



# ECON303

## International Money and Finance

S1 Day 2016

*Dept of Economics*

### Contents

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<a href="#"><u>General Information</u></a>	2
<a href="#"><u>Learning Outcomes</u></a>	2
<a href="#"><u>General Assessment Information</u></a>	3
<a href="#"><u>Assessment Tasks</u></a>	4
<a href="#"><u>Delivery and Resources</u></a>	6
<a href="#"><u>Unit Schedule</u></a>	6
<a href="#"><u>Policies and Procedures</u></a>	8
<a href="#"><u>Graduate Capabilities</u></a>	10
<a href="#"><u>Changes from Previous Offering</u></a>	13

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#### **Disclaimer**

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## General Information

Unit convenor and teaching staff

Unit Convenor

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E4A 428

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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:

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

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

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

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

## **General Assessment Information**

An assignment will consist of a mixture of analytical questions and essay type questions. The submission date will be announced in due course. The assignment should be submitted to turnitin. Please note that all students have to submit their own work. If the material from the literature is used it should be properly referenced. In the case of plagiarism the student will be given a mark of zero for the relevant part of the assignment and/or referred to the Faculty Discipline Committee. No extension will be granted. There will be a deduction of 25% of the total available marks made from the total awarded mark for each 24 hour period or part thereof that the submission is late (for example, 25 hours late in submission – 50% penalty). This penalty does not apply for cases in which an application for disruption to studies is made and approved.

Online quizzes will be available for 4 days and won't have time limit (i.e. you can save your quiz and access it anytime during these 4 days), this is a perfect tool to test your understanding of the lecture material.

The 1.5-hour class test will contain a mixture of multiple choice questions and written-answer questions. Failure to attend the class test will result in a mark of zero for the test unless an application for disruption to studies is made and approved. In this case the student will be given a chance to sit a supplementary test.

The 2-hour final examination will be held during the university examination period. All material covered in the unit is examinable. The final examination will include a mixture of the multiple choice and written-answer questions. Failure to attend the final exam will result in a mark of zero for the exam unless an application for disruption of studies is made and approved. In this case the student will be given a chance to sit a further final exam at a time and date decided by the Faculty of Business and Economics. Students should note that applications for disruption to studies are reviewed by a Faculty committee and suspected non-genuine cases will not be granted. You are advised that it is Macquarie University policy not to set early examinations for individuals or groups of students. All students are expected to ensure that they are available until the end of the teaching semester, the final day of the official examination period.

## Assessment Tasks

Name	Weighting	Due
<u>Assignment</u>	15%	TBA
<u>Class Test</u>	35%	Week 7
<u>Online quizzes</u>	5%	TBA
<u>Final Exam</u>	45%	University Examination Period

### Assignment

Due: **TBA**

Weighting: **15%**

One assignment.

Submission

Online submission

Extension

No extension is granted.

25% mark deduction for each 24 hour period late.

On successful completion you will be able to:

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

### Class Test

Due: **Week 7**

Weighting: **35%**

1.5-hour class test.

On successful completion you will be able to:

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

## Online quizzes

Due: **TBA**

Weighting: **5%**

Two online quizzes.

On successful completion you will be able to:

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

## Final Exam

Due: **University Examination Period**

Weighting: **45%**

2-hour final exam covering all material in the course.

On successful completion you will be able to:

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

## Delivery and Resources

### Classes

Lecture & Tutorial: Wednesday 10am-1pm E7B-100. Some lectures may be delivered in online mode only.

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 (2015), International Macroeconomics (Hereafter referred to as SGU). The text can be downloaded at <http://www.columbia.edu/~mu2166/UIM/im.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 Strategies

This unit is taught as a mix of lectures and tutorials. Some lectures may be delivered in online format only. 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, practicing tutorial questions helps you to prepare for the quizzes, class test, assignment and the final exam.

## Unit Schedule

**Topics** (this list may be changed slightly)

**Topic 1** Introduction; national income accounting and balance of payments; exchange rates and the foreign exchange market.

KOM Chs. 1, 13, 14

SGU Ch. 1

**Topic 2** An asset approach to exchange rates; interest rates and exchange rates in monetary equilibrium.

KOM: Chs. 14, 15

**Topic 3** Law of one price and PPP; a long-run exchange rate model.

KOM: Ch. 16

**Topic 4** The Mundell-Fleming model under flexible exchange rates (AA-DD model), sticky prices.

KOM: Ch. 17

**Topic 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>

**Topic 6** International monetary systems: a historical overview.

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](http://www.princeton.edu/~ies/IES_Essays/E215.pdf)

**Topic 7** Current account determination in an endowment and a production economy; fiscal deficits.

KOM Ch.17 p 488-489

SGU Chs. 2-3

**Topic 8** External adjustment in small and large economies. Fiscal deficits and current accounts.

SGU Chs. 4-5

**Topic 9** 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>

**Topic 10** Global capital markets; global imbalances, financial crises and reforms.

KO: Ch 21, 22

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. Kenen (ed.), Should the IMF Pursue Capital Account Convertibility? : Princeton University Press (1998). <http://ksghome.harvard.edu/~drodrik/essay.P DF>

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>

## **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](http://mq.edu.au/policy/docs/academic_honesty/policy.html)

**New Assessment Policy in effect from Session 2 2016** [http://mq.edu.au/policy/docs/assessment/policy\\_2016.html](http://mq.edu.au/policy/docs/assessment/policy_2016.html). For more information visit [http://students.mq.edu.au/events/2016/07/19/new\\_assessment\\_policy\\_in\\_place\\_from\\_session\\_2/](http://students.mq.edu.au/events/2016/07/19/new_assessment_policy_in_place_from_session_2/)

Assessment Policy prior to Session 2 2016 <http://mq.edu.au/policy/docs/assessment/policy.html>

Grading Policy prior to Session 2 2016 <http://mq.edu.au/policy/docs/grading/policy.html>

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

Complaint Management Procedure for Students and Members of the Public [http://www.mq.edu.au/policy/docs/complaint\\_management/procedure.html](http://www.mq.edu.au/policy/docs/complaint_management/procedure.html)

Disruption to Studies Policy [http://www.mq.edu.au/policy/docs/disruption\\_studies/policy.html](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/](https://students.mq.edu.au/support/student_conduct/)

## **Results**

Results shown in *iLearn*, or released directly by your Unit Convenor, are not confirmed as they are subject to final approval by the University. Once approved, final results will be sent to your student email address and will be made available in [eStudent](#). For more information visit [ask.mq.edu.au](http://ask.mq.edu.au).

## **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](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.businessandconomics.mq.edu.au/new\\_and\\_current\\_students/undergraduate\\_current\\_students/how\\_do\\_i/grade\\_appeals/](http://www.businessandconomics.mq.edu.au/new_and_current_students/undergraduate_current_students/how_do_i/grade_appeals/)

## 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](http://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](http://ask.mq.edu.au)

## IT Help

For help with University computer systems and technology, visit [http://www.mq.edu.au/about\\_us/offices\\_and\\_units/information\\_technology/help/](http://www.mq.edu.au/about_us/offices_and_units/information_technology/help/).

When using the University's IT, you must adhere to the [Acceptable Use of IT Resources 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**

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

### **Assessment tasks**

- Assignment
- Class Test
- Online quizzes
- Final Exam

## **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**

- Understand and explain the assumptions and structure of standard theoretical models that form the body of modern international macroeconomics.
- Understand the associated empirical implications and important policy issues in the global economy.
- Be intellectually ready to participate in public policy discussions arising in business and government environments.

### **Assessment tasks**

- Assignment
- Class Test

- Final Exam

## 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

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

### Assessment tasks

- Assignment
- Class Test
- Final Exam

## 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

- Understand and explain the assumptions and structure of standard theoretical models that form the body of modern international macroeconomics.
- Apply these models and to interpret and analyse real problems in international macroeconomics.
- Understand the associated empirical implications and important policy issues in the

global economy.

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

## **Assessment tasks**

- Assignment
- Class Test
- Final Exam

## **Changes from Previous Offering**

- The assessment structure was changed:
  - Final exam was added as an assessment
  - Class participation was removed as an assessment