

Brigham Young University  
**Economics 459 – International Monetary Theory**  
Section 1 Ref# 07658  
Fall Semester 2009

Instructor: Kerk L. Phillips  
Office: 166 FOB  
Telephone: 422-5928  
Office Hours: 166 FOB  
and by appointment  
Lectures: MW 8:00 – 9:15 a.m. B060 JFSB

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 Texts:

Melvin, Michael, *International Money and Finance*, 6<sup>th</sup> ed., Addison-Wesley, 2000. ISBN 0-321-05051-7.  
Eichengreen, Barry, *Globalizing Capital: A History of the International Financial System*, Princeton University Press, 1996. ISBN 0-691-02880-X.

Other Readings:

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Persson, Torsten, unpublished lecture notes, parts 1 & 2.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

Grading will be on a curve with the following weights:

Homework	10%
Midterm	40%
Final	50%

Homework:

Approximately one homework assignment per week will be due, though the schedule may vary from week to week and may be subject to change during the semester. 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.

Midterm:

A midterm exam will be given in the Testing Center during regular hours. It will be on **Wednesday & Thursday, October 21<sup>st</sup> and 22<sup>nd</sup>**. It will cover material through exchange rate regimes.. 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 **Tuesday, December 15<sup>th</sup> from 7:00 to 10:00 a.m. in our classroom**. The final will be cover the latter half of the class 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**

<b>Date</b>	<b>Topic</b>	<b>Readings</b>	<b>due</b>
8/31	M Introduction		
9/2	W Foreign Exchange Markets	Melvin ch. 1	
9/7	<b>M Labor Day Holiday</b>		
9/9	W Foreign Exchange Markets, cont'd	Melvin ch. 4	HW 1
9/14	M Interest Rate Parity Conditions	Melvin ch. 5	HW 2
9/16	W Interest Rate Parity Conditions, cont'd		
9/21	M The Forward Bias Puzzle	Melvin ch. 6	HW 3
9/23	W The Forward Bias Puzzle, cont'd		
9/28	M A Mathematical Model of Risk Premia	Lecture Notes	HW 4
9/30	W A Model of Risk Premia, cont'd		
10/5	M A Model of Risk Premia, cont'd		HW 5
10/7	W Purchasing Power Parity	Melvin ch. 8	
10/12	M Purchasing Power Parity, cont'd		HW 6
10/14	W Long-run Models of the Exchange Rate	Stockman	
10/19	M Long-run Models, cont'd		HW 7
10/21	W <b>Midterm Exam in Testing Center</b>		
10/26	M History of International Financial	Eichengreen	
10/28	W History, cont'd		HW 8
11/2	M Fixed vs Flexible Exchange Rate Policy	Obstfeld paper	
11/4	W Balance of Payments Accounting	Melvin ch. 2	HW 9
11/9	M Balance of Payments Accounting, cont'd	Persson	
11/11	W General Equilibrium Models		HW 10
11/16	M General Equilibrium, cont'd		
11/18	W General Equilibrium, cont'd		HW 11
11/23	M Static Mathematical Models	Obstfeld ch. 1	
11/25	<b>W Thanksgiving Holiday</b>		
11/30	M Static Mathematical Models, cont'd		
12/2	W Dynamic Mathematical Models	Obstfeld ch. 2	HW 12
12/7	M Dynamic Mathematical Models, cont'd		
12/9	W Review		
12/15	T <b>Final Exam in B060 JFSB at 7:00 a.m.</b>		