

Brigham Young University
Economics 459 – International Monetary Theory
Section 1 Ref# 7658
Spring Term 2006

Instructor:	Kerk L. Phillips		
Office:	166 FOB		
Telephone:	422-5928		
Office Hours:	MTWTh	10:00 – 10:50 a.m.	166 FOB
	and by appointment		
Lectures:	MTWTh	8:00 - 9:20 a.m.	274 MARB

This is a course on international finance and open economy macroeconomics. It is an upper division course and, hence, it is expected that you have taken and understood price theory (Econ 380), macroeconomics (Econ 381), and basic math statistics (Econ 387). Completion of or simultaneous registration in econometrics (Econ 388) is also a prerequisite.

The emphasis of this course is on theories of international finance. Thus, it is important to have a good understanding of economic theory. In particular, the student should be familiar with constrained and unconstrained optimization techniques and their application to the problems facing households and firms. At the same time, the purpose of the course is not only to develop an understanding of theory, but also to see how theory can be applied in the context of international finance to look at a variety of issues. Proper understanding of how to apply theory will require that we understand the organization of international financial markets and that we be aware of stylized facts having to do with open economies. Issues we will address include, explaining the dynamics of spot and forward exchange rates, the behavior of real exchange rates, the optimality of fixed versus floating exchange rate regimes, the behavior of trade surpluses and deficits in the face of a variety of domestic and international shocks, issues of foreign sovereign debt, etc.

Required Text:

Melvin, Michael, *International Money and Finance*, 6th ed., Addison-Wesley, 2000. ISBN 0-321-05051-7.

Other Readings:

Eichengreen, Barry, *Globalizing Capital: A History of the International Financial System*, Princeton University Press, 1996. ISBN 0-691-02880-X.

Obstfeld, Maurice and Kenneth Rogoff, *Foundations of International Macroeconomics*, MIT Press, 1996. ISBN 0-262-15047-6. Chs. 1, 2 & 5.

Obstfeld, Maurice and Kenneth Rogoff, "The Mirage of Fixed Exchange Rates." *Journal of Economic Perspectives*, Fall 1995 pp. 73-96.

Persson, Torsten, unpublished lecture notes, parts 1 & 2. (available on Blackboard)

Stockman, "The Equilibrium Approach to Exchange Rates," *Economic Review*, Federal Reserve Bank of Richmond, Mar/Apr 1987, pp. 12-30.

Grading will be on a curve with the following weights:

Homework	10%
Trading Simulation	10%
Midterm	35%
Final	45%

Homework:

Approximately two homework assignment per week will be due, though the schedule may vary from week to week. Your two lowest scores will be discarded. Homework is due at the beginning of class. If your homework is turned in late, it will be returned with comments, but will be recorded as a zero. Homework submitted during class, but after homework collection at the beginning is considered late.

Trading Simulation:

You will be given an artificial financial portfolio to manage. Details will be explained in class, but you will be able to buy and sell a small set of international financial assets on the internet. The value of this portfolio on the last day of regular classes will be used to determine part of your grade.

Midterm:

A midterm exam will be given in the Testing Center during regular hours. It will be on **Thursday & Friday, June 1st & 2nd**. It will cover material through Balance of Payments Accounting. The midterm is closed book & closed notes. It will consist of multiple choice, short answer & longer analysis questions.

Final Exam:

The final will be given **Thursday, June 22nd from 7:00 a.m. to 8:50 a.m. in our classroom, 274 MARB.** The final will be comprehensive and will be closed book & closed notes. *No early or late finals will be given under any circumstances.* Make your end-of-semester travel, marriage & job interview plans accordingly.

Schedule of Topics

Date	Topic	Readings	due
5/2 Tue	Introduction to the course		
5/3 Wed	Foreign Exchange Markets	Melvin ch. 1	
5/4 Thu	Foreign Exchange Markets, cont'd	Melvin ch. 4	HW 1
5/8 Mon	Interest Rate Parity Conditions	Melvin ch. 5	HW 2
5/9 Tue	Interest Rate Parity Conditions, cont'd		
5/10 Wed	The Forward Bias Puzzle	Melvin ch. 6	HW 3
5/11 Thu	The Forward Bias Puzzle, cont'd		
5/15 Mon	Purchasing Power Parity	Melvin ch. 8	HW 4
5/16 Tue	Purchasing Power Parity, cont'd		topic
5/17 Wed	Long-run Models of the Exchange Rate	Stockman	HW 5
5/18 Thu	Long-run Models of the Exchange Rate, cont'd		
5/22 Mon	History of the International Financial System	Eichengreen	HW 6
5/23 Tue	History of the International Financial System, cont'd		
5/24 Wed	Fixed vs Flexible Exchange Rate Policy	Obstfeld paper	HW 7
5/25 Thu	Fixed vs Flexible Exchange Rate Policy, cont'd		
5/29 Mon	Holiday	Melvin ch. 2	
5/30 Tue	Balance of Payments Accounting		
5/31 Wed	Balance of Payments Accounting, cont'd	Persson	HW 8
6/1 Thu	General Equilibrium Models of Open Economies		
6/5 Mon	General Equilibrium Models of Open Economies, cont'd		HW 9
6/6 Tue	General Equilibrium Models of Open Economies, cont'd		
6/7 Wed	Static Mathematical Models	Obstfeld ch. 1	HW 10
6/8 Thu	Static Mathematical Models, cont'd		
6/12 Mon	Dynamic Mathematical Models	Obstfeld ch. 2	HW 11
6/13 Tue	Dynamic Mathematical Models, cont'd		
6/14 Wed	Models with Uncertainty	Obstfeld ch. 5	HW 12
6/15 Thu	Models with Uncertainty, cont'd		
6/19 Mon	Review		HW 13, paper
6/22 Thu	Final exam at 7:00 a.m. in 274 MARB		