

CHICAGO BOOTH

Business 33850: Global Strategy and Economics

Winter 2020 (Chicago)

Brent Neiman

Syllabus and Course Information

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Course Overview: This is a course on economics and strategy in an open-economy setting, with a focus on exchange rates, including their impact on businesses and on the macroeconomy. In particular, we will cover:

- Theories of exchange rate determination and how well they match the data
- The role of exchange rates in the macroeconomy and the implications for businesses
- The choice of exchange rate regime, including monetary unions like the euro area
- Fiscal and monetary policy in an open economy
- International borrowing/lending and the sustainability of current accounts

Extensions and applications of the frameworks taught in the course should enable students to better understand how to think about and operate effectively in the global marketplace.

Canvas: Lecture notes and other relevant materials will be posted on Canvas for the course in advance of class. You can access Canvas at <http://canvas.uchicago.edu> using your CNetID and password. The course assistant will also provide printed hard copies of the lecture notes relevant for each class.

Schedule: The class will meet on February 14th from 11am-2pm, February 15th from 9am-12pm, February 28 from 9am-12pm, February 29 from 9am-12pm, and March 13 from 9am-12pm. Classes 2, 3, 4, and 5 will all start with a 10-15 minute in-class quiz. The TA Hyunmin Park will be around and available for reviewing the material during lunch, as well as during most afternoons and evenings during class dates (but please be sure to check specific times in advance with her). There will be a 90 minute final exam, contact the program office for the exam schedule.

Review Sessions: I will conduct a review session from 12:30-1:30pm on February 28, and the TA will conduct a review session from 12:30-1:30pm on March 13.

Grading: Your grade will be a weighted average of your scores on quizzes (35%) and the final exam (65%). I will drop your worst quiz when calculating grades.

- **Quizzes:** There will be 4 in-class quizzes during the first 10-15 minutes of classes 2, 3, 4, and 5. Late arrivals may have difficulty finishing. The quizzes will cover the material taught in previous classes. The quizzes are closed-book, but you are allowed to use a calculator. Sample quizzes (with and without solutions) are posted on canvas.

- **Final Exam:** There will be a 90 minute final exam, the date/time will be set by the program office. The final exam is mandatory and makeups will generally not be allowed. You may use a calculator and one side of one 8.5x11 sheet of notes. Sample exams (with and without solutions) will be posted on canvas.

Requests for re-grades will be considered for 1 week after the grade on the item is returned to you. The request must be made in writing and must explain why the original grade is not justified. The TA or I will re-grade the entire item and your grade may go up but may also go down if other grading mistakes are found.

Failing Grades: I hope to avoid giving anyone a failing grade in this class and that is generally the outcome. The 5-day compressed schedule, however, means that on occasion I am left with little choice. If you have to miss one of the five days, you can usually make that up (and the zero quiz grade will be dropped). But I want to be clear that missing two days (i.e. 40% of the course) puts your grade at significant risk. If you miss three or more days, I'd strongly advise that you avoid taking the course.

Textbook and Readings:

I will use the following materials for the class:

- Items denoted with **KOM** refer to readings in Krugman, Obstfeld, & Melitz, *International Economics: Theory and Policy*, 10th edition (Global Edition)
- **ARG** refers to "Reducing Inflation in Argentina: Mission Impossible?", a CBS case by Alvarez and Zeldes
- Additional readings are on Canvas, either with direct web links **WEB** or through the library **LIB**.

You are expected to do all readings and are responsible for this material in quizzes and exams. You may choose whether to do them before or after the respective class.

Class Participation

There is no explicit participation grade, but your thoughtful comments, questions, and discussion are greatly appreciated and encouraged. Please speak up!

Honor Code

Students in my class are required to adhere to the standards of conduct in the Booth School Honor Code and the Booth School Standards of Scholarship. Students are required to sign the following Booth School Honor Code pledge on every examination: "I pledge my honor that I have not violated the Booth School Honor Code during this examination."

Day 1: The Nominal Exchange Rate and Interest Parity

1. **KOM:** Chapter 14, "Exchange Rates and the Foreign Exchange Market: An Asset Approach."
2. **KOM:** Appendix to Chapter 14, "Forward Exchange Rates and Covered Interest Parity."
3. **WEB:** Salmon, Felix, 2007. "Carry Trade Unwinding? It Looks Real this Time." Portfolio.com, August 16.
4. **WEB:** Zhou, Wanfeng, 2007. "Carry Trade Unwinding Roils Currency Markets," Marketwatch, Feb 27.

5. **LIB:** Bansal, Ravi and Dahlquist, Magnus, 2000. "The Forward Premium Puzzle: Different Tales from Developed and Emerging Economies," *Journal of International Economics*. (Note: You need only read up to section 2.3.3 in the paper.)

Day 2: Passthrough and The Real Exchange Rate

1. **KOM:** Chapter 16, "Price Levels and the Exchange Rate in the Long Run." (Note: You need only read up to page 467.)
2. **WEB:** Cavallo, Alberto, Neiman, Brent, and Roberto Rigobon, 2014a. "Product Introductions, Currency Unions, and the Real Exchange Rate." *The Quarterly Journal of Economics*. (Note: You need only read through the end of page 9.)
3. **WEB:** Pakko, Michael and Patricia Pollard, 2003. "Burgernomics: A Big Mac Guide to Purchasing Power Parity," FRB St. Louis Review, November/December 2003.
4. **LIB:** Knetter, Michael and Pinelopi Goldberg, 1997. "Goods Prices and Exchange Rates: What Have We Learned?" *Journal of Economic Literature*. . (Note: I won't expect you to follow the parts with equations that are a bit technical.)
5. **LIB:** "Grappling with the Strong Euro," 2003. *The Economist*, June 5.
6. **LIB:** Eun, Cheol and Bruse Resnick, "Management of Transaction Exposure," *International Financial Management*.
7. **LIB:** Chang, Gene Hsin and Qin Shao, 2004. "How Much is the Chinese Currency Undervalued? A Quantitative Estimation," *China Economic Review*.

Day 3: Exchange Rate Regimes and the Open-Economy Macroeconomic Model

1. **KOM:** Chapter 15, "Money, Interest Rates, and Exchange Rates."
2. **KOM:** Chapter 17, "Output and the Exchange Rate in the Short Run." (Note: You may skip pages 510-513 and the chapter appendices.)
3. **ARG:** "Reducing Inflation in Argentina: Mission Impossible?," a Columbia Business School case by Alvarez and Zeldes
4. **WEB:** Krugman, Paul, 2001. "Argentina's Money Monomania," Blog, December.
5. **LIB:** "Leaders: Money Still Matters," 2001, *The Economist*, June 2.

Day 4: Optimal Currency Areas and the Euro Zone Crisis

1. **KOM:** Chapter 21, "Optimum Currency Areas and the European Experience."
2. **WEB:** Cavallo, Alberto, Neiman, Brent, and Roberto Rigobon, 2014a. "Product Introductions, Currency Unions, and the Real Exchange Rate." *The Quarterly Journal of Economics*. (Note: Only need to read Section 3, you read sections 1-2 earlier.)
3. **WEB:** Cavallo, Alberto, Neiman, Brent, and Roberto Rigobon, 2014b. "The Price Impact of Joining a Currency Union: Evidence from Latvia." *Working Paper*.

4. **WEB:** Krugman, Paul, 2010, "A Money Too Far." NY Times, May 6.
5. **WEB:** Mankiw, Greg, 2010. "Does a common currency area need a centralized fiscal authority?" Blog, May 7.
6. **WEB:** (OPTIONAL). Cochrane, Kashyap, Myerson, and Zingales (2010). "The Euro Area in Crisis," IGM Faculty Panel.

Day 5: Current Accounts and the U.S. Exorbitant Privilege

1. **KOM:** Chapter 13, "National Income Accounting and the Balance of Payments."
2. **WEB:** Bernanke, Ben, 2005. "The Global Saving Glut and the U.S. Current Account Deficit," Speech, March 10, 2005.
3. **WEB:** Rajan, Raghuram, 2005. "Global Current Account Imbalances: Hard Landing or Soft Landing," Speech, March 15, 2005.
4. **WEB:** Gourinchas, P.O, and Helene Rey, 2007. "From World Banker to World Venture Capitalist: U.S. External Adjustment and the Exorbitant Privilege," G7 Current Account Imbalances: Sustainability and Adjustment. (Note: You need only read until section 1.4.2 on page 25.)