

Tel Aviv University International
International Finance
Fall 2019
Professor Lawrence Krohn

Course description: We 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. 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. Among the issues to be examined will be Europe's single currency and currency unions generally, exchange rate and global financial crises, the role of international money and capital markets, cross-border economic issues unique to emerging market economies, the causes and consequences of sizable current account imbalances and their implications for nations' net international asset positions.

Prerequisites: The course is suitable for all students, but those who have completed an introductory course in macroeconomics will find it more manageable. Those who have not should be prepared to take on some additional reading before the course begins or early on.

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.

Course Outline

Weeks 1 & 2

1. Introduction to Open-Economy Macroeconomics and Review of Relevant Closed-Economy Macroeconomic Notions

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 money.

2. Balance of Payments and Open-Economy National Income Accounting

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

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

Text reading: **Chapter 3**

Weeks 3 & 4

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 the Exchange Rate in the Long Run

Text reading: **Chapter 5**

Additional readings and resources:

On the Economist's 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>

Mid-Term Exam

Weeks 5 & 6

7. Fixed Exchange Rates and Foreign Exchange Intervention

Text reading: Chapter 7 (including appendix)

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. International Monetary Systems: An Historical Overview

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 (Liberalization of the Capital Account)

Text reading: Chapter 9 (exclude postscript)

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>

Weeks 7 & 8

10. Optimum Currency Areas and the European Experience

Text reading: Chapter 10

11. Developing Countries: Growth, Crisis 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>