Syllabus for Econ 3509, International Finance (This version: September 2, 2015)  
Yao Tang, Fall 2015  
Department of Economics  
Bowdoin College  

Lecture time: Tuesday 11:30 - 12:55, Thursday 11:30 - 12:55  
Place: Kanbar-107  

Contact Information  
office: Hubbard 106  
office hours: Wednesday 10:00 am -12:00 noon, Thursday 2:00-3:00 pm or by appointment.  
phone: 207-798-4260  
email: ytang@bowdoin.edu  
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 Euro crisis, 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 20, in-class midterm  
October 30, submit a topic for your research paper  
December 19, final exam (9am)  
December 21, research paper 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 wants to bring in an article must contact the instructor for approval at least two days before the lecture. 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):


5. * John H. Cochrane, 2005, Writing Tips for Ph.D. Students, mimeo, University of Chicago


7. Geraldine Dany, Reint E. Gropp, Helge Littke and Gregor von Schweinitz, 2015, Germany’s Benefits from the Greek Crisis, IWH Online


11. Pierre-Olivier Gourinchas and Maurice Obstfeld (2012), Stories of the Twentieth Century for the Twenty-First, American Economic Journal: Macroeconomics 2012, Volume 4, Number 1


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, 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 3, course introduction
   Feenstra and Taylor, chapter 1

2. Exchange rates
• September 8, the basics about exchange rate, interest rate parity
   Feenstra and Taylor, chapter 2
   Pierre-Olivier Gourinchas and Maurice Obstfeld (2012), and Ahmed et al. (2015)
   various media reports on the Blackboard

• September 10, purchasing power parity and deviation from it
   Feenstra and Taylor, chapter 3.1 and 11.1
   Rogoff (1996), and Imbs et al. (2005)

• September 15, macroeconomic model of exchange rate: long run
   Feenstra and Taylor, chapter 3.2 to 3.5

• September 17, macroeconomic model of exchange rate: short run
   Feenstra and Taylor, chapter 4.1 to 4.4

• September 22, forecasting exchange rate with macro models in the short run
   Mesee and Rogoff (1983)

• September 24, forecasting exchange rate with macro models in the long run
   Mark (1995), and Chen and Tsang (2013)

• September 29, interest rate parity and carry trade
   Feenstra and Taylor, chapter 2.5 and 11.2
   Jordà and Taylor (2012)

• October 1, a microstructure view of exchange rate
   Lyons (2001), chapter 1 to 3

• October 6, a microstructure view of exchange rate
   Lyons (2002)

3. Balance of payments

• October 8, balance of payments
   Feenstra and Taylor, chapter 5

• October 15, financial globalization: capital flow and efficient investment
   Feenstra and Taylor, chapter 6.3
   Lucas (1990)

• **October 20, in-class midterm**

• October 22, financial globalization: (insufficient) risk diversification
   Feenstra and Taylor, chapter 6.4
   Lewis (1999), and Nicolas Coeurdacier and Helène Rey (2012)
• October 29, exchange rate and output: the Mundell-Fleming model
  Feenstra and Taylor, chapter 7.1 to 7.6

4. Exchange rate regimes and policy issues

• November 3, fixed and flexible exchange rate regimes, and the trilemma vs dilemma
  Feenstra and Taylor, chapter 4.5, 8.1 to 8.3
  Obstfeld and Rogoff (1995), Calvo and Reinhart (2002), and Rey (2013)

• November 5, international monetary experience
  Feenstra and Taylor, chapter 8.4
  Mundell (2000), and Obstfeld, Shambaugh, and Taylor, (2005)

• November 10, 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)
  various media reports on the Blackboard

• November 12, currency crises
  Feenstra and Taylor, chapter 9
  Krugman (1999)

• November 17, the euro
  Feenstra and Taylor, chapter 10
  Mundell (1961)

• November 19, the euro crisis
  Fernández-Villaverde, Garicano, and Santos, 2013, O’Rourke and Taylor, 2013,
  various media reports on the Blackboard

• November 24, individual meetings to discuss research paper

5. Student presentations

• December 1, up to 5 student presentations (I will offer extra help to students who
  present on this date.)

• December 3, up to 5 student presentations

• December 8, up to 5 student presentations

• December 10, up to 5 student presentations
List of Some Possible Topics for Research Papers

- the Grexit/Alexis Tsipras/Yanis Varoufakis
- PIGS/PIIGS
- default in Puerto Rico
- 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?