

**DEPARTMENT OF ECONOMICS
INTERNATIONAL FINANCE**

Syllabus Spring 2018

Professor: Dr. Caroline Betts
Lecture Hours: Tuesday, Thursday, 12:00pm-1:50pm
Lecture Location: VPD 116
Office Hours: Tuesday 11.00am – 12.00pm, and by appointment.
(Please arrange all office hour appointments with me in advance.)
Office Location: Kaprielian 316c
Email: cbetts@usc.edu

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 develop and analyze key theoretical models, present contemporary empirical evidence, and discuss econometric and other quantitative techniques used to evaluate the empirical performance of the theories. 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, exchange rate determination, and the role of monetary, fiscal, and trade policy for international trade and financial relationships among countries. 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 trades 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 some international financial crises. The course also investigates some modern theories and evidence concerning real exchange rate and relative price determination, and how monetary and fiscal policy operate in an open economy. There will be two lectures per week, and regular class discussions of current events. Lecture notes will be provided.

EVALUATION

Students will complete four assignments throughout the semester which will be graded and returned. Answers will be provided 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 22nd** in class time (12.00 p.m. - 1.50 p.m. in VPD 116), and a final examination on **Wednesday May 9th** (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:

Assignments (four)	:	20%
Midterm	:	30%
Research Project	:	20%
Final Exam	:	30%

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 *International Finance: Theory and Policy* (10th edition). Below I reference the required chapters from *International Finance*.. 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
Instructor's notes

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 3
Instructor's notes

III. International Money and Capital Markets

Uncovered Investments
Covered Investments
Efficiency and Tests of Inefficient Markets

Required Reading: Obstfeld and Melitz Chapter 3, Appendix
Instructor's notes

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 4, 5

Instructor's notes

V. Open Economy Macroeconomics

Overview of macroeconomic equilibrium in an open economy

Monetary and Fiscal Policy in an open economy

Required Reading: Obstfeld and Melitz, Chapter 6
Instructor's notes

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 6, 7, 8, 9,10
Instructor's notes