

Updated: 9/21/2021

International Financial Policy 33502
Brent Neiman
Syllabus, Fall 2021

Where to find readings:

- 1) Items denoted with **(KOM)** refer to readings in Krugman, Obstfeld, and Melitz, *International Economics: Theory & Policy*. Addison-Wesley: New York. I give page numbers for the 10th and 11th editions (9th edition should also be fine).
- 2) Items denoted with **(WEB)** can be found in the "Readings from Web" section of Canvas.
- 3) Items denoted with **(LIB)** can be found in the "Readings from Library" section of Canvas.
- 4) The case study "Reducing Inflation in Argentina: Mission Impossible?", a Columbia Business School case by Alvarez and Zeldes, is referred to as **(ARG)**.
- 5) Quizzes, Homeworks, Midterm Exam, and Final Exam can be found in the appropriate sections of Canvas. (The version of these for remote students is all found under the "Assignments" tab.)

The content for most weeks will be divided into two parts. For clarity, the readings and information for these two parts for each week is listed on a separate page of this syllabus.

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Week 1

Part 1: Overview / Course Outline and Administrative Briefing

Part 2: The Exchange Rate as an Asset Price

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."

Week 2

- Quiz 1

Part 1: UIP and Carry Trades in Practice

1. **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 to section 2.3.3 in the paper.)
2. **WEB:** Frankel, Jeffrey, 2008. "Carried Away: Everything you Always Wanted to Know about the Carry Trade," Milken Institute Review, January.
3. **WEB:** Zhou, Wanfeng, 2007. "Carry Trade Unwinding Roils Currency Markets," Marketwatch, Feb 27.

Part 2: Long-run Determination of Exchange Rates

1. **KOM:** Chapter 16, "Price Levels and the Exchange Rate in the Long Run." (Note: You need only read up to page 435 in 10th Edition and page 443 in 11th Edition.)
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:** Chang, Gene Hsin and Qin Shao, 2004. "How Much is the Chinese Currency Undervalued? A Quantitative Estimation," *China Economic Review*.

Week 3

- **Homework 1: Completed and submitted via Canvas before Week 3 class**
- **Quiz 2**

Part 1: Exchange Rates and Exchange Rate Risk: The Manager's Perspective

1. **LIB:** Eun, Cheol and Bruse Resnick, "Management of Transaction Exposure," *International Financial Management*.

Part 2: The Importance of Real Exchange Rates

1. **WEB:** Crockett, Keith and Linda Goldberg, 1998. "The Dollar and U.S. Manufacturing," *Current Issues in Economics and Finance*, November.
2. **LIB:** Goldfajn, Ilan, and Rodrigo Valdes, 1999, "The Aftermath of Appreciations," *The Quarterly Journal of Economics*.

Week 4

- **Homework 2: Completed and submitted via Canvas before Week 4 class**
- **Homework 3: Make sure to read and plan attack, though not due until Week 8 class**
- **Quiz 3**

Part 1: Intervention in Currency Markets

1. **KOM:** Chapter 15, "Money, Interest Rates, and Exchange Rates."
2. **KOM:** Chapter 18, "Fixed Exchange Rates and Foreign Exchange Intervention."
3. **KOM:** Chapter 19, "International Monetary Systems: An Historical Overview."

Part 2: Speculative Attacks and Financial Contagion

1. **WEB:** Krugman, Paul, 1997. "Currency Crises," Unpublished Web Notes.
2. **WEB:** Pesenti, Paolo, and Cedric Tille, 2000. "The Economics of Currency Crises and Contagion: An Introduction," *FRBNY Economic Policy Review*, September.

Part 3: Midterm Details and Review

Week 5

Part 1: Midterm Exam

Part 2 [*Optional Material*]: The IMF and World Bank, Then and Now

Week 6

Part 1: Exchange Rates and Macro: Theory

1. **KOM:** Chapter 17, “Output and the Exchange Rate in the Short Run.” (Note: You may skip pages 477-481 and the chapter appendices in the 10th Edition and you may skip pages 486-489 in the 11th Edition.)

Part 2: Exchange Rates and Macro: Applications

1. **WEB:** Krugman, Paul, 2001. “Argentina’s Money Monomania,” Blog, December.
2. **ARG:** “Reducing Inflation in Argentina: Mission Impossible?”, a Columbia Business School case by Alvarez and Zeldes

Three to read in the following order:

3. **WEB:** Krugman, Paul, 1998a. "Japan’s Trap." Unpublished Web Notes.
4. **WEB:** Krugman, Paul, 1998b. "Japan: Still Trapped." Unpublished Web Notes.
5. **WEB:** Krugman, Paul, 1998c. "Further Notes on Japan’s Liquidity Trap." Unpublished Web Notes.

Week 7

- Quiz 4

Part 1: Optimal Currency Areas

1. **KOM:** Chapter 21, "Optimum Currency Areas and the Euro."
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*.

Part 2: The Euro Crisis

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

Week 8

- **Homework 3: Completed and submitted via Canvas before Week 8 class**
- **Quiz 5**

Part 1: The Current Account

1. **KOM:** Chapter 13, "National Income Accounting and the Balance of Payments."

Part 2: The U.S. Current Account Deficit and Sustainability

1. **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.)
2. **WEB:** Obstfeld, Maurice and Kenneth Rogoff, 2005. "The Unsustainable US Current Account Position Revisited," *Current Account Imbalances: Sustainability and Adjustment*.
3. **LIB:** "Figures to Fret About: The Current Account," *The Economist*, July 9, 1998.
4. **LIB:** "A Cruel Sea of Capital," *The Economist*, May 1, 2003.
5. **LIB:** "The Price of Profligacy," *The Economist*, September 18, 2003.
6. **LIB:** "Stop Worrying and Love the Dollar: America's Deficit and the Dollar," *The Economist*, November 27, 2003.

Week 9

Quiz 6

Material TBD