

# **Economics 4382: International Finance**

## **Fall 2022**

**Instructor:** Camilo Granados

**Class Time and Location:** Monday and Wednesday 1:00PM-2:15PM

**Course Office Hours:** Monday and Wednesday 2:30PM-3:30PM or by appointment

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### **Course Description**

This course explores the functioning of the international financial system. For that we study the foreign exchange rates and markets, the balance of payments accounts, and the international exchange of financial assets as well as the link of these variables and the trade of goods and services between countries.

As we will see, these topics are not independent of the governments and policy decision making. Thus, we also cover the determination of exchange rate regimes, international financial regulations, and even international monetary theory, among others. Finally, some emphasis is put on the financial and trade interlinks between economies that are integrated to the global financial market and how these will imply that the economic outcomes between countries are interrelated too.

### **Learning Outcomes**

By the end of the course the students will be able to understand how the foreign exchange markets work (or forex market), the intuition behind the interest parity theories and how they relate the state of the economy with the exchange rates. The student will also identify the relationship between the imbalances in the trade of goods to trade of financial assets (or liabilities) and international investment and wealth of a country.

The students will also gain exposition to sources of cross-country economic and financial data, as well as use the theoretical concepts we review, and the empirical evidence to understand and assess the economic policy surrounding mayor international economics regimes (e.g., the Euro, Exchange Rate Regimes) and crisis episodes.

### **Prerequisites**

The course will cover a sequence of economic models and financial concepts that use mathematical concepts and tools. This will require familiarity with algebra, basic calculus and constrained optimization. Techniques such as solving systems of equations, taking logarithms, differentiation and using the chain rule must be familiar to you. If you have forgotten these topics, you should review them as soon as possible. The only other prerequisite is a course on Intermediate Macroeconomics.

### **Workload expectations**

You can expect to work hard in this course. This course is meant for students that are highly interested in understanding the functioning of international financial markets and who are willing to do a considerable amount of reading. If on the contrary, you are looking for a course at the last minute to fill your schedule, this may not be the right choice. Having said this, you should also know I am more than happy to reward your effort as possible and that I am willing to work just as hard as I expect you to.

You should expect to have to read the textbook regularly, additional reading materials that I may provide on an occasional basis and to work on several homework assignments as well as preparing for three exams.

A final optional module (if time allows and the students opt for it) will consist on presentation of recent academic papers on topics of international finance.

### **Group Work**

Working in groups is encouraged. Study groups are encouraged for assignments and for exams preparation. However, you must submit your own individual write-up for all assignments. All exams/quizzes will be based on individual evaluations; no collaborations are allowed.

### **Course Textbook**

- (Required) Feenstra and Taylor, *International Economics*, 4ed. (3ed. Also works) – From here on we will refer to this as “the textbook” or FT.
- Additional supplementary material posted on the website occasionally

### **Assessments**

#### ***- 5 Problem Sets (20%) – due at the beginning of the lecture***

There are five homework assignments to help you review and apply the material learned in lectures.

#### ***- In-Class Group Discussion and Paper Presentation (Bonus)***

There will be occasional group discussion sessions to go over assigned readings and questions, as well as **an optional final group presentation, which will take place during the last weeks of class**. During the group discussions, you will get to discuss and work through problems collectively, so participation is important.

The bonus for this consist on taking 10% out of the exams portion and replacing it with the presentation grade (which should be close to or full credit). 5% will come from the final and 5% from the other midterms (the one with the lowest grade).

#### ***- Quizzes and Exams (80%)***

There are **three exams** during the quarter and a final exam during final exam week, the first two are midterms (25% each). The final exam (30%) is cumulative (time TBD).

**If you cannot make an exam date**, the following policy applies: major exceptions are only allowed in case of medical emergencies that concern either you or your family. In this case, please provide a certification by a doctor on the exam. If it is the final exam that you miss, you may need to take a make-up exam next term or later during office the hours' time. This exam will be significantly harder than the exam at the end of this term, reflecting the fact that you have more time for preparation.

#### ***- Extra Credit***

The main bonus consists on the presentation. With that the weights of the two midterms and one final exam go from 25%, 25%, and 30% respectively to 20%, 25%, 25%.

In addition, if students attend 75% or more of the lectures, I will remove the lowest problem set and redistribute its weight towards the remaining 4 assignments.

#### ***-Grading:***

We will not have a grader for this course meaning I will do the grading myself. To facilitate this, I will grade 2-3 questions of each assignment randomly and assign the grades based on that. I will state which questions were chosen each time and provide solutions.

### ***-Email Questions and Office Hours:***

Using the office hours is highly encouraged. If you have questions on the material you should come. You can also make questions via email. However, if the answer is expected to take more than a paragraph, I encourage you to come to my office during the Office Hours time or to talk to me after each lecture.

Similarly, if the question is about logistics and its answer is included in the Syllabus, I will just refer you to it.

### **Academic Conduct Policy**

The School of Economic, Political and Policy Sciences – EPPS supports University policies regarding academic honesty and classroom behavior. Students of the course are expected to adhere to the University of Texas at Dallas' Policy on Academic Honesty that can be found at <https://conduct.utdallas.edu/dishonesty/>

### **Class Recordings**

Students are expected to follow appropriate University policies and maintain the security of passwords used to access recorded lectures. Unless the Office of Student AccessAbility has approved the student to record the instruction, students are expressly prohibited from recording any part of this course. Recordings may not be published, reproduced, or shared with those not in the class, or uploaded to other online environments except to implement an approved Office of Student AccessAbility accommodation. Failure to comply with these University requirements is a violation of the [Student Code of Conduct](#).

### **Withdrawal from Class**

The administration at UT Dallas has established deadlines for withdrawal from any course. These dates and times are published in the Comet Calendar (<http://www.utdallas.edu/calendar>) and in the Academic Calendar (<http://www.utdallas.edu/academiccalendar>). It is the student's responsibility to handle withdrawal requirements from any class. In other words, a professor or another instructor cannot drop or withdraw any student unless there is an administrative drop such as the following:

- Not meeting the prerequisites for a specific course
- Not satisfying the academic probationary requirements, resulting in suspension
- An Office of Community Standards and Conduct request
- Not making appropriate tuition and fee payments
- Enrollment is in violation of academic policy
- Not admitted for the term in which they registered

It is the student's responsibility to complete and submit the appropriate forms to the Registrar's Office and ensure that he or she will not receive a final grade of "F" in a course if he or she chooses not to attend the class after being enrolled.

### ***Incomplete Grade Policy***

As per university policy, incomplete grades may be given at the discretion of the instructor of record for a course, when a student has completed at least 70% of the required course material but cannot complete all requirements by the end of the semester. An incomplete course grade (grade of 'I') must be completed within the time period specified by the instructor, not to exceed eight (8) weeks from the first day of the subsequent long semester. Upon completion of the required work, the grade of 'I' may be converted into a letter grade (A through F). If the grade of Incomplete is not removed by the end of the specified period, it will automatically

be changed to a grade of F. The incomplete grade policy is included in the online UT Dallas Undergraduate Catalog, <https://catalog.utdallas.edu/now/undergraduate/policies/academic#incomplete-grades> and the Graduate Catalog, <https://catalog.utdallas.edu/now/graduate/policies/grades#grade-of-i-incomplete>.

### ***Accommodations for Students with Disabilities***

The University of Texas at Dallas is committed to providing reasonable accommodations for all persons with disabilities. The syllabus is available in alternate formats upon request. If you are seeking classroom accommodations under the Americans with Disabilities Act (2008), you are required to register with the Office of Student AccessAbility (OSA), located in the Administration Building, Suite 2.224. Their phone number is 972-883-2098, email: [studentaccess@utdallas.edu](mailto:studentaccess@utdallas.edu) and the website is <https://studentaccess.utdallas.edu>. To receive academic accommodations for this class, please obtain the proper Office of Student AccessAbility letter of accommodation and meet with the Director of OSA at the beginning of the semester.

### **Course Topics**

#### **I. EXCHANGE RATES (FT CHAPTERS 12-15)**

- Introduction
- Exchange Rate Fundamentals and the Forex market
- Covered and Uncovered Interest Rate Parities
- Purchasing Power Parity
- Impossible Trinity of International Economics or Mundellian Trilemma

#### **II. BALANCE OF PAYMENTS (FT CHAPTERS 16-18)**

- Open-Economy national income accounting
- Current account, unbalanced trade, and national wealth
- International Assets: Borrowing and Lending
- Intertemporal consumption smoothing

#### **III. APPLICATIONS OF THE THEORIES AND ECONOMIC POLICY (FT CHAPTERS 19-21)**

- Exchange Rate Regimes
- History of the Exchange Rates
- International Crises
- The Eurozone

#### **IV. RECENT RESEARCH ON INTERNATIONAL FINANCE (OPTIONAL PRESENTATIONS)**

- The Global Financial Crisis and its impact on global markets
- The COVID crisis
- Other selected topics