

International Finance
Lawrence Krohn
TAU International Study Abroad
Spring Semester 2022

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Professor will be available in person after class and before class (if pre-arranged), or through email

Course Credits: 3 TAU Semester Credits

For course times/days and location, please visit the TAU International web site (Study Abroad Course Offerings and Schedules). Please note that all information below is subject to change and/or adjustment as necessary.

Course Description (Summary)

We present national income accounting frameworks, then 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 cross-border policy issues.

The course begins with a review of national income accounting in the open economy, including study of the trade, current and financial accounts in the balance of payments. The issues to be examined thereafter include exchange rate determination in the short run (asset approach, uncovered interest parity) and long run (how changes in exchange rates relate to money growth and inflation), the role of exchange rates in producing and containing short-run variations in output (Keynesian output and income determination).

The advantages and disadvantages of fixed-rate, floating-rate and hybrid currency regimes, the causes and consequences of sizable current account imbalances and their implications for nations' net international asset positions, currency unions, exemplified by the genesis and experience of Europe's single currency, the roles of international money and capital markets, problems of financial regulation in an integrated world, cross-border economic problems unique to emerging market economies and the role played by global financial markets and institutions in the economic crises of 2008 and 2020. These topics, of course, all relate to each other.

We will also digress periodically (notably in the context of Chapters 3 and 9) to discuss at the firm (in contrast to the macroeconomic) level the financial decisions that collectively constitute the most important generator of cross-border financial (capital) flows.



Course Requirements and Expectations

There are no prerequisites. Though the course is suitable for all TAU International students, those who have some prior familiarity with macroeconomics will find it initially more manageable. Students are assumed to be comfortable with high school algebra and the use of graphs for simple economic modeling.

Encouraged in class at any time: questions on the material under discussion.

Discouraged – indeed forbidden – at all times: any use whatsoever of cell phones or tablets. Laptops are welcome for note taking purposes; otherwise they should be closed during class.

Punctuality is expected at all times.

Learning Outcomes

By course end, students will understand how purely domestic variables like real output (GDP or GNP), national income, interest rates and inflation rates are determined in open economies (those that trade goods, services and assets across borders). They will also learn how cross-border variables, like a nation's trade, current and financial account balances, exchange rates and the global competitiveness of its tradable goods and services are determined in an open economy (in contrast to the closed economy usually assumed in basic macro courses).

Emphasis will be placed initially on US oriented-issues, but other regions, notably the euro zone and the less developed world, will ultimately be integrated as well. Israel will not be treated explicitly (as it is the subject matter of another TAU International offering). This course is meant to serve both 1) students who will one day engage in, or work for employers engaged in, cross-border economic activity, and 2) those who will not, but seek nonetheless a greater ability to understand the discourse of outstanding publications like the *Financial Times* and *Economist* (among many others).

Evaluation Criteria

Attendance 10%

Homework submission 5%

Mid-term examination (closed-book) 30%

Final examination (open-book) 55%

Absence Policy

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

Course Schedule

Week 1, Sessions 1 and 2: Chapter 1 (optional introductory chapter, not covered in class), Chapter 2 on **National Income Accounting and the Balance of Payments**



Week 2, Sessions 3 and 4: Chapter 3 on **Exchange Rates and the Foreign Exchange Market**

Week 3, Sessions 5 and 6: Chapter 4 on **Money, Interest Rates and Exchange Rates.**

Week 4, Sessions 7 and 8: Chapter 5 on **Price Levels and the Exchange Rate in the Long Run** (only p. 135 – 138, 141 – 58 [but exclude the box on p. 154].

Reading on *The Economist's* Big Mac index (from *The Economist's* expected Jan. 2022 revision)

Week 5, Sessions 9 and 10: Chapter 6 on **Output and the Exchange Rate in the (Keynesian) Short Run** (only pp. 169 – 89, 197 – 99.

Week 6, Session 11 Chapter 6 (continued).

Closed-book mid-term examination (Session 12)

Week 7, Sessions 13 (review of mid-term exam) and 14: Chapter 7 on **Fixed Exchange Rates and Foreign Exchange Intervention** (only pp. 216 – 232).

Week 8, Sessions 15 and 16: Chapter 8 on **International Monetary Systems** (the following four sections only: pp.261 – 271 [but omit New Zealand box on pp. 266 – 69], pp. 280 – 87, 292 – 96, 302 – 316.)

Week 9, Sessions 17 and 18: Chapter 9 on **Financial Globalization** (only pp. 324 – 50. Omit postscript).

Week 10, Sessions 19 and 20: Chapter 10 on **Optimum Currency Areas and the European Experience.**

Week 11, Sessions 21 and 22: Chapter 11 on **Developing Countries: Growth, Crisis and Reform** (pp. 402 – 435).

Course Readings and/or Required Materials

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.) An electronic edition is available from TAU libraries.

The daily *Financial Times* and weekly *Economist* are highly desirable supplemental (though optional) reading. A very useful quarterly publication is the IMF and World Bank's *Finance and Development* <https://www.imf.org/external/pubs/ft/fandd/index.htm> .



Instructor Biography

Lawrence Krohn, a dual citizen, who is also Adjunct Professor of International Economics at the Fletcher School of Tufts University, has specialized in the global macro economy. 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, ING, and Standard Bank. During those years, he wrote regularly on Latin America, made frequent research trips to that region, and visited portfolio managers around the globe. Larry graduated from Penn's Wharton School, served two years in the U.S. Peace Corps (Tunisia) and earned his PhD in economics at Columbia University. He taught economics at Columbia, Oberlin College and in Quebec before embarking on his financial services career. In 2012, Larry received the Fletcher School's James Paddock Teaching Award. He remains passionate not only about economics, but also dogs, music of all sorts, movies, foreign travel and architecture, especially in Israel.

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 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](#).

