

**Economics 351
International Finance
Spring 2006**

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Office Hours: Tuesday 1:30 pm – 3:30 pm
Wednesday 2:30 pm – 4:30 pm
And by appointment

Course Description:

The purpose of this course is to provide insight into open-economy macroeconomics. First, students will be introduced to the basic concepts and models of international finance. The course will use an asset-market model of exchange rates. Second, students will apply these models to recent events and current policy issues.

Prerequisites: Econ 210 or Econ 211 and 212, and junior or senior standing

Reading Material:

Required: Krugman, Paul R. and Maurice Obstfeld, International Economics: Theory and Policy, (7th Edition)

Listed readings: Download from Blackboard (under External Links)

The Wall Street Journal

At a minimum, you should read the Currency Trading column in section C daily and skim the International news in sections A and C.

You are expected to keep up with current international economic events.

Course Requirements:	Percent
Midterm Exam (Wednesday, March 8)	25 %
Paper (Due April 28) Article selection due March 29.	20 %
Problem Sets	10 %
Class Participation and Attendance	5 %
Group Project	10 %
Final Exam (TBA)	30 %

Course information will be posted on **Blackboard**. You will need to “enroll” during the first week of class. Students should regularly check the course page for announcements, assignments and other useful information.

Problem Sets:

Problem sets will be assigned throughout the semester. **Stapled problem sets** are due at the beginning of the stated class period. Under no circumstances will late problem sets be accepted. Problems sets will be graded on the check plus, check, check minus system. A check plus roughly corresponds to an A, a check to a B and a check minus to a C. If you do not hand in a problem set you will receive a zero on the assignment. Incomplete assignments will also result in a grade lower than a check minus. You are allowed to work with other students on the problem sets but each student should turn in an individually composed and legible problem set.

Class Participation:

Class participation is strongly encouraged. Remember if you are absent from class you cannot participate. Excessive absenteeism will be penalized.

Exam Policies:

Exams will be given on the announced dates. If you have a conflict with one of the exam dates, you must tell me before the exam preferably as far in advance as possible. An excused exam will result in a re-weighting to the final exam. An unexcused exam will result in a zero.

Requests for a change in your grade on an exam must be made in writing within one week of the return of the exam. You must identify where and why you disagree with my assessment of your work. After reviewing your work I will meet with you during my office hours to discuss it. I reserve the right to make any additional corrections if they come to my attention.

Short Paper:

For the short paper you should select a recent article (from January 2006 onward) from The Wall Street Journal, Financial Times, The New York Times, Business Week or The Economist. The article should deal with a topic we have covered in class. You should write a short paper (no longer than 5 double spaced pages including graphs) on how the article relates to the concepts and/or models discussed in class. Attach the article to your paper. All references should be cited properly. If you have any questions about citations please consult with a reference librarian or me.

You may discuss your article with classmates and me but all work should be individually composed. There will be no extension to this deadline. If you need help finding an article please come see me early in the semester. Sample papers are posted on Blackboard.

By March 29, you need to turn in a copy of the article for approval. The paper is due **April 28** in class.

Group Project:

The group project will be a semester long assignment in which your group provides updates about a specific exchange rate. A more detailed description of the group project will follow shortly.

Other Policies:

Cheating and plagiarism are not tolerated within the Lafayette community. Any student who violates the regulations on intellectual honesty will be subject to the penalties described in the Student Handbook.

The class is not graded on a strict curve; everyone can do well. In addition, I take into account relative performance when assigning grades. For example, if the highest grade on the exam is 70, I call it an A, not a C-.

Course Outline and Readings:

1. Introduction to the Open Economy

- a. National Income Accounting and Balance of Payments Accounting
Chapter 12
Economic Report of the President (ERP) 2004 pages 253-264.
- b. Exchange Rates and the Foreign Market
Chapter 13
“The Structure of the Foreign Exchange Market,” Sam Y. Cross, All About...The Foreign Exchange Market in the United States, Chapter 3, (Federal Reserve Bank of New York, 1998).
“A hitchhiker's guide to understanding exchange rates,” Owen F. Humpage, Federal Reserve Bank of Cleveland, Economic Commentary, Jan 1, 1998.
- c. Money, Interest Rates and Exchange Rates
Chapter 14
- d. Price Levels and Exchange Rates
Chapter 15
“The Determination of Exchange Rates,” Sam Y. Cross, All About...The Foreign Exchange Market in the United States, Chapter 11, (Federal Reserve Bank of New York, 1998).
“Fast food and strong currencies,” The Economist, June 9, 2005

2. Theoretical Framework

- a. Output and Exchange Rates
Chapter 16
- b. Fixed Exchange Rates and Foreign Currency Intervention
Chapter 17 and Appendix 1 to chapter 17
“Sterilized fx,” David Fetting, Federal Reserve Bank of Minneapolis, The Region, June 2001, Volume 15 Number 2.

3. Policy Issues (If time allows)

- a. Fixed versus Floating Exchange Rates
Chapter 19 and additional reading to be assigned
- b. Optimum Currency Areas
Chapter 20 and additional reading to be assigned
- c. Developing Countries: Growth and Crisis
Chapter 22 and additional reading to be assigned