

# International Finance (Econ 4423)

University of Colorado Spring 2013

Course meets Tuesday and Thursday, 10:30-11:45 pm in Hellems 267

Professor: Bill Craighead

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Office hours: Tuesdays 2:00-3:00; Wednesdays 1:00-2:30 pm; and by appointment

International Finance examines the macroeconomic implications of openness, the ability of countries to borrow from and lend to each other. It is sometimes referred to as open economy macroeconomics. Important issues include determinants of the value of a country's money relative to others (i.e., exchange rates), choice of fixed versus floating exchange rates, and international exchange rate and debt crises.

The required textbook for the course is *International Macroeconomics* (2<sup>nd</sup> ed) by Robert Feenstra and Alan Taylor (Worth Publishers). The textbook is written and provides many interesting illustrations and it will be an excellent complement to class lectures. The course will not closely follow the textbook, however, so reading it will be a poor substitute for class attendance. Other readings will be available via library reserve or Desire2Learn (D2L).

The prerequisite for the course is Econ 3080 (*Intermediate Macroeconomic Theory*), and, by extension, calculus. The course will assume some familiarity with economic concepts and the lectures, problem sets and exams will make use of algebra and calculus.

Approximately 4-7 problem sets will be assigned during the semester. Students may work together, but must turn in individually.

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Course Outline and Reading List

“FT” refers to Feenstra and Taylor, *International Macroeconomics*, 2<sup>nd</sup> ed (Worth)  
Readings marked (o) are optional

I. Introduction

FT ch. 1

II. The Balance of Payments

a. Balance of Payments Accounting

FT ch. 6

*The Economist*, “Exports to Mars,” Nov. 12, 2011

R. Hausmann and F. Sturzenegger, “‘Dark Matter’ Makes US Debt Disappear,” *Financial Times*, Dec. 7, 2005

*The Economist*, “America’s Dark Materials,” Jan. 19, 2006

(o) C. Bach, “A Guide to the US International Transactions Accounts and the US International Investment Position Accounts,” *Survey of Current Business*, Feb. 2010

(o) R. Hausmann and F. Sturzenegger, “Why the US Current Account Deficit is Sustainable,” *International Finance*, Aug. 2006

b. The Benefits of Financial Globalization

FT ch. 7

(o) G. Alessandria, “Trade Deficits Aren’t as Bad as You Think,” *Philadelphia Fed Business Review*, Q1 2007

(o) K. Sill, “The Gains from International Risk-Sharing,” *Philadelphia Fed Business Review*, Q3 2001

(o) R. Hall and C. Jones, “Why Do Some Countries Produce So Much More Output per Worker than Others?” *Quarterly Journal of Economics*, February 1999

c. The US Current Account Deficit

W. Buffett and C. Loomis, “America’s Growing Trade Deficit is Selling the Nation Out from Under Us,” *Fortune*, Nov. 10, 2003

B. Bernanke, “The Global Savings Glut and the US Current Account Deficit,” Speech, April 14, 2005

III. Foreign Exchange

a. Introduction to Exchange Rates

FT ch. 2

b. The Long-Run: Real Exchange Rates and Purchasing Power Parity

FT ch. 3.1-3.3, 11.1

M. Pakko and P. Pollard, “Burgernomics: A Big Mac Guide to Purchasing Power Parity,” *St. Louis Fed Economic Review* Nov./Dec. 2003

*The Economist*, “Beefed-Up Burgernomics,” June 30<sup>th</sup> 2011

c. The Short-Run: Interest Rates and Exchange Rates

FT ch. 5, 11.2

- F. Norris, "Switzerland's Battle to Suppress the Franc Exacts a Price," *New York Times*, June 22, 2012
- N. Gregory Mankiw, "The Trilemma of International Finance," *New York Times*, July 10, 2010
- d. China's Foreign Exchange Intervention
- J. Fallows, "The \$1.4 Trillion Question," *Atlantic Monthly*, Jan.-Feb. 2008
- P. Krugman, "Taking on China," *New York Times*, Mar. 14, 2010
- J. Stiglitz, "No Time for a Trade War," *Project Syndicate*, April 6, 2010
- D. Leonhardt, "As China's Currency Rises, U.S. Keeps Up Its Pressure," *New York Times*, Feb. 15, 2012