



Tel Aviv University International
International Finance
Spring 2020
Professor Lawrence Krohn

Course description: We present frameworks and theories of international finance, applying them to shed light on recent global economic events and contemporary policy issues. By course end, students will understand how national income and GDP, prices, trade and current account balances, interest rates and exchange rates are determined in an economy that trades goods, services and assets across borders. An essential tool, cross-border national income accounting, will be expounded at the outset. Among the issues to be examined will be the euro and currency unions generally; exchange rate, sovereign debt and global financial crises; the role of international money and capital markets, the role of multinational enterprises in cross-border capital and derivative markets, cross-border financing issues unique to emerging markets, the causes and consequences of sizable current account imbalances and their implications for nations' net international asset position.

Prerequisites: Students with some background in macroeconomics, accounting and corporate finance will find this course eminently manageable. Those who have not should be prepared to take on some additional reading before the course begins or in the very first weeks.

Grading: Attendance 15%, mid-term exam (closed-book) 35%, final exam (open-book) 50%.

Required Readings: The basic text is Paul Krugman, Maurice Obstfeld and Marc Melitz, **International Finance: Theory and Policy**, 11th edition, 2018. ISBN-10: 9781292238739. ISBN-13: 978-1292238739. (This is the 'global' edition. The 11th U.S. edition is identical in content.)

Additional readings are listed in the syllabus.. A very useful publication is *Finance and Development* of the IMF and World Bank, from which a number of assigned readings are drawn. <https://www.imf.org/external/pubs/ft/fandd/index.htm> . Naturally, the daily *Financial Times* and weekly *Economist* are highly desirable supplemental reading.

Powerpoint files will be available on line ahead of the lectures. Students are expected to have perused them and worked through the relevant readings before class time.

Course Outline

1. Review of Relevant Closed-Economy Macroeconomic Notions; Introduction to Open-Economy Macroeconomics; Closed - and Open-Economy National Income Accounting

Text reading:

Chapter 1

Chapter 2, pp. 11 – 22 on national income accounting.

Chapter 4, pp. 76 – 85 on monetary concepts and the market for liquidity.

2. The Balance of Payments

Text reading: **Chapter 2 (except for pp. 11 – 22).**

3. Foreign Exchange Markets and Institutions; the Asset Approach (Interest Parity) to Short-term Exchange Rate Determination

Text reading: **Chapter 3**

4. Interaction of Money Supply, Interest Rates and Exchange Rates in the Short Run

Text reading: **Chapter 4 (pp. 86 – 96).**

5. Price Levels and Long-term Exchange Rate Determination; Purchasing Power Parity

Text reading: **Chapter 5**

Additional readings and resources:

Economist Big Mac index: <https://www.economist.com/news/2019/01/10/the-big-mac-index>

6. Output and the Exchange Rate in the (Keynesian) Short Run

Text reading: **Chapter 6 (including appendix)**

Additional readings and resources:

Selim Elekdag, Dirk Muir, "Capital Idea" *Finance and Development*, June 2015, vol. 52, no. 2.

<http://www.imf.org/external/pubs/ft/fandd/2015/06/pdf/elekdag.pdf>

Pelin Berkmen et al, 'Differential Impact' *Finance and Development*, March 2010, vol. 47,

no. 1. <https://www.imf.org/external/pubs/ft/fandd/2010/03/berkmen.htm>

7. Fixed Rate Regimes and Central Bank Intervention in Foreign Exchange Markets

Text reading: Chapter 7 (including appendix)

Additional readings and resources:

Obstfeld M. and Taylor A., "International Monetary Relations: Taking Finance Seriously," *Journal of Economic Perspectives*, vol. 31, no. 3, Summer 2017, pp. 3–28.

8. Contemporary Floating Rate Regimes and the Global Financial History Shaping Them

Text reading: **Chapter 8**

Additional readings and resources:

Atish Ghosh et al, "The Cost of Tying One's Hands," *Finance and Development*, June 2014, vol. 51, number 2, <http://www.imf.org/external/pubs/ft/fandd/2014/06/pdf/ghosh.pdf>

9. Financial Globalization (Capital Account Liberalization) and the Role of MNEs

Text reading: **Chapter 9**

Additional readings and resources:

Sebastian Mallaby, "Globalization Resets" *Finance and Development*, December 2016, vol. 53, no. 4. <http://www.imf.org/external/pubs/ft/fandd/2016/12/pdf/mallaby.pdf>

10. Optimum Currency Areas and Europe; Focus on the Euro Zone and Its Origins

Text reading: **Chapter 10**

Additional readings and resources: TBD

11. Developing Countries: Growth, Crisis History and Reform

Text reading: **Chapter 11**

Additional readings and resources:

Eswar Prasad, "Role Reversal" *Finance and Development*, December 2011, vol. 48, no. 4. <http://www.imf.org/external/pubs/ft/fandd/2011/12/pdf/prasad.pdf>

Eswar Prasad, "A Middle Ground" *Finance and Development*, March 2017, vol. 54, no. 1.
<http://www.imf.org/external/pubs/ft/fandd/2017/03/pdf/prasad.pdf>

Fanwell Bokosi, "Low-Income Trap" *Finance and Development*, March 2018, vol. 54, no. 1.
<https://www.imf.org/external/pubs/ft/fandd/2018/03/point1.htm>.

TAU International Course Guidelines

Rules and Respectful Behavior

- No cell phones or laptops permitted in class unless approved by instructor for use
- Tardiness to class is not permitted
- As our courses bring together students from many different styles of learning and from a wide variety of home institutions, we ask that students remain respectful to and patient with fellow classmates at all time as some students may be more familiar with certain course material or procedures than others.

Learning Accommodations

In accordance to University guidelines, students with learning disabilities or accommodation requests must submit official documentation from their home country / university (translated into English by notary if not already in English) to TAU International (tauiacademic@tauex.tau.ac.il) in advance of arrival describing in detail any specific needs they have. Students must also bring a copy of this documentation with them on-site and give it to their faculty on the first day of class while introducing themselves so that the faculty know who they are and what sorts of needs they may have. TAU International and its faculty cannot guarantee that all accommodations received at the home school can be similarly met at TAU but certainly does the best it can to make any suitable accommodations possible that are needed.

In-class Exams

TAU does not permit, under any circumstances, taking any in-class (including mid or final) exams early or later than the scheduled exam day. When selecting courses, it is thus very important to note below if there is an in-class midterm or final exam as this date/exam cannot be changed. Early departures from the program are not approved, nor are early or exception in-class exams.

TAU International Absence Policy

Attendance is **mandatory** in all of the courses. Missing classes will be reflected in the final grade of the course. Up to three justified absences from classes will be accepted (for example: emergency matter or illness, both of which will require an official doctor's note sent to the faculty **on the day of the absence**). Such cases of absence should be reported to your lecturer immediately and again, a doctor's note is required. Students are required to arrive on time for classes. Teachers are entitled to treat any single case of lateness and/or repeated lateness as an unjustified absence. Please note that according to TAU Academic Policy, if a student's behavior or attendance during the semester is disagreeable his/her course participation may be cancelled at the discretion of TAU.

Students are responsible for reading and adhering to the policies and procedures in the TAU International Academic Handbook [posted here](#) at all times.