**PUAF 781: International Economic Policy**

Spring 2017

Syllabus and Course Requirements



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Class: Thursday 4:15pm to 6:45pm in room TBD

Discussion: Monday 4:15 to 6:45m in room TBD

Teaching assistant: Davin O’Regan, [doregan@umd.edu](mailto:doregan@umd.edu)

Office Hours: Wednesday 2 to 4pm and by arrangement



This is a course on international macroeconomics, focusing on the economics of exchange rates, capital flows, and implications for economic policies. We will cover influences on currency values; the role of exchange rates in the macroeconomy; the choice of exchange rate regimes, the euro; policy issues facing China and other emerging economies; and issues related to capital flows and the international financial system.

**Required Readings and Optional Textbook**

The first part of the course will broadly follow the textbook by Krugman, Obstfeld, and Melitz, *International Finance: Theory and Policy*, 10th edition.  **The textbook is helpful but optional**. The 10th edition is a “split” textbook focused on international finance. Earlier editions include material on both international trade and international finance. You are welcome to use an earlier edition. There are many ways to learn about the material in the course. For example, faculty at NYU put together a public textbook: <http://www.stern.nyu.edu/sites/default/files/assets/documents/The_Global_Economy_Amazon_Digital.pdf>

Two class sessions will be based on case studies about Argentina’s stabilization (week 6) and collapse (week 11). You should obtain the case materials from the website of Harvard Business Publishing; the following link provides a coursepack with the items: <http://cb.hbsp.harvard.edu/cbmp/access/58910763> for Spring 2017.

Lecture slides and announcements will be posted on the class ELMS site. Read the required material before each class, and follow economic/financial news sources. I will call on students to discuss the readings and policy issues drawn from current events.

**Assignments and Grading**

**Two written Assignments (30 percent):** The first assignment is a group memo and presentation worth 20 percent of the class grade due on Wednesday, **March 8 (week 8) with presentations in class on March 9**, and the second assignment is an individual memo worth 10 percent of the overall grade and due on **May 3 (week 14)**. Note that written assignments are due one day before class – not the same day as class.

**Class participation (10 percent):** I will place value on your thoughtful comments.

**Midterm (30 percent):** The midterm on **March 30 (week 9 – after spring break)** covers weeks 1 to 8.

**Final (30 percent):** The date of the final exam is set by the School. A reasonable date to expect the final exam would be Thursday, May 18.

Exams are closed book, but you may bring one side of one sheet of notes to the midterm and two sides of notes to the final.  I will provide the necessary diagrams.

**COURSE OUTLINE and KEY TO READINGS**

KO = Material from the Krugman-Obstfeld-Melitz textbook

\*\*\* = Required

\* = Recommended

#### WEEK 1 (January 26)

***U.S. and Global Economic overview.*** Read the material below before the first class and come prepared to discuss the questions and topics in the week one slides.

\*\*\* IMF World Economic Outlook Update January 2017: <http://www.imf.org/external/pubs/ft/weo/2017/update/01/pdf/0117.pdf>

\*\*\* Ben Bernanke blog on “The Fed and Fiscal Policy,” <https://www.brookings.edu/blog/ben-bernanke/2017/01/13/the-fed-and-fiscal-policy/>

\* Sebastian Mallaby, “Globalization Resets,” *Finance & Development*, December 2016,

<https://www.imf.org/external/pubs/ft/fandd/2016/12/pdf/mallaby.pdf>

\* NY Fed snapshot of U.S. economy on <https://www.newyorkfed.org/research/snapshot>

#### WEEK 2 (February 2)

***Exchange Rate as an Asset Price***

1. KO Chapter 3 (chapter 14 in the 9th edition, or 13 in the 8th edition)
2. \*\*\* “Carried Away: Everything you always wanted to know about the carry trade,” Jeffrey Frankel, *Milken Institute Review*, vol. 10 no. 10, pp. 38-45, January 2008. <http://www.hks.harvard.edu/fs/jfrankel/CarryTradeMilkenInReview.pdf>

**First discussion section is Monday, February 6 from 4:15 to 6:45pm in room TBD**

#### WEEK 3 (February 9)

***Linking Money, Interest Rates and Exchange Rates***

1. KO Chapter 4 (chapter 15/14 in the 9th/8th editions)

Discussion section will not meet on February 13 or 20.

#### WEEK 4 (February 16)

## Real Exchange Rate Determination and Long-Run Fundamentals

1. KO Chapter 5 (chapter 16/15 in the 9th/8th editions)
2. \* “Real Exchange Rates: What Money Can Buy,” *Finance and Development, 2012,* Luis Catão, <http://www.imf.org/external/pubs/ft/fandd/basics/realex.htm>
3. \* “To what extent does productivity drive the dollar?” Cedric Tille, Nicolas Stoffels, and Olga Gorbachev, August 2001, New York Fed: <http://www.newyorkfed.org/research/current_issues/ci7-8.pdf>

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Discussion section will not meet on February 13 or 20.

#### WEEKS 5 and 6 (February 23 and March 2)

***Intervention in Currency Markets*** *(plus catch-up from previous weeks)*

1. KO Chapter 7 (chapter 18/17 in the 9th/8th editions)
2. \*\*\* Luis A.V. Catão and Marco E. Terrones, “Dollar Dependence,” *IMF Finance & Development*, September 2016 <https://www.imf.org/external/pubs/ft/fandd/2016/09/pdf/catao.pdf>
3. \*\*\* Choosing an Exchange Rate Regime, *Finance and Development*, Dec 2009, Volume 46 no 4, <http://www.imf.org/external/pubs/ft/fandd/2009/12/ghosh.htm>

#### WEEK 7 (March 9)

*Written Assignment 1 is due by 4:15pm on Wednesday, March 8 – a day before the week 7 class. This group assignment involves choosing a carry trade strategy and defending your investment thesis. Presentations will be made in class on Thursday, March 9.*

***Carry Trade presentations on Thursday, March 9***

#### WEEK 8 (March 16)

***Stabilization in Argentina***

1. \*\*\* Argentina’s Convertibility Plan, HBS case number 9-702-002, February 2004.
2. \*\*\* A Currency We Can Call Our Own: Populism, Banking Crises, and Exchange Rate Crises in Argentina, 1946-2002, HBS case number 9-715-019, January 2015. We will use this case for week 11 as well.
3. KO Chapter 11 - read the parts that are useful after you have read the case studies (chapter 22 in the 8th and 9th editions)
4. \* “Argentina’s Money Monomania,” web commentary by Paul Krugman, December 2001, <http://www.pkarchive.org/crises/MoneyMonomania.html>

**Spring break = March 23**

#### WEEK 9 (March 30)

***Midterm exam covering material in weeks 1-8***

#### WEEKS 10 and 11 (April 6 and 13)

***Macro policy; Current Account and Financial Account; BOP***

1. KO Chapter 2 (chapters 13/12 in the 9th/8th editions)
2. \*\*\* “Monetary Policy in a World of Mobile Capital,” Ben S. Bernanke, *Cato Journal*, Winter 2005. <http://www.cato.org/pubs/journal/cj25n1/cj25n1-1.pdf>
3. \*\*\* “The Link Between Trade and Capital Flows,” 2004 *Economic Report of the President* chapter 14, <http://www.gpoaccess.gov/usbudget/fy05/pdf/2004_erp.pdf>
4. \*\*\* “U.S. Monetary Policy from an International Perspective,” Vice Chairman Stanley Fischer at the 20th Annual Conference of the Central Bank of Chile, Santiago, Chile (via videoconference), November 11, 2016, <https://www.federalreserve.gov/newsevents/speech/fischer20161111a.pdf>
5. \* “The BB-NN Model,” Roberto Rigobon (you can find these notes on the web).
6. \* “The Cost of Tying One’s Hands,” Atish R. Ghosh, Mahvash S. Qureshi, and Charalambos G. Tsangarides. *Finance & Development*, June 2014, Vol. 51, No. 2. <http://www.imf.org/external/pubs/ft/fandd/2014/06/pdf/ghosh.pdf>
7. Material on ISLM should be familiar from 641. We will briefly review this material in class and more thoroughly in discussion section. You are responsible for knowing the ISLM model for both small and large economies.

**WEEK 12 (April 20)**

***Currency Crises and the Collapse in Argentina***

1. KO Chapters 7, 8, 9, and 11 (chapters 18, 19, 21, and 22 in 8th and 9th editions)
2. \*\*\* “What have we learned from the crises of the last 20 years?” Stanley Fischer, June 1, 2015 speech, <http://www.federalreserve.gov/newsevents/speech/fischer20150601a.htm>
3. \*\*\* “To Pay the Piper,” Luis Catao and Rui Mano on the costs of sovereign debt default, IMF *Finance & Development*, December 2015, <http://www.imf.org/external/pubs/ft/fandd/2015/12/pdf/catao.pdf>
4. \* “Currency Crises,” Paul Krugman, available on <http://www.pkarchive.org/crises/crises.html> and in *Currency Crises*, March, 1997, pp. 1-16.
5. \* “The Economics of Currency Crisis: An Introduction,” Paolo Pesenti and Cedric Tille, in *Economic Policy Review*, September, 2000, pp. 3-16. Federal Reserve Bank of New York. <http://www.newyorkfed.org/research/epr/00v06n3/0009pese.pdf>

***Argentina: the collapse***

1. \*\*\* HBS case studies on Argentina from week 6 (for November 19)
2. \* “Notes on Depreciation, the Yen, and the Argentino,” Paul Krugman, <http://www.pkarchive.org/crises/Argentino.html>
3. \* IMF Lessons from the Crisis in Argentina, October 2003. <https://www.imf.org/external/np/pdr/lessons/100803.pdf>

**WEEK 13 (April 27)**

***China’s Economy and Exchange Rate Choice***

1. \*\*\* Christopher J. Neely, “Chinese Foreign Exchange Reserves, Policy Choices and the U.S. Economy,” St. Louis Fed working paper, January 2017, <https://research.stlouisfed.org/wp/more/2017-001>
2. \*\*\* “Sino Shift,” David Dollar, *Finance & Development*, June 2014, Vol. 51, No. 2, <http://www.imf.org/external/pubs/ft/fandd/2014/06/pdf/dollar.pdf>
3. \* “Who Wins and Who Loses as China Rebalances,” IMF blog post May 2016, <https://blog-imfdirect.imf.org/2016/05/12/who-wins-and-who-loses-as-china-rebalances/>
4. \* “China’s Trilemma,” Yu Yongding, June 13, 2014. <http://www.project-syndicate.org/commentary/yu-yongding-predicts-that-china-may-soon-have-little-choice-but-to-float-the-renminbi>. See also <http://www.project-syndicate.org/columnist/yu-yongding>

#### WEEK 14 (May 4)

*Written Assignment 2 is due by 4:15pm on Wednesday, May 3. This assignment involves a diagnosis of the economic challenges facing the United States and Canada.*

***Currency Areas and the Euro***

1. KO Chapter 10 (chapter 20 in 8th and 9th editions)
2. \*\*\* “The Eurozone in Crisis,” CFR backgrounder, Christopher Alessi and James McBride, <http://www.cfr.org/eu/eurozone-crisis/p22055>
3. \*\*\* Three page IMF Debt sustainability analysis for Greece, <http://www.imf.org/external/pubs/ft/scr/2015/cr15186.pdf> (This is an update on this longer document: <http://www.imf.org/external/pubs/ft/scr/2015/cr15165.pdf>)
4. \*\*\* “Past, Present, and Future Challenges for the Euro Area”, Stanley Fischer, May 21, 2015 <http://www.federalreserve.gov/newsevents/speech/fischer20150521.htm>
5. \* “Whither the Euro?” Kevin Hjortshøj O’Rourke. *Finance & Development*, March 2014, Vol. 51, No. 1. <http://www.imf.org/external/pubs/ft/fandd/2014/03/pdf/orourke.pdf>
6. \* “Can Europe be Saved?” Paul Krugman, *NY Times Magazine*, Jan 12, 2011.

#### WEEK 15 (May 11)

***The Global Economy and Current Account Sustainability***

1. \*\*\* “The Dollar Reigns Supreme, by Default,” IMF *Finance & Development*, March 2014, Vol. 51, No. 1, Eswar Prasad. <http://www.imf.org/external/pubs/ft/fandd/2014/03/prasad.htm>
2. \*\*\* “Collateral Damage,” IMF *Finance & Development*, December 2015, Pablo Druck, Nicolas E. Magud, and Rodrigo Mariscal, <http://www.imf.org/external/pubs/ft/fandd/2015/12/druck.htm>
3. \* The Global Saving Glut and the U.S. Current Account Deficit, April 14, 2005, Remarks by Federal Reserve Governor Ben S. Bernanke, <http://www.federalreserve.gov/boarddocs/speeches/2005/20050414/default.htm>
4. \* Global Current Account Imbalances: Hard Landing or Soft Landing - Talk by Raghuram Rajan, IMF, at the Credit Suisse First Boston Conference, Hong Kong, March 15, 2005, <http://www.imf.org/external/np/speeches/2005/031505.htm>

**The final exam date will be determined by the Policy School (perhaps May 18).**