

## International Finance and its Macroeconomic Foundation

### Tel Aviv University International

**Prof. Lawrence Krohn**

**Fall Semester 2020**

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**ldkrohn@tauex.tau.ac.il**

**Readily available by email or Zoom appointment; formal office hours to be determined**

**Course Credits: 3 TAU Semester Credits**

**Monday and Wednesday; 17:30 – 19:00 (Taught Online)**

#### **Course Description (Summary)**

Course description: The ultimate goal is to present frameworks and theories of international finance (often known, more accurately, as international or open-economy macroeconomics) and apply them to shed light on important recent global economic events and contemporary policy issues. As there are no economics prerequisites for this course, the fundamentals of domestic (so-called closed-economy) macroeconomics (from the perspective of a developed economy like the US) will be presented in the first half of the term. Understanding of domestic macro principles is essential to comprehension of cross-border phenomena.

#### **Course Requirements and Expectations**

Command of high school algebra is essential. There are no other prerequisites. The course is suitable for all TAU International students.

All cell phone use is strictly prohibited. Laptop use allowed, but must be confined to consultation of class material and note-taking.

#### **Learning Outcomes**

By course end, students will understand how real output, national income, interest rates and inflation are determined in closed economies and in open economies (those that trade goods, services and assets across borders). They will also learn how trade, current and financial account balances, exchange rates and the competitiveness of tradable goods and services are determined in an open economy. Emphasis will be placed initially on US oriented-issues, but other regions, notably the euro zone, will ultimately be integrated as well.

#### **Evaluation Criteria**

Grading: Mid-term exam 30%, take-home final exam 55%, attendance 15%.

#### **Absence Policy**

#### **Tel Aviv University International**

Carter Building, Room 108, Tel Aviv 6997801, Israel

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Please note the TAU International Absence Policy as outlined on the next page.

### **Course Schedule**

Session 1, October 19

Introduction to Economics

(NGM) Chapter 2 [appendix optional]

Sessions 2 – 4, October 21, 26, 28

Macroeconomic Basics: Output and Prices

(NGM) Chapters 23 and 24

Session 5, November 2

Interest Rates, Private Saving, Investment, Government Budgets

(NGM) Chapter 26

Session 6 – 7, November 4, 9

Money, Central Banking, Financial Intermediation

(NGM) Chapter 29

(KOM) Chapter 4 pp. 96 – 105 only.

Session 8, November 11

Inflation: Origins and Costs

(NGM) Chapter 30

Session 9, November 16

Mid-term exam

Sessions 10 – 11, November 18, 23

Introduction to Open-Economy Macroeconomics; Balance of Payments and Open-Economy

National Income Accounting

(KOM) Chapter 2

Session 12, November 25

Asset Approach to Exchange Rates and the Foreign Exchange Market: Interest Parity

(KOM) Chapter 3

Session 13, November 30

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

(KOM) Chapter 4 (from page 106 only)

Session 14, December 5

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## Price Levels and the Exchange Rate in the Long Run

(KOM) Chapter 5 (Omit appendix.)

Session 15, December 7

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

(KOM) Chapter 6 (Omit appendix.)

Session 16, December 9

Fixed Exchange Rates and Foreign Exchange Intervention

(KOM) Chapter 7 (only through p. 230. Omit appendix.)

Session 17, December 14

International Monetary Systems: An Historical Overview

(KOM) Chapter 8 (following three sections only: beginning of chapter to p. 271 [but omit New Zealand box: pp. 266 – 69], pp. 283 – 87, p. 292 to end of chapter.)

Session 18, December 16

Optimum Currency Areas and the European Experience

(KOM) Chapter 10

### Course Readings and/or Required Materials

The basic texts are:

(NGM) N. Gregory Mankiw: Principles of Economics, Eighth Edition, Cengage, 2018. ISBN 13: 978-1-305-58512-6. The relevant readings are posted on Moodle.

(KOM) Paul Krugman, Maurice Obstfeld and Marc Melitz, International Finance: Theory and Policy, 11th edition, 2018. ISBN-13: 978-1292238739. (This is the 'global' edition. The 11th U.S. edition is identical in content.) The text is available online directly from the TAU library system.

The daily Wall Street Journal, Financial Times and weekly Economist are highly desirable supplemental reading.

### Instructor Biography

Lawrence (Larry) Krohn, Lecturer at Tel Aviv University and Adjunct Professor of International Economics at the Fletcher School, Tufts University specializes in the global macroeconomy. In 2008, he returned to academia after a 25-year career in financial services, during which he served initially as international and U.S. economist, later (from 1992) as chief economist for Latin America at several banks (some of blessed memory), including Lehman Brothers, UBS, DLJ, and ING. During those years, he wrote regularly on economic and market developments, made frequent research trips to the Latin region, and visited portfolio managers around the globe.

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Larry graduated from Penn's Wharton School, served two years in the U.S. Peace Corps (Tunisia), then earned his PhD in economics at Columbia University, where he specialized in mathematical and international economics. He taught economics at Oberlin College, Université Laval and the University of Quebec (Montreal) before embarking on his financial services career. In 2012, Larry received the Fletcher School's James L. Paddock Teaching Award. He remains passionate not only about economics, but also dogs, music of all sorts, movies and foreign travel.

### TAU International Academic Guidelines

Students may only attend classes which they are officially registered for. No auditing of courses is permitted. Students are responsible for reading and adhering to all policies and procedures in the TAU International Academic Handbook [posted here](#) at all times. Below is a summary of some of these relevant policies and procedures.

### Learning Accommodations

In accordance to University guidelines, TAU International may be able to accommodate students with learning disabilities or accommodation requests if these requests are also honored at the student's home university or home school. To be considered, students must submit official documentation from their home school or university (if not in English, a notarized official copy translated into English is required) to TAU International in advance of arrival describing in detail any specific needs and how these are accommodated at the home school or university. 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 or accommodations they may have. **Without official documentation from the home school submitted on or before the first day of courses, TAU will not be able to honor accommodation support.**

With supporting documentation and by following the correct procedure as outlined above, TAU International and its faculty will do the best it can to make any suitable accommodations possible. However, we cannot guarantee that all accommodations received at the home school can be similarly met at TAU. For example, TAU is usually not able to offer note-taking services in English, private testing rooms, or advance viewing of classroom presentations, exams, or assignments.

It may be an option to provide a student with additional tutoring or support outside the classroom as needed. Students should be aware that this additional support cannot be guaranteed and is based on teacher availability in the subject as well as the specific student level. If available, the cost of additional tutoring or support will be the sole responsibility of the student.

### 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 if there is an in-class midterm or final exam as this date/exam cannot be changed. It is also

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the student's responsibility to clarify exam dates with the professors at the beginning of a course, with the understanding that not all exam dates can be decided up front as it can sometimes depend on the pace of the course and class learning. It is the student responsibility to plan to be present for all courses including the final day of class for this reason. 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 including Hebrew Ulpan. Faculty can and will take attendance regularly. Missing classes will be reflected in the final grade of the course. Up to three justified and properly documented absences from classes may be accepted (for example: emergency matter or illness, both of which will require a doctor's note). Such cases of absence should be reported to the faculty immediately and again, a doctor's note is required. Teachers are entitled to treat any lateness or absence without documentation as unexcused. Some of our courses such as Service Learning or the Internship Seminar require more practical in-class work; thus, attendance policies may be stricter in some courses and students then must adhere to the stricter attendance policy as outlined by the faculty/syllabus.

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 official TAU Academic Policy, if a student's behavior or attendance during is disagreeable his/her course participation may be cancelled at the discretion of TAU with no due refund.

### **Grade Appeals**

Students are responsible for checking grades once posted or distributed by faculty. The limited grade appeals window and the detailed procedure for appealing a grade – whether a graded assignment, exam or final grade – is outlined clearly in the policies and procedures in the TAU International Academic Handbook [posted here](#).

