

**DEPARTMENT OF ECONOMICS
INTERNATIONAL FINANCE**

Syllabus Spring 2022

Instructor:	Dr. Caroline Betts
Lecture hours:	Tuesday, Thursday, 10:00am-11:50am
Lecture location:	KAP 146
Instructor office hours:	Tuesday, Thursday on campus by appointment (email in advance to set a time), Wednesday 10.00am-12.00pm via zoom.
Instructor office location:	Kaprielian 316c
Instructor email:	cbetts@usc.edu
Teaching assistant:	Jingyi Tian
Teaching assistant email:	jingyiti@usc.edu

COURSE GOALS AND OVERVIEW

The course provides students with a foundation in the theory and practice of international finance. In the course, students use algebraic and diagrammatic techniques to develop and analyze key theoretical models and hypotheses. Students also collect and examine historical and contemporary data to evaluate the empirical performance of these models and hypotheses. Finally, econometric and other quantitative techniques used to evaluate the empirical performance of the theories are discussed and their use encouraged in course assignments.

The course analyzes how and why countries 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 the 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, the determination of exchange rates, and how international trade in goods and assets gives rise to

currency trade. The course also investigates some modern theories and evidence concerning real exchange rate and relative price determination.

There are two lectures per week, and regular class discussions of current events. Lecture notes will be provided.

EVALUATION

Students complete four assignments throughout the semester, which are graded and returned. Answer guides are provided to students via the teaching assistant (TA). In addition, there is a midterm examination, held on **Tuesday, March 1st** in class time (10.00am–11.50am in KAP 146). A final examination will be held on **Tuesday May 10th** (11.00am–1.00pm). 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 in the form of a short paper.

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). The course outline below references the required chapters for each section of the course. Additional readings are assigned as current events become relevant throughout the semester and are typically available online.

The instructor's own lecture notes, however, form the core material of the course and the associated lecture presentation slides are provided to students via Blackboard.

ACADEMIC ACCOMMODATIONS

Any student requesting academic accommodations based on a disability is required to register with Office of Student Accessibility Services (OSAS) each semester. Such a student must acquire a letter of verification for approved accommodations from OSAS and deliver it to the instructor as early as possible in the semester. OSAS is located in GFS 120 and is open 8.30am-5.00pm, Monday through Friday. The phone number for OSAS is (213) 740-0776 and the website address is <https://osas.usc.edu/>.

ACADEMIC CONDUCT

Plagiarism – presenting someone else’s ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences. Please familiarize yourself with the discussion of plagiarism in *SCampus* in Part B, Section 11, “Behavior Violating University Standards”. Other forms of academic dishonesty are equally unacceptable. See additional information in *SCampus* and university policies on scientific misconduct, <http://policy.usc.edu/scientific-misconduct>.

Class notes provided online by the instructor are for your *personal study use only*. They are the property of the instructor, and cannot be shared electronically or in hard copy, or sold, or otherwise transferred to any other person, business, or institution.

Discrimination, sexual assault, intimate partner violence, stalking, and harassment are prohibited by the university. You are encouraged to report all incidents to the *Office of Equity and Diversity/Title IX Office*, <http://equity.usc.edu>, and/or to the *Department of Public Safety* <http://dps.usc.edu>. This is important for the health and safety of the whole USC community. Faculty and staff must report any information regarding an incident to the Title IX Coordinator who will provide outreach and information to the affected party. The sexual assault resource center webpage <http://sarc.usc.edu> fully describes reporting options. Confidential relationship and sexual violence services are available 24/7 at <https://engemannshc.usc.edu/rsvp>.

SUPPORT SYSTEMS

A number of USC’s schools provide support for students who need help with scholarly writing. Check with your advisor or program staff to find out

more. Students whose primary language is not English should check with the *American Language Institute* <http://ali.usc.edu>, which sponsors courses and workshops specifically for international graduate students. *The Office of Disability Services and Programs* <http://osas.usc.edu> provides certification for students with disabilities and helps arrange the relevant accommodations.

COURSE OUTLINE

I. Overview and Introduction

World trade facts and globalization
Measurement of international trade and openness
Summary of rationales for intra-temporal trade
Balance of payments accounting
National income accounting in the open economy
Intertemporal trade

Required Reading: Krugman, Obstfeld, and Melitz chs. 1,2
(You may begin reading chapters on crises)
Instructor's notes 1-5

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 ch. 3
Instructor's notes

III. International Money and Capital Markets

Uncovered investments
Covered investments
Efficiency and tests of inefficient markets

Required Reading: Krugman, Obstfeld, and Melitz ch3 appendix
Instructor's notes

IV. Exchange Rate Determination

Theories of nominal exchange rate determination
Producer, consumer, and dominant currency pricing
Real exchange rate determination
Purchasing power parity

Required Reading: Krugman, Obstfeld and Melitz chs. 4, 5
Instructor's notes

V. Open Economy Macroeconomics

Macroeconomic equilibrium in an open economy
Monetary and fiscal policy in an open economy

Required Reading: Krugman, Obstfeld, and Melitz ch. 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 chs. 6-10
Instructor's notes