

International Finance  
362  
Winter, 2003  
Christiano

## Syllabus

### 1. General Information.

- Except as noted below, lectures are MW 2:00-3:20pm, 205 Harris Hall.
- My office number is 3246, Arthur Andersen Hall; Phone: 491-8231. Email: l-christiano@northwestern.edu. Office hours: Wednesdays, 9-10:15am.
- The grades will be determined as follows: homeworks, 15%; midterm, 35%; final, 50%. There will be nine homework assignments. They will be distributed on or before Wednesday of each week, and will be due on Thursday of the following week, in the mail box of Riccardo Di Cecio in the economics department office.
- There is no class for Monday, February 10. The class will be made up February 21 in the lecture room, 2-3:20pm.
- The midterm is on Wednesday, February 12. The final is on Wednesday, March 19, 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 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 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 could happen elsewhere. 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, 2003, sixth edition.

- 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/>
- Another very interesting reading: Joseph Stiglitz, *Globalization and its Discontents*.

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's web site, <http://equity.stern.nyu.edu/~nroubini/>, is a fabulous source of information. 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.wws.princeton.edu/~pkrugman/>. 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. January 7: Chapter 12.
2. January 9, 14: Chapter 13.
3. January 16, 21, 23, 28, 30: Chapters 14, 15.
4. February 4: Part of Chapter 16.
5. February 6: Midterm Exam on material covered up to, and including, January 30 lecture.
6. February 11: Chapter 16.
7. February 13, 18, 20, 25: Chapter 17.
8. February 27: Chapter 18.
9. March 4: Chapter 19.
10. March 6: Chapter 20.