



ECON303

International Money and Finance

S1 Day 2014

Economics

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General Information

Unit convenor and teaching staff

Unit Convenor

Natalia Ponomareva

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Contact via natalia.ponomareva@mq.edu.au

E4A 428

Monday 2-3 or by appointment

Credit points

3

Prerequisites

6cp at 200 level including (ECON201 or ECON204)

Corequisites

Co-badged status

Unit description

This unit studies macroeconomic theory and policy in a global context. It develops standard open economy macroeconomic models including: the Mundell-Fleming model; Dornbusch's overshooting model; and baseline intertemporal models. Exchange rate determination models are also analysed. These models are used to understand important issues in international macroeconomics including: the exchange rate; the current account; international capital mobility; exchange rate regimes; monetary unions and monetary and fiscal policies in open economies. Empirical evidence and policy issues are discussed where appropriate, using examples from both Australia and the rest of the world.

Important Academic Dates

Information about important academic dates including deadlines for withdrawing from units are available at <https://www.mq.edu.au/study/calendar-of-dates>

Learning Outcomes

On successful completion of this unit, you will be able to:

To understand and explain the assumptions and structure of standard theoretical models that form the body of modern international macroeconomics.

To apply these models and to interpret and analyse real problems in international macroeconomics.

To understand the associated empirical implications and important policy issues in the global economy.

To be intellectually ready to participate in public policy discussions arising in business and government environments.

Assessment Tasks

| Name | Weighting | Due |
|-------------|-----------|----------------|
| Quizzes | 15% | Week 4, 8, 13 |
| Class Test | 45% | Week 10 |
| Assignments | 40% | Weeks 7 and 12 |

Quizzes

Due: **Week 4, 8, 13**

Weighting: **15%**

Submission

Online submission

Extension

No extension

On successful completion you will be able to:

- To understand and explain the assumptions and structure of standard theoretical models that form the body of modern international macroeconomics.
- To apply these models and to interpret and analyse real problems in international macroeconomics.
- To understand the associated empirical implications and important policy issues in the global economy.
- To be intellectually ready to participate in public policy discussions arising in business and government environments.

Class Test

Due: **Week 10**

Weighting: **45%**

On successful completion you will be able to:

- To understand and explain the assumptions and structure of standard theoretical models that form the body of modern international macroeconomics.
- To apply these models and to interpret and analyse real problems in international macroeconomics.
- To understand the associated empirical implications and important policy issues in the global economy.
- To be intellectually ready to participate in public policy discussions arising in business and government environments.

Assignments

Due: **Weeks 7 and 12**

Weighting: **40%**

Submission

Online submission

Extension

25% mark deduction for each calendar day late.

On successful completion you will be able to:

- To understand and explain the assumptions and structure of standard theoretical models that form the body of modern international macroeconomics.
- To apply these models and to interpret and analyse real problems in international macroeconomics.
- To understand the associated empirical implications and important policy issues in the global economy.
- To be intellectually ready to participate in public policy discussions arising in business and government environments.

Delivery and Resources

Classes

Lecture & Tutorial: Monday 9-12pm E6A 102 Theatre

The timetable for classes can be found on the University web site at: <http://www.timetables.mq.edu.au/>

Class attendance is only one part of university study. In addition to class attendance, students

will need to spend around six hours per week in private study in order to perform well in this unit.

Required and Recommended Texts and/or Materials

Required Text:

* Krugman, P., M. Obstfeld, and M.J. Melitz (2012), International Economics: Theory and Policy, 9th ed., Global Edition, Pearson. (Hereafter referred to as KOM) The book is available for purchase at the Co-op Bookshop.

* Schmitt-Grohe S. and M. Uribe (2011), International Macroeconomics (Hereafter referred to as SGU). The text can be downloaded at http://www.econ.umn.edu/~deniz/teaching_spring2012/uribe-schmitt%20grohe-2011.pdf

Technology Used and Required

Unit Web Page

Course material as well as up to date information concerning any aspect of the unit, including any changes to the schedule, will be available to students by logging on to the learning management system (iLearn) that can be accessed via <https://ilearn.mq.edu.au/login/MQ/>

Assignment have to be submitted electronically through turnitin.

Learning and Teaching Activities

This unit is taught as a mix of lectures and tutorials. The lectures are designed to provide the tools which can then be applied in tutorials. Tutorial questions will be discussed in the third hour in some weeks where the lectures are shorter than others. Together with understanding lectures, practising tutorial questions helps you to prepare for the quizzes, class test and assignments.

Changes since the last offering of this Unit

- The weights of assessments were changed.
- The course content was slightly changed.

Unit Schedule

| Week | Topic | Readings |
|------|---|---------------------------------|
| 1 | Introduction; national income accounting and balance of payments; exchange rates and the foreign exchange market. | KOM Chs. 1, 13, 14 SGU Ch. 1 |

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|--|--|---|
| 2 | An asset approach to exchange rates; interest rates and exchange rates in monetary equilibrium. | KOM: Chs. 14, 15 |
| 3 | Law of one price and PPP; a long-run exchange rate model. *Quiz 1 covering Topics 1-3 is available on iLearn from Tuesday, March 18, 12pm to Friday, 21 March, 5pm. | KOM: Ch. 16 |
| 4 | The Mundell-Fleming model under flexible exchange rates (AA-DD model), sticky prices. | KOM: Ch. 17 |
| 5 | Fixed exchange rates and foreign exchange intervention; balance of payment crisis. | KOM: Ch. 18 J.E. Gagnon. 2013. Currency Wars Peterson Institute for International Economics. http://www.iie.com/publications/papers/gagnon201301.pdf |
| 6 | International monetary systems: a historical overview. *Assignment 1 is available on iLearn from Thursday, April 10, 4 pm to Friday, May 2, 4 pm. | KOM: Ch. 19 R.N. Cooper. 1982. The Gold Standard: Historical Facts and Future Prospects. Brookings Papers on Economic Activity, Vol. 1982, No. 1, pp. 1-56. J. Frankel. 1999. No Single Currency Regime is Right for All Countries or At All Times. Essays In International Finance, 205, Princeton http://www.princeton.edu/~ies/IES_Essays/E215.pdf |
| Mid-semester break from Monday April 14 to Friday April 24. | | |
| 7 | Optimum Currency Areas and European experience. | KOM: Ch.20 O. Blanchard. 2007. Adjustment within the Euro. The Difficult Case of Portugal. Portuguese Economic Journal, Vol. 6, No. 1, pp. 1-21 J. Williamson. 2005. A Currency Basket for East Asia, Not Just China. Peterson Institute for International Economics, Policy Brief 05-1 http://www.iie.com/publications/pb/pb05-1.pdf A. Ubide 2013. Reengineering EMU for an Uncertain World. Peterson Institute for International Economics, Policy Brief 13-4 http://www.iie.com/publications/pb/pb13-4.pdf |
| 8 | Current account determination in an endowment and a production economy; fiscal deficits. *Quiz 2 covering Topics 4-7 is available on iLearn from Tuesday, May 6, 12pm to Friday, May 9, 5pm. | KOM Ch.17 p 488-489 SGU Chs. 2-3 |

| | | |
|----|--|--|
| 9 | External adjustment in small and large economies. Fiscal deficits and current accounts. | SGU Chs. 4-5 |
| 10 | Class test. | |
| 11 | Global capital markets; global imbalances and financial crisis. *Assignment 2 is available on iLearn from Monday, May 26, 4 pm to Friday, June 6, 4pm. | KO: Ch 21 SGU: Ch 7 Blanchard, O. and G.M. Milesi-Ferretti (2009). Global Imbalances: In Midstream? IMF Staff Position Paper SPN/09/29, December 22, Washington, D.C. http://www.imf.org/external/pubs/ft/spn/2009/spn0929.pdf M. Obstfeld and K. Rogoff. 2009. Global Imbalance and the financial crisis: Products of common causes. http://www.econ.berkeley.edu/~obstfeld/santabarbara.pdf D. Rodrik. 1998 Who Needs Capital Account Liberalization? in Peter B. Kennen (ed.), Should the IMF Pursue Capital Account Convertibility? : Princeton University Press (1998). http://ksghome.harvard.edu/~drodrik/essay.PDF P. Krugman. 1998. An Open Letter To Prime Minister Mahathir and his Slate piece on Capital Control Freaks http://web.mit.edu/krugman/www/mahathir.html P.B. Henry. 2003. Capital-account liberalization, the cost of capital, and economic growth. American Economic Review. Nashville: May. Vol.93, No. 2, pp 91- 96 https://facultygsb.stanford.edu/henry/Homepage/PDF/Liberalization.pdf |
| 12 | Developing countries: growth, crisis, and reform. *Quiz 3 covering Topics 11-12 is available on iLearn from Tuesday, June 3, 12pm to Tuesday, June 11, 11am. | KOM: Ch. 22 |
| 13 | No lecture | |

Policies and Procedures

Macquarie University policies and procedures are accessible from [Policy Central](#). Students should be aware of the following policies in particular with regard to Learning and Teaching:

Academic Honesty Policy http://mq.edu.au/policy/docs/academic_honesty/policy.html

Assessment Policy <http://mq.edu.au/policy/docs/assessment/policy.html>

Grading Policy <http://mq.edu.au/policy/docs/grading/policy.html>

Grade Appeal Policy <http://mq.edu.au/policy/docs/gradeappeal/policy.html>

Grievance Management Policy http://mq.edu.au/policy/docs/grievance_management/policy.html

Disruption to Studies Policy http://www.mq.edu.au/policy/docs/disruption_studies/policy.html *The Disruption to Studies Policy is effective from March 3 2014 and replaces the Special Consideration Policy.*

In addition, a number of other policies can be found in the [Learning and Teaching Category](#) of Policy Central.

Student Code of Conduct

Macquarie University students have a responsibility to be familiar with the Student Code of Conduct: https://students.mq.edu.au/support/student_conduct/

Academic Honesty

The nature of scholarly endeavour, dependent as it is on the work of others, binds all members of the University community to abide by the principles of academic honesty. Its fundamental principle is that all staff and students act with integrity in the creation, development, application and use of ideas and information. This means that:

- all academic work claimed as original is the work of the author making the claim
- all academic collaborations are acknowledged
- academic work is not falsified in any way
- when the ideas of others are used, these ideas are acknowledged appropriately.

Further information on the academic honesty can be found in the Macquarie University Academic Honesty Policy at http://www.mq.edu.au/policy/docs/academic_honesty/policy.html

Grades

Macquarie University uses the following grades in coursework units of study:

- HD - High Distinction
- D - Distinction
- CR - Credit
- P - Pass
- F - Fail

Grade descriptors and other information concerning grading are contained in the Macquarie University Grading Policy which is available at:

<http://www.mq.edu.au/policy/docs/grading/policy.html>

Grading Appeals and Final Examination Script Viewing

If, at the conclusion of the unit, you have performed below expectations, and are considering

lodging an appeal of grade and/or viewing your final exam script please refer to the following website which provides information about these processes and the cut off dates in the first instance. Please read the instructions provided concerning what constitutes a valid grounds for appeal before appealing your grade.

http://www.businessandeconomics.mq.edu.au/new_and_current_students/undergraduate_current_students/how_do_i/grade_appeals/

Special Consideration Policy

The University is committed to equity and fairness in all aspects of its learning and teaching. In stating this commitment, the University recognises that there may be circumstances where a student is prevented by unavoidable disruption from performing in accordance with their ability. A special consideration policy exists to support students who experience serious and unavoidable disruption such that they do not reach their usual demonstrated performance level. The policy is available at:

http://www.mq.edu.au/policy/docs/special_consideration/policy.html

Student Support

Macquarie University provides a range of support services for students. For details, visit <http://students.mq.edu.au/support/>

Learning Skills

Learning Skills (mq.edu.au/learningskills) provides academic writing resources and study strategies to improve your marks and take control of your study.

- [Workshops](#)
- [StudyWise](#)
- [Academic Integrity Module for Students](#)
- [Ask a Learning Adviser](#)

Student Services and Support

Students with a disability are encouraged to contact the [Disability Service](#) who can provide appropriate help with any issues that arise during their studies.

Student Enquiries

For all student enquiries, visit Student Connect at ask.mq.edu.au

IT Help

For help with University computer systems and technology, visit <http://informatics.mq.edu.au/help/>.

When using the University's IT, you must adhere to the [Acceptable Use Policy](#). The policy applies to all who connect to the MQ network including students.

Graduate Capabilities

Discipline Specific Knowledge and Skills

Our graduates will take with them the intellectual development, depth and breadth of knowledge, scholarly understanding, and specific subject content in their chosen fields to make them competent and confident in their subject or profession. They will be able to demonstrate, where relevant, professional technical competence and meet professional standards. They will be able to articulate the structure of knowledge of their discipline, be able to adapt discipline-specific knowledge to novel situations, and be able to contribute from their discipline to inter-disciplinary solutions to problems.

This graduate capability is supported by:

Learning outcomes

- To understand and explain the assumptions and structure of standard theoretical models that form the body of modern international macroeconomics.
- To apply these models and to interpret and analyse real problems in international macroeconomics.
- To understand the associated empirical implications and important policy issues in the global economy.
- To be intellectually ready to participate in public policy discussions arising in business and government environments.

Assessment tasks

- Quizzes
- Class Test
- Assignments

Critical, Analytical and Integrative Thinking

We want our graduates to be capable of reasoning, questioning and analysing, and to integrate and synthesise learning and knowledge from a range of sources and environments; to be able to critique constraints, assumptions and limitations; to be able to think independently and systemically in relation to scholarly activity, in the workplace, and in the world. We want them to have a level of scientific and information technology literacy.

This graduate capability is supported by:

Learning outcomes

- To understand and explain the assumptions and structure of standard theoretical models that form the body of modern international macroeconomics.
- To understand the associated empirical implications and important policy issues in the

global economy.

- To be intellectually ready to participate in public policy discussions arising in business and government environments.

Assessment tasks

- Quizzes
- Class Test
- Assignments

Problem Solving and Research Capability

Our graduates should be capable of researching; of analysing, and interpreting and assessing data and information in various forms; of drawing connections across fields of knowledge; and they should be able to relate their knowledge to complex situations at work or in the world, in order to diagnose and solve problems. We want them to have the confidence to take the initiative in doing so, within an awareness of their own limitations.

This graduate capability is supported by:

Learning outcomes

- To understand and explain the assumptions and structure of standard theoretical models that form the body of modern international macroeconomics.
- To apply these models and to interpret and analyse real problems in international macroeconomics.
- To understand the associated empirical implications and important policy issues in the global economy.
- To be intellectually ready to participate in public policy discussions arising in business and government environments.

Assessment tasks

- Quizzes
- Class Test
- Assignments

Effective Communication

We want to develop in our students the ability to communicate and convey their views in forms effective with different audiences. We want our graduates to take with them the capability to read, listen, question, gather and evaluate information resources in a variety of formats, assess, write clearly, speak effectively, and to use visual communication and communication technologies as appropriate.

This graduate capability is supported by:

Learning outcomes

- To understand and explain the assumptions and structure of standard theoretical models that form the body of modern international macroeconomics.
- To apply these models and to interpret and analyse real problems in international macroeconomics.
- To understand the associated empirical implications and important policy issues in the global economy.
- To be intellectually ready to participate in public policy discussions arising in business and government environments.

Assessment tasks

- Class Test
- Assignments