

**ECO365
INTERNATIONAL MONETARY ECONOMICS**

**University of Toronto
Department of Economics**

Fall 2013

Instructor: Leo Karasik

Office Hours: 150 St. George St., Room 40, Tuesdays, 10-11 am (or by appointment)

Email: leonid.karasik@utoronto.ca

Website: <https://sites.google.com/site/leokarasik/teaching> and Portal

Teaching Assistant: Grigorios Spanos (grigorios.spanos@utoronto.ca)

TA Office Hours: TBA

Course Overview

The objective of this course is to introduce upper year students to open economy macroeconomic theory and its applications. The course will cover models dealing with exchange rate determination, the choice of exchange rate system, fiscal and monetary policy in an open economy, currency areas, and financial crises. These models will be applied to study the US current account deficit, China's exchange rate regime, the European currency crisis, and sovereign default.

Textbook

Paul R. Krugman, Maurice Obstfeld and Marc J. Melitz, *"International Economics: Theory and Policy,"* 9th Edition, ISBN: 0132146657. The textbook is available in the Campus Bookstore and in the library on reserve.

Marking Scheme

- 1st problem set: 10%
- Midterm: 30%
- 2nd problem set: 10%
- Final Exam: 50%

Important Dates

1. The first problem set will be posted online on Monday Sept. 30. It should be handed back on Friday, Oct. 11 at the reception area of the Economics Department (150 St. George St.) during business hours or by email.
2. The midterm will be written in class on Oct. 28.
3. The second problem set will be posted online on Nov. 18. It is due in class or by email on Dec. 2.

Administrative Details

1. If you fail to hand in the first problem set on time, the weight will be shifted to the midterm. If you fail to hand in the second problem set on time, the weight will be shifted to the final exam.
2. You must write the midterm in the section that you are registered in.
3. Appeals for regarding of the midterm must be submitted to the TA in writing along with the midterm within one month of the day that the midterm was handed back. The TA will re-grade the entire midterm, which may result in a higher or a lower mark. Midterms written in pencils will not be re-graded.
4. If you miss the mid-term for health reasons and would like to write a make-up test you must complete **ALL** of the following steps:
 - i. Send me an email within 24 hours of the midterm. The subject of your email must be “missed midterm” and it must be sent from your University of Toronto email address.
 - ii. In the email you must concisely explain why you missed the midterm and why you could not write it in the timeslot of the other section.
 - iii. If you complete the prior steps and I find your explanation justifiable a make-up midterm will be scheduled between Oct. 28 and Nov. 4.
 - iv. If you miss the make-up midterm you will receive a 0. Under no circumstances will the weight be shifted to the final exam.

Email Policy

Feel free to email me concerning administrative or urgent matters or to schedule an appointment. You can email either me or the TA if you have a short question about the material which requires an answer no longer than 2 sentences. Longer questions should be asked during office hours. All emails should be sent from your University of Toronto email and must include the course number (ECO 365) in the subject line. I will not reply to emails that request information that can be found on the syllabus.

Accessibility

The University provides academic accommodations for students with disabilities in accordance with the terms of the Ontario Human Rights Code and the AODA legislation (Access for Ontarians with Disabilities Act). Students in need of accommodations should contact either me or the Accessibility Services Office, <http://www.accessibility.utoronto.ca/Contact-Us.htm>.

Course outline

Each topic contains required readings and optional readings. All required readings come from the textbook, denoted by KOM below. You will **NOT** be tested on the optional readings.

1. Exchange Rates and the Foreign Exchange Market

Required Reading: KOM, Ch. 14

Optional Readings

Brunnermeier, Markus K., Stefan Nagel, and Lasse H. Pederson, "Carry Trades and Currency Crashes," NBER Macroeconomics Annual 2008, Volume 23, <http://pages.stern.nyu.edu/~lpederse/papers/CarryTradesCurrencyCrashes.pdf>

Cavallo, Michele, "Interest Rates, Carry Trades, and Exchange Rate Movements," Economic Letter, Federal Reserve Bank of San Francisco, 2006, <http://www.frbsf.org/economic-research/files/el2006-31.pdf>

2. National Income Accounting, the Balance of Payments and Intertemporal Trade

Required Reading: KOM, Ch. 13

Optional Reading

Alessandria, George, "Trade Deficits Aren't As Bad as You Think," Federal Reserve Bank of Philadelphia Business Review, 1st Quarter, 2007, http://www.phil.frb.org/research-and-data/publications/business-review/2007/q1/br_q1-2007-1_trade-deficit.pdf

3. Money, Interest Rates and Exchange Rates

Required Reading: KOM, Ch. 15

Optional Readings

Goldberg, Pinelopi and Rebecca Hellerstein, "Sticky Prices: Why Firms Hesitate to Adjust the Price of Their Goods," Current Issues in Economics and Finance, Federal Reserve Bank of New York, Nov. 2007, http://www.newyorkfed.org/research/current_issues/ci13-10.pdf

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

Required Reading: KOM, Ch. 16

Optional Readings

Alessandria, George and Joseph Kaboski, "Why Are Goods So Cheap in Some Countries?" Federal Reserve Bank of Philadelphia Business Review, 2nd Quarter, 2008, http://www.philadelphiafed.org/research-and-data/publications/business-review/2008/q1/alessandria-kaboski_why-are-goods-so-cheap.pdf

Taylor, Alan M. and Mark P. Taylor, "The Purchasing Power Parity Debate," Journal of Economic Perspectives, Vol. 18, No. 4, 2004, <http://www.columbia.edu/~mu2166/UIM/The%20Purchasing%20Power%20Parity%20Debate.pdf>

5. Output and the Exchange Rate in the Short Run

Required Reading: KOM, Ch. 17

Optional Readings

Alessandria, George and Jarcy Zee, "The Exchange Rate: What's in It for Prices?" Federal Reserve Bank of Philadelphia Business Review, 3rd Quarter, 2009, http://www.phil.frb.org/research-and-data/publications/business-review/2009/q3/brq309_exchange-rate.pdf

Goldberg, Linda and Eleanor Wiske Dillon, "Why a Dollar Depreciation May Not Close the U.S. Trade Deficit," Current Issues in Economics and Finance, Federal Reserve Bank of New York, Vol. 13, No. 5, 2007, http://www.newyorkfed.org/research/current_issues/ci13-5.pdf

Svensson, Lars E., "Escaping from a Liquidity Trap and Deflation: The Foolproof Way and Others," Journal of Economic Perspectives, Vol. 17, No. 4, 2003, <http://pubs.aeaweb.org/doi/pdfplus/10.1257/089533003772034934>

6. Fixed Exchange Rates

Required Reading: KOM, Ch. 18

Optional Readings

Bown, Chad P., Meredith A. Crowley, Rachel McCulloch, and Daisuke J. Nakajima, "The U.S. trade deficit: Made in China?" Economic Perspectives, Federal Reserve Bank of Chicago, 2005,

http://www.chicagofed.org/digital_assets/publications/economic_perspectives/2005/ep_4qtr2005_part1_boyen_crowley_mcculloch.pdf

Obstfeld, Maurice, "The Renminbi's Dollar Peg at the Crossroads," *Monetary and Economic Studies*, Vol. 25, Issue 1, 2007 <http://www.imes.boj.or.jp/research/papers/english/me25-s1-4.pdf>

Obstfeld, Maurice and Kenneth Rogoff, "The Mirage of Fixed Exchange Rates," *Journal of Economic Perspectives*, Vol. 9, Issue 4, 1995, <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.9.4.73>

Sarno, Lucio and Mark P. Taylor, "Official Intervention in the Foreign Exchange Market: Is It Effective, and, If So, How Does It Work?" *Journal of Economic Literature*, Vol. 39, Issue 3, 2001, http://www.cass.city.ac.uk/data/assets/pdf_file/0008/40697/sarno_taylor_jel.pdf

7. International Monetary Systems and Floating Exchange Rates

Required Reading: KOM, Ch. 19

Optional Readings

Cavallo, Michele, "To float or not to float? Exchange rate regimes and shocks," *Economic Letter*, Federal Reserve Bank of San Francisco, 2005, <http://www.frbsf.org/economic-research/files/el2005-01.pdf>

Fischer, Stanley, "Exchange Rate Regimes: Is the Bipolar View Correct?" *Journal of Economic Perspectives*, Vol. 15, Issue 2, <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.15.2.3>

Reinhart, Carmen M., "The Mirage of Floating Exchange Rates," *American Economic Review Papers & Proceedings*, Vol. 90, No. 2, 2000, <http://www.jstor.org/discover/10.2307/117193?uid=3739448&uid=2&uid=3737720&uid=4&sid=21102562797483>

8. Currency Areas and the EU

Required Reading: KOM, Ch. 20

Optional Readings

Higgins, Matthew and Thomas Klitgaard, "Saving Imbalances and the Euro Area Sovereign Debt Crisis," *Current Issues in Economics and Finance*, Federal Reserve Bank of New York, 2011, http://www.newyorkfed.org/research/current_issues/ci17-5.pdf

Lane, Philip R., "The Real Effects of European Monetary Union," *Journal of Economic Perspectives*, Vol. 20, No. 4, 2006, <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.20.4.47>

Lane, Philip R., "The European Sovereign Debt Crisis," *Journal of Economic Perspectives*, Vol. 26, No. 3, 2012, <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.26.3.49>

9. Developing Countries and Financial Crises

Required Reading: KOM, Ch. 22

Optional Readings

Calvo, Guillermo A. and Frederic S. Mishkin. "The Mirage Of Exchange Rate Regimes For Emerging Market Countries," Journal of Economic Perspectives, Vol. 17, No. 4, 2003,
<http://pubs.aeaweb.org/doi/pdfplus/10.1257/089533003772034916>

Desai, Padma, "Why Did the Ruble Collapse in August 1998?" American Economic Review Papers & Proceedings, Vol. 90, No. 2, 2000, <http://www.aeaweb.org/articles.php?doi=10.1257/aer.90.2.48>

Radelet, Steven and Jeffrey D. Sachs, "The Onset of the East Asian Financial Crisis," 2000,
<http://www.nber.org/chapters/c8691.pdf>