

Hand-out weeks 14 + 15

These 2 weeks:

8. Currency Crises: the Krugman model
9. International Monetary System: the IMF and debt crises
 - Extra (if there is time): Foreign Direct Investment

Readings: Krugman & Obstfeld, chpts 17–19.

Practice problems:

1. Consider a central bank's balance sheet. Describe the effects of an open market operation in the domestic bond market. Do the same for an intervention in the foreign exchange market. What does it mean for the central bank to sterilize the latter transaction?
2. Explain verbally why a fixed exchange rate regime and a continued fiscal expansion are a recipe for a currency crisis.
3. Show graphically and mathematically why the crisis occurs before the country slowly runs out of foreign reserves.
4. Research the IMF. Who are the main actors? What areas of economic policy does the IMF focus on? How does it define its role? What do the critics say?

Re the Final:

- Wednesday 12/17, 7–10 PM (section 2) / Friday 12/19, 1:30–4:30 (section 3).
- cumulative: 40% trade, 60% 2nd half of semester.
- practise finals on the class website
- review session: Sunday 12/14, 6–8 PM, room tba.