

International Finance
C06-2
Fall, 1999
Christiano

Syllabus

1. General Information.

- Except as noted below, lectures are MW 2-3:30, 104 Frances Searle Building. Recitation is Friday, 2pm.
- My office number is 202, Anderson; Phone: 491-8231. Email: lchristiano@nwu.edu. Office hours: 1:30-3:00pm, Tuesday, or by appointment.
- The TA is Ricardo Di Cecio; email address: r-dicecio@nwu.edu; office, tel, office hours, TBA.
- On October 20, there will be a recitation meeting, instead of lecture. The October 20 lecture will be given on October 22 instead.
- The grades will be determined as follows: homeworks, 20%; midterm, 35%; final, 45%. There will be nine homework assignments. They will be distributed on Wednesdays, and will be due on the following Wednesday.
- The midterm is on October 25. The final is on December 8, 9-11am in the lecture room.

2. Goals.

This course will develop a framework useful for understanding financial flows in the international economy. We will use the framework to understand a number of questions that are of current interest. Since the recent financial crises in Asia and Latin America are the most dramatic recent events in financial economics, it is natural that we focus in particular on questions pertaining to that. The text book was written before the Asian crisis, and so it does not address that crisis specifically. But, the Krugman book does, and so do a number of the recommended readings. The most important question is, why did nearly 10 emerging

market economies in recent years suffer sudden, dramatic reductions in output? (For example, in 1995 Mexico's real GDP fell 7 percent, and its industrial production fell 15 percent.) The question is an important one because it directly affects so many people. Also, until these events are understood, there is always a concern that whatever happened in Asia can happen elsewhere (i.e., *here*) too. This idea adds urgency to the problem of understanding the causes of these crises, and understanding what can be done to prevent them from happening again. We will ask whether alternative exchange rate regimes or dollarization may be helpful. We will ask whether the International Monetary Fund (IMF) and other international financial organizations are part of the solution or part of the problem. We will discuss the debate that raged between the IMF and the World Bank over the proper response by the monetary authority to a financial crisis: should it *raise* or should it *reduce* interest rates? Other questions that we will investigate include the reasons, and prospects for, the monetary unification in Europe. We will also investigate various puzzles associated with exchange rates, including the reasons for their apparent excessive volatility.

- The main textbook for the course is:

Paul Krugman and Maurice Obstfeld, *International Economics, Theory and Policy*, Addison-Wesley, 1997.

- In addition, students are expected to read Krugman's *The Return of Depression Economics*, Norton, 1999. Also, handouts and other readings will be distributed from time to time. They will be put on my web site, and students are responsible for checking it regularly. The address is:

<http://www.faculty.econ.nwu.edu/faculty/christiano/>

3. You will get more out of this course if you read the financial press regularly. Also, there is a lot of relevant information on the Web, and I encourage you to look through it. Here is a small sampling of the economic commentary and data that you can find there.

- (a) Commentary - the best general commentary is available from the *Economist Magazine*, at <http://www.economist.com/>. Nouriel

Roubini maintains a fabulous web site, which not only contains commentary on topics of general interest in international finance, but is also the best source of commentary on the Asian crisis, <http://equity.stern.nyu.edu/~nroubini/>. Paul Krugman's web site has numerous interesting commentaries on subjects of interest to this course, as well as links to other relevant sites, <http://www.mit.edu/people/krugman/index.html>. The New York Times has a web site devoted to the Asian crisis, at <http://www.nytimes.com/library/financial/index-global-fin-crisis.html>

- (b) Data - <http://www.economicsearch.com/> is a general-purpose web site for research in economics; <http://www.economagic.com/search/> is a giant database with thousands of variables.

COURSE OUTLINE

Following is an outline for the course. It is tentative, and will be adjusted depending on how quickly we proceed. I will let you know as we go along, what other readings are required.

1. September 22: Chapter 12.
2. September 27, 29: Chapter 13.
3. October 4, 6: Chapter 14.
4. October 11, 13: Chapter 15.
5. October 18, 22: Chapter 16.
6. October 25: midterm will cover whatever material was covered by the end of lecture, October 18.
7. October 27, November 1: Chapter 17.
8. November 3, 8: Chapter 18.
9. November 10, 15: Chapter 19.
10. November 17, 22: Chapter 20.
11. November 24: time permitting, some of the material in Chapter 21.