

ECO 2507 - INTERNATIONAL FINANCIAL MARKETS Winter 2017

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Overview

ECO 2507 is an advanced course that addresses topics in international finance and macroeconomics. Potential topics include: foreign exchange market; exchange rate determination; empirical models of exchange rates; international financial markets and uncertainty; international CAPM and home bias; sovereign debt; optimal capital controls.

Course material

- Maurice Obstfeld and Kenneth S. Rogoff “Foundations of International Macroeconomics”, MIT Press (Useful reading, but not required).
- Stephanie Schmitt-Grohe, Martin Uribe and Michael Woodford “International Macroeconomics”, open access: <http://www.columbia.edu/~mu2166/UIM/im.pdf> (Useful reading, but not required).
- Stephanie Schmitt-Grohe and Martin Uribe “Open Economy Macroeconomics”, open access: <http://www.columbia.edu/~mu2166/book/oem.pdf> (Useful reading, but not required).
- You are responsible for all readings in the folder “*Required Readings*” in the course website even if they were not covered in class.

Marking Scheme

- Final exam: 45%
- Midterm test: 30%
- Project: 25%

If your score on the final is better than on the midterm **and** your midterm score is above 30%, then the midterm does not count and its weight is automatically shifted towards the final. The same does **not** hold for the project.

The midterm will be written on February 13. The midterm location will be announced in class and on the course webpage. Important: the test locations will differ from your regular classroom locations!

The project will be due on March 27. Further instructions on the project will be posted on the class website in the following days.

Missing a Midterm

The midterm is a crucial component of the course, and it is compulsory. No make-up tests are offered for missed midterms. A missed midterm counts as 0.

In exceptional circumstances, when for documented serious medical reasons a student is unable to write the test, I will shift the weight of the missed midterm to the final exam.

If you miss a midterm, please provide medical documentation of your illness and send an email to Professor Mondria meeting all of the following specifications.

- (a) Your e-mail must be sent **before** the start of the missed test. (In cases of extreme emergencies up to 24 hours will be allowed.)
- (b) The subject line must be "ECO2507: missed test".
- (c) The e-mail is sent from your U of T account (i.e., not gmail, yahoo, etc.)
- (d) It concisely explains why you missed the test.
- (e) It lists all the other courses that you are currently taking, with the times these courses meet and the names and contact information of your other professors. It identifies all term work (e.g., tests, class attendance, homework assignments) that you have submitted or will submit in other courses during the week of your missed test or it says "no other term work was submitted and no classes were/will be attended during the week of my missed test."
- (f) The last sentence is "I understand that it is a punishable academic offence to present false information in support of my request for accommodation for missed term work".
- (g) The e-mail concludes with your name and student number.
- (h) The writing must be clear and appropriate for an academic setting.

Appeals

Appeals regarding the grading of a test must be submitted to me in writing within two weeks of your receipt of the graded work. The original test must accompany the appeal. I will re-grade the entire test. Note that this may lead to a lower overall grade. Your complaint has to be in writing and in detail.

Additional Details

Plagiarism: I take academic honesty very seriously. Plagiarism is a severe academic offense. Please review the University's Code of Behavior on Academic Matters regarding what constitutes an academic offense. Please also note the following disclaimer:

"Normally, students will be required to submit their course essays to Turnitin.com for a review of textual similarity and detection of possible plagiarism. In doing so, students will allow their essays to be included as source documents in the Turnitin.com reference database, where they will be used solely for the purpose of detecting plagiarism. The terms that apply to the University's use of the Turnitin.com service are described on the Turnitin.com web site".

Class Attendance is not required. However, students are responsible for all material covered in class, in the textbook, and in the required readings posted on the class website.

Class participation is encouraged and will count positively on marginal adjustments.

E-mail policy: Please use e-mails for appointments, administrative or urgent matters. E-mails are NOT to be used for questions about the course, lectures, tutorials etc. Instead, you are encouraged to come to my office hours and use the discussion board. You must use your U of T e-mail as non-U of T e-mails are sometimes automatically quarantined as ‘junk e-mail’.

U of T Double Sided Printing Initiative: To conserve paper, please print double-sided (learn how at: printdoublesided.sa.utoronto.ca).

Course Outline

All supplementary course materials (readings, announcements, solutions, etc.) will be posted on the class website. **Please check the class website frequently to stay up to date with the course.**

You are responsible for all readings in the folder “Required Readings” in the course website even if they were not covered in class.

1. Theories of Exchange Rate Determination

- Flexible-Price Monetary Model
- Sticky-Price Monetary Model

2. Empirical Models of Nominal Exchange Rates

- Forward Discount Puzzle
- Exchange Rate Determination Puzzle

3. Imperfections in International Capital Markets

- Sovereign Default and Direct Creditor Sanctions
- Optimal Incentive-Compatible Contracts

4. Current Account Determination

- A Small Two-Period Endowment Economy
- A Two-Region World Economy

5. External Adjustment in Small and Large Economies

- The Global Saving Glut Hypothesis
- Optimal Capital Controls in a Two-Country Model

6. Uncertainty and International Financial Markets

- International Portfolio Diversification
- Equity Home Bias Puzzle