

International Financial Economics: Syllabus

Instructor: Gerald Willmann

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Course description:

This class introduces you to the fascinating world of international financial economics. We will study the balance of payments and the sustainability of current account deficits. Starting with basic arbitrage considerations, we will introduce theoretical models that help us understand the exchange rate and allow us to analyze the effects of economic policies in the international arena. We will study institutional settings and address “hot” topics, such as currency crises and the problem of sovereign debt.

Prerequisites:

Prerequisites for this class are Econ 300 and Econ 301 (or equivalents), i.e. intermediate Micro and intermediate Macro. Feel free to talk to me if you have questions on this. Given the relatively small size of the class I will try to accommodate your needs.

Textbook:

The required text for this class is *International Money and Finance* by C. Paul Hallwood and Ronald MacDonald, 3rd edition, published by Blackwell and available at the UIUC bookstore. I will supplement the textbook with articles, data, and current events as we go along.

Coursework and grading:

- midterm: 25%
- 4 homeworks: 15% (5 percent each, best 3 out of 4)
- group project: 20%
- final exam: 40%

Important dates:

- Midterm exam: March 2, during regular class time
- Homeworks due: 2/10, 2/26, 3/30, 5/4 (at the beginning of class).
- Project presentations: 4/1, 4/8, 4/15, 4/22, 4/29.
- Final exam: Saturday, May 8, 1:30 – 4:30.

Logistics:

- The class meets twice a week, on Tuesdays and Thursdays, 1 – 2:50, in DKH 219.
- website: <http://willmann.bwl.uni-kiel.de/~gerald/econ429>
- Students with particular needs should see me at the beginning of the course.

Outline:

Part I: Basics

1. National Income Accounting and the Balance of Payments
2. Intertemporal Trade and the Sustainability of Current Account Deficits
3. The Exchange Rate and the Forex Markets
4. Purchasing Power Parity
5. Covered and Uncovered Interest Parity

Part II: Exchange Rate Models

1. The Mundel-Fleming Model
2. The Monetary Model
3. The Portfolio Approach
4. The Efficient Market Hypothesis

Part III: Institutional Settings

1. History of Exchange Rate Regimes
2. Different Exchange Rate Regimes
3. Monetary Unions
4. The Role of the IMF

Part IV: Crises

1. Currency Crises
2. Debt Crises