Payments*

- Extend national income accounts to the open economy in order to incorporate international transactions.
- KOM, Ch. 13

### 2. *Exchange Rates and the Foreign Exchange Market: An Asset Market Approach*

- Consider the role of the exchange rates in international trade, and how exchange rates are determined.
- KOM, Ch. 14

**3. Money, Interest Rates, and Exchange Rates**

- Build a model to examine how monetary developments influence exchange rates.
- KOM, Ch. 15

**4. Price Levels and the Exchange Rate in the Long Run**

- Extend the model to understand how exchange rates behave in the long run.
- KOM, Ch. 16

**5. Output and the Exchange Rate in the Short Run**

- Study how output is determined by combining models of exchange rate determination with a theory of output determination in the short run.
- KOM, Ch. 17

**6. Fixed Exchange Rates and Foreign Exchange Intervention**

- Examine how authorities can fix their country's exchange rate, and how this can affect the economy.
- KOM, Ch. 18

**7. International Monetary Systems: An Historical Overview**

- Present a historical overview of the international monetary system, as well as its key players. Time permitting, an "Insider's View of the IMF" will be presented.
- KOM, Ch. 19

**8. Optimum Currency Areas and the European Experience**

- Study the trade-offs between different types of exchange regime arrangements, focusing on Europe's experience of monetary unification.
- KOM, Ch. 20

**9. Financial Globalization: Opportunity and Crisis**

- Examine the benefits and risks of the international capital market, and what caused its rapid growth over the past 50 years.
- KOM, Ch. 21

**10. Developing Countries: Growth, Crisis, and Reform**

- Study developing countries' past experiences and challenges, as well as their potential gains from participation in the international capital market.
- KOM, Ch. 22