DEPARTMENT OF ECONOMICS
INTERNATIONAL FINANCE

Syllabus Spring 2015

Professor: Dr. Caroline Betts
Office Hours: Tuesday, Thursday 11–12.00pm, or by appointment. Please schedule all appointments with me in advance.
Office: Kaprielian 316c
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TA: TBA

COURSE GOALS AND OVERVIEW

The course provides students with a foundation in the modern theory of international finance. We use primarily algebraic and diagrammatic techniques to analyze a number of key theoretical models, and also present contemporary empirical evidence, and discuss econometric and other quantitative techniques used to evaluate that evidence, which permits evaluation of the performance of the theory. Specifically, the course analyzes how and why aggregate economies interact with each other through world markets in goods, services, and assets, including currencies. There is special emphasis on foreign exchange markets, alternative exchange rate and financial market regimes, and foreign exchange and related international financial crises. The course begins by reviewing recent evidence on “globalization”; the dramatic growth in trade in goods, services, and assets over the past four decades. It provides some historical perspective to this growth, discusses measurement of trade and growth, and summarizes alternative theoretical explanations for globalization. It analyzes, from an institutional and theoretical perspective, international currency markets and the determination of exchange rates, and the trade in international goods, asset and capital markets which gives rise to currency markets. The course reviews case studies of alternative currency market regimes, including single currency areas, and of international financial crises and investigates some modern theories of currency crises. There will be two lectures per week, regular class discussions of current events, and regular TA discussion sessions to review assignment material.

EVALUATION

Students will complete four assignments throughout the semester which will be graded and returned. Answers will either be provided in TA discussion sessions or in answer guides that will be made available to students via the TA. In addition there will be
a midterm examination, held on Thursday February 26th in class time (2.00 p.m. - 3.50 p.m. in GFS 118), and a final examination on Thursday May 7th (2.00 p.m. – 4.00 p.m.). The material covered on the final exam is not cumulative relative to the midterm exam.

Finally, each student will prepare a short research project and present the results in a ten minute class time presentation. The research project will involve an original study of some current event in international financial markets using a minimum of two original sources. The student will both present the study in class, and submit a hard copy of the research project. The total class time allocated to the presentations and their discussion will be roughly five class sessions.

The evaluation of each student’s work in the course is as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
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<tbody>
<tr>
<td>Assignments (four)</td>
<td>20%</td>
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<tr>
<td>Midterm</td>
<td>30%</td>
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<tr>
<td>Research Project</td>
<td>20%</td>
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<tr>
<td>Final Exam</td>
<td>30%</td>
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No exceptions will be made to this grading scheme.

TEXTBOOKS AND READINGS

The required textbook for the course is Paul Krugman, Maurice Obstfeld, and Marc Melitz (2012) *International Economics: Theory and Policy* (9th edition, 2012, or any later edition). This should be viewed as core reading material (see course outline below), but will be heavily supplemented with my own notes and additional readings that I will make available as needed. I will also occasionally reference material from the graduate level textbook by Maurice Obstfeld and Ken Rogoff, *Foundations of International Macroeconomics*, and will provide copies of the readings that I reference from this book. Readings from the Economist and Wall Street Journal will be assigned as current events become relevant throughout the semester, and are typically available online.

DISABILITIES

Students requesting academic accommodations based on a disability are required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP when adequate documentation is filed. Please be sure that this letter is delivered to me as early in the semester as possible.

ACADEMIC INTEGRITY WARNING

The Department of Economics and this instructor in particular will be vigilant for suspected violations of academic integrity and very strict in enforcement of sanctions including recommending dismissal from the university. For details on the rules and
guidelines see SCAMPUS. As a result, students should avoid even the slightest suspicion by bringing no notes to exams, sitting far from other students and keeping their eyes strictly focused on their own exams.

**COURSE OUTLINE**

I. **Overview: International Trade And Finance**
   - World Trade Facts
   - Measurement of International Trade and Openness
   - Overview of Theories, Definitions and Crucial Concepts
   - Open Economy Macroeconomics
   - Balance of Payments Accounting

   **Required Reading:** Krugman, Obstfeld and Melitz Chs. 1, 2, 13

II. **The Foreign Exchange Market**
   - The foreign exchange market
   - Fixed vs. Flexible Exchange Rates
   - Forward Contracts
   - Futures Contracts
   - Options in Foreign Exchange

   **Required Reading:** Krugman, Obstfeld and Melitz Chapter 14

III. **International Money and Capital Markets**
   - Uncovered Investments
   - Covered Investments
   - Efficiency and Tests of Inefficient Markets

   **Required Reading:** Obstfeld and Melitz Chapter 14, Appendix

IV. **Exchange Rate Determination**
   - Nominal Exchange Rate Determination
   - Producer vs. Consumer Pricing
   - Real Exchange Rate Determination
   - Purchasing Power Parity

   **Required Reading:** Krugman, Obstfeld and Melitz Chapters 15, 16
V. **Open Economy Macroeconomic Equilibrium**

Overview of macroeconomic equilibrium in an open economy
Monetary and Fiscal Policy in an open economy

**Required Reading:** Obstfeld and Melitz, Chapter 17

VI. **Exchange Rate Regimes and Balance of Payments Crises**

Fixed vs. Flexible Exchange Rate Regimes
Collapsing Exchange Rate Regimes and Balance of Payments Crises
Single Currency Areas and the Euro

**Required Reading:** Krugman, Obstfeld and Melitz Chapters 18, 19, 20