Syllabus for Econ 3509/309, International Finance (This version: September 6, 2013)
Yao Tang, Fall 2013
Department of Economics
Bowdoin College

Lecture time: Tuesday 8:30 - 9:55, Thursday 8:30 - 9:55
Place: Kanbar-107

Contact Information
office: Hubbard 106
office hours: Tuesday 10:10-11:40 am, Thursday 2:40-4:10 pm or by appointment.
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Please note, I may not check emails frequently during evenings and weekends.

Course Description and Objectives
In this course, we will examine three key issues in international finance and international macroeconomics: exchange rate determination, balance of payments, and exchange rate regimes. We will also cover a few special current topics, i.e. the global imbalances, China’s exchange rate regime, and the currency carry trade associated with the Japanese Yen and the US dollar. Besides studying economic models of international finance, a crucial part of the course involves empirical evaluation of these models. The two essential prerequisites are intermediate macroeconomics and a solid understanding of linear regression.

Key Dates
October 22, in-class midterm
October 31, submit a topic for your research paper
December 16, final exam (9am)
December 18, research paper is due.

Evaluation: your course grade is based on
assignments, 10%
one midterm exam, 25%
final exam, 30%
one research paper, 25%
a 15-minute in-class presentation of your research paper, 5%
class participation, 5%
wildcard article (optional), 2%
You should talk to me about the topic of your research paper sometime in October, and submit a topic by October 31. Before your in-class presentation of the paper, please make an appointment with me so that we can work on your presentation.

While all of you have written numerous term papers by this time, I recommend that you have a look at Cochrane (2005), a 13-page short paper, for some tips on writing economics papers. His tips on writing and presentation are originally intended for Ph.D. students, but most of them are useful to undergraduate students as well. For those who are interested, Deirdre McCloskey’s “Economical Writing” is a longer but still enjoyable read.

To encourage students to connect learning in this course to real-world issues, each student has the option of bringing into class a wildcard article from newspapers, magazines or similar media outlets. Some examples of media outlets are The Economist, the New York Times, the Wall Street Journal, and Fortune Magazine. The articles must be recent, i.e. published within three months, and related to the content of the course. We will have at most one wildcard article per lecture and each student can choose to bring in at most one article. A student who brings in an article should email the class and the instructor the day before the lecture, indicating the intention but without revealing the title of the article. The instructor or the economics academic coordinator can help to make photocopies before the class. The class will spend the first 10 minutes of the lecture reading and discussing the article. The student who brings in the article should prepare one or two questions to facilitate discussion. Students will be graded based on the relevance of the articles and quality of question(s).

Academic Honesty
Students should be familiar with the Bowdoin College Academic Honor Code, available at http://www.bowdoin.edu/studentaffairs/student-handbook/college-policies/index.shtml In particular, for the assignments, students are encouraged to work together but they must each hand in their own copy of answers.

Textbook and Course Materials
Required textbook:

Other readings (available on Blackboard or through library reserve, * indicates optional):


Any other assigned readings and materials will be available through handouts or Blackboard. I suggest that you follow current events of the global economy by reading the economics section of *The Economist* magazine or similar sources.

**Web Information**
All information, including information about reading materials, will be posted on the Blackboard web page for Econ 3509/309, accessible at http://blackboard.bowdoin.edu/.

**Tentative Schedule of Topics**
Please note that I reserve the right to drop topics from the list. However, I will not add new topics.

1. **September 5, course introduction**  
   Feenstra and Taylor, chapter 1

2. **Exchange rates**
   
   - September 10, the basics about exchange rate, interest rate parity  
     Feenstra and Taylor, chapter 2
   - September 12, purchasing power parity and deviation from it  
     Feenstra and Taylor, chapter 3.1 and 11.1  
     Rogoff (1996)
   - September 17, macroeconomic model of exchange rate: long run  
     Feenstra and Taylor, chapter 3.2 to 3.5
   - September 19, macroeconomic model of exchange rate: short run  
     Feenstra and Taylor, chapter 4.1 to 4.4
   - September 24, forecasting exchange rate with macro models in the short run  
     Mese and Rogoff (1983)  
     **Assignment 1 due**
   - September 26, forecasting exchange rate with macro models in the long run  
     Mark (1995)
   - October 1, interest rate parity and carry trade  
     Feenstra and Taylor, chapter 2.5 and 11.2  
     Jordà and Taylor (2009)
   - October 3, a microstructure view of exchange rate  
     Lyons (2001), chapter 1 to 3
• October 8, a microstructure view of exchange rate
  Lyons (2002)
  Assignment 2 due

3. Balance of payments

• October 10, balance of payments
  Feenstra and Taylor, chapter 5

• October 17, financial globalization: consumption smoothing
  Feenstra and Taylor, chapter 6.1 and 6.2,
  Backus, Kydland and Prescott (1992)
  Assignment 3 due

• October 22, in-class midterm

• October 24, financial globalization: capital flow and efficient investment
  Feenstra and Taylor, chapter 6.3
  Lucas (1990)

• October 29, financial globalization: (insufficient) risk diversification
  Feenstra and Taylor, chapter 6.4
  Lewis (1999)

4. Exchange rate regimes and policy issues

• October 31, exchange rate and output: the Mundell-Fleming model
  Feenstra and Taylor, chapter 7.1 to 7.6

• November 5, fixed and flexible exchange rate regimes, and the trilemma
  Feenstra and Taylor, chapter 4.5, 8.1 to 8.3
  Obstfeld and Rogoff (1995), and Calvo and Reinhart (2002)
  Assignment 4 due

• November 7, international monetary experience
  Feenstra and Taylor, chapter 8.4
  Mundell (2000), and Obstfeld, Shambaugh, and Taylor, (2005)

• November 12, the global imbalance and the debate about the RMB exchange rate
  Feenstra and Taylor, chapter 11.3
  Obstfeld and Rogoff (2004) and Cline and Williamson (2008)

• November 14, currency crises
  Feenstra and Taylor, chapter 9
  Krugman (1999)
• November 19, the euro
  Feenstra and Taylor, chapter 10
  Mundell (1961)
• November 21, the euro crisis
  Fernández-Villaverde, Garicano, and Santos, 2013, O’Rourke and Taylor, 2013,

Assignment 5 due

5. Student presentations

• November 26, up to 4 student presentations (I will offer extra help to students
  who present on this date.)
• December 3, up to 4 student presentations
• December 5, up to 4 student presentations
• December 10, up to 4 student presentations

List of Some Possible Topics for Research Papers

• one of the countries that require bailout in the European debt crisis
• consequences of the quantitative easing in developed countries on emerging economies
• the global imbalance
• constructing and implementing a carry trade strategy
• home bias in portfolio investment
• Is there a case for gold standard today?
• Is IMF adequately equipped to deal with current challenges to the international financial system?
• an empirical update of Mesee and Rogoff (1983)