

International Finance

Introduction

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Course Description

- The course consists of two parts:
 - open-economy macroeconomics
 - international macro-finance
- This is not a course in asset pricing, or mathematical finance, or the institutional details of international asset markets, though it will touch on all of these.

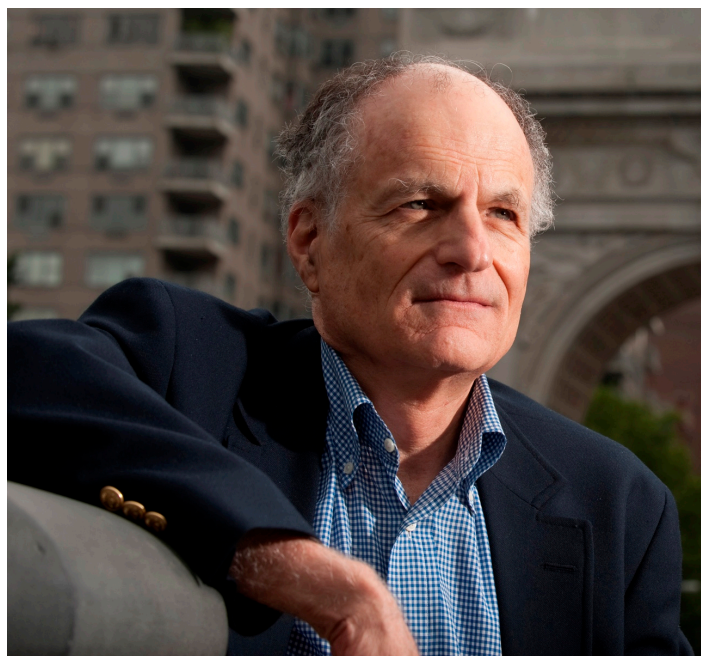
Basic Approach of this Course

- Economists do it with models
 - The models are used to help understand the real world: a simplified description of reality.
 - Until the 1970s: Micro and Macro were using different tools.
- Not any more.
 - Lucas and Sargent (1979) argued that Keynesian Macroeconomics is 'fundamentally flawed' by its lack of firm micro foundation.

The Development of Macroeconomics in 1970s

The Rational Expectations Revolution

- Pioneers and Representatives



- Robert Lucas, Jr. (1937–), Chicago. Nobel Laureate (1995)
- Thomas J. Sargent (1943–), NYU. Nobel Laureate (2011)
- Robert J. Barro (1944–), Harvard.

Basic Approach of this Course

- Rational Expectation
 - People optimally use all the available information to forecast the future.
- Modern macroeconomic models: micro-founded
 - Representative Agents
 - Optimization
- Fundamentally dynamic
 - Intertemporal choice

Intertemporal Models vs. IS-LM-BP Models

Basic Approach of this Course

- Economic models are often acknowledged to be unrealistic.



Basic Approach of this Course

- “We never complicate a model to make it ‘more realistic,’ which, to my mind, makes no methodological sense. By construction, a model is ‘unrealistic,’ and that is precisely why it is helpful.”
(Carlos A. Végh)
- “Remember that all models are wrong; the practical question is how wrong do they have to be to not be useful.” (George E. P. Box)
 - To know “how wrong do they have to be,” you need to “test” the model by data.
 - That’s when statistics/econometrics kicks in.

Prerequisites

- Macroeconomics (micro foundations), Microeconomics
- Statistics

Why Studying International Finance?

- 了解國際金融市場上的重要變數如匯率，國際收支帳，資本流動等的決定及其動態
- 思辨與論述能力

Why Studying International Finance?

WTF...



Source: 央行臉書, 2021 年 1 月 7 日

WTF...



中央銀行 ✓

1月12日 · 🌐

匯率的穩定對大家都好

匯率的穩定對大家都好

- 一、謝謝各界對本行1月7日臉書貼文的關注與指教。
- 二、本行認同媒體報導指出，該貼文係善意提醒廠商不要過度拋匯，使美元越賣越低，以免砸到自己的腳。
- 三、市場的秩序有賴所有參與者的共同維護，匯率的穩定對大家都好。
- 四、本行尊重多元的看法，也請部分人士不要刻意負面解讀本行貼文。

Errr... I mean, Welcome To Facebook.

思辨與論述能力

- 您認為台灣近年經常帳順差持續擴大，除了疫情期間出口表現良好外，有無其他因素促成？如有，可能是哪些因素？
- 您認為順差擴大是件好事嗎？如非，您認為它主要會造成（或反映）台灣經濟結構的哪些問題？有無一些具體事例？
- 您是否認為台灣存在一個所謂「最適經常帳」的規模？（例如 IMF 有定期出報告，評估一國經常帳是否失衡，惟台灣不在受評國之列...）如有，其合理規模是？

思辨與論述能力

- 有論者主張，如要降低順差（亦即減少超額儲蓄），可適度調降部分商品的進口關稅，或發行基礎建設債，引導民間資金投資等，對此您的看法？又如要有效減少超額儲蓄，您個人的建議是？
- 對照國際，您是否有觀察到哪些國家在減少順差、去化超額儲蓄的面向上，值得台灣學習？如有，可否簡要分享之？

Reading Materials

- 陳旭昇 (2021) 國際金融理論與實證, 雙葉書廊

國際金融
理論與實證
International Finance
Theory and Empirics
陳旭昇 著



It is worth noting that it's “理論與實證” not “理論與實務”.
勘誤表

NTU Cool

- The course website is available on NTU Cool, which will be the main way I make announcements and communicate with the class.
- Lecture notes will be put on the NTU Cool.

Course Outline

- Introduction
- The Balance of Payments
 - Intertemporal Models of the Current Account
 - Current Account Models with Uncertainty
- The Foreign Exchange Market
- Forward Markets and Transaction Exchange Risk
- Interest Rate Parity

Course Outline

- Speculation and Risk in the Foreign Exchange Market
- Purchasing Power Parity
- Real Exchange Rates
- Exchange Rate Determination and Forecasting
- Central Bank and its Exchange Rate Policy

Assignments and Grading

- ① Problem Sets (20%)
- ② Midterm Exam (40%): April 11, 2023
- ③ Final Exam (40%): June 6, 2023
 - No makeup exams.