

International Finance I - JEB050/JPB335

Spring 2025

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Status of the course: Elective (optional) B.A. course

First lecture and seminar will commence on **Tuesday, February 18th**

The course will be taught on-site (in the lecture hall **314**, IES, Opletalova street) only, no streaming or recording is planned.

Scheduling: Lectures 2 p.m. – 3:20 p.m. (Tuesday)

Office hours: after the lecture on Tuesdays (3:30 p.m. – 4:30 pm.) or by appointment.

Office hours will be taking place on room no. 311 (3rd floor, IES), online consultations are possible too.

Introduction:

This course covers, with a focus on both theory and empirics, basic topics in international finance (exchange rate economics & international macroeconomics) at undergraduate level. The course does not deal with international business methods (logistics, use of letters of credits etc.), instead it focuses on theory and policy analysis and attempts to provide some insight into questions such as the following ones:

- How closely (and in which ways) are international financial transactions linked to national economies and international trade?
- Why determines exchange rates?
- How do national economic policies influence external equilibrium of an economy?
- What effect have different foreign exchange policies and foreign exchange arrangements have on economic stability and economic growth?
- What causes balance of payments crises/international financial crises?
- When it is optimal for several countries to share one currency?
- How many global currencies do we really need?

The course is a logical complement to the International Trade I (JEB039), however, it can be also studied independently, the International Trade course is not considered to be a prerequisite.

We will attempt to provide up-to-date examples and references whenever possible (e.g. by discussing topical issues such as global imbalances, internationalization of “new currencies” (RMB), functioning of new digital currencies, stability of Eurozone).

Course objectives:

At the end of the course its students should:

- (i) Understand the logic of balance of payments accounting and its relationships to the national accounting.
- (ii) Be able to find and work with usual data on exchange rates and balance of payments.
- (iii) Understand the logic of basic macroeconomic models of exchange rate determination.
- (iv) Understand the main trends in development of international monetary systems and exchange rate regimes.
- (v) Be able to use basic macroeconomic models which can elucidate relationships between national economic policies, exchange rates and external (dis)equilibria of individual economies.

Course outline with dates:

1. Introduction to international finance. History of international financial Foreign exchange market: basic features. Sources of data. (February 18th)
2. Balance of payments structure and national income accounting for open economy. International investment position. February 25th)
3. Guest lecture (March 4th) - Prof. Talluri, Michigan State University. **Room 109**
4. Introduction to exchange rate determination: asset approach. Covered and uncovered interest rate parity. **First assignment due.** (March 11th)
5. Money, interest rates and exchange rates. Long run aspects of exchange rate determination. Overshooting. (March 18th)
6. Prices and exchange rates. Fischer effect. Nominal and real (effective) exchange rates. Exchange rates and competitiveness. Balassa-Samuelson effect. (March 25th)
7. Nominal and real convergence in the EU. Introduction to the AA-DD model. (April 1st)
8. The AA-DD model: additional details. Application on policy analysis. (April 8th)
9. Fixed exchange rates: macroeconomic implications. Interventions and sterilization. Policy trilemma. Policy options for reaching internal and external balance. Swan diagram. (April 15th)
10. Monetary integration: costs and benefits. (April 22nd)
11. Monetary integration: effects – empirical research. Equilibrium exchange rates: FEER. (April 29th)
12. A brief introduction into the models of balance of payments crises. Debts and developing countries. (May 6th)
13. Holiday – Dean's day (May 13th)
14. Make up class. Forex forecasting: fundamental approaches versus alternatives. A brief overview of technical analysis. The future of IMS? **Second assignment due.** (May 20th)

Final exams:

At least three dates for taking the exam will be provided.

If you fail the exam, you can try the exam again (up to three times).

Tentative dates for the exams:

May 23rd (regular early option)

May 30th

June 10th

June 17th

Other options can be provided – depending on the situation.

Grading and related issues:

Continuous work during the course, active and honest participation in the teamwork, and successful participation in the final exam are expected from all participants.

The contribution of all the components to the final grade is as follows:

Online quizzes: 10%

Final exam: 70%

Two (team) assignments: 20%

Additional bonus points for participation: up to 10 percentage points.

The test will include a quiz (multiple choice questions) + solution of problem sets, mainly by means of models and graphs. The creative thinking and understanding of the problem (e.g. described by a model), will be graded higher than a mere memorization of facts or formulas. Sample questions and old versions of exams will be provided on Moodle website

All assignments worked out in this course (by teams or individuals) must be original and subject to specific rules. Plagiarism will not be tolerated.

Grading scale (based on the weighted average score):

A ... 91 – 100

B ... 81 – 90

C ... 71 – 80

D ... 61 – 70

E ... 51 – 60

F ... 0 – 50

Credits and their Explanation:

Number of credits: 5

Intensity of the course: 2 hours a week, i.e. 2 hours of lectures/seminar work in the period of February through the first week of May.

Literature:

Course materials are available on a special Moodle website (password will be provided during the first session).

Main textbook: P. Krugman, M. Obstfeld, M. J. Melitz: International Trade, Theory & Policy. 9th edition or newer. Addison-Wesley (Pearson), 2012.

Alternative texts:

M.D. Levi: International Finance, 5th edition. Routledge, 2009

P. Wang: The Economics of Foreign Exchange and Global Finance. Springer-Verlag Berlin, 2009

T. Pugel.: Int. Economics, 2009, part I & II., pp. 1-378 (available in the IES library)

D. Appleyard, A. Field, S. Cobb: International Economics, McGraw-Hill/Irwin, any recent edition

Other older texts may also be useable for many of the topics, please contact the instructor if you have questions about any of them.

Other sources (selected chapters/sections will be used):

IMF's Balance of Payments and International Investment Position Manual. Available online at <http://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm>

K. Pilbeam: International Finance

Melvil & Norrbin: International Money and Finance

Additional texts:

Boileau & Normandin (2012): Do tax cuts generate twin deficits? A multi-country analysis. The Canadian Journal of Economics / Revue canadienne d'Economie, Vol. 45, No.4 (pages 1667-1671)

Brachinger (2006): Euro or "Teuro"? The Euro-induced Perceived Inflation in Germany

Buti & Turrini (2015): Three waves of convergence. Can Eurozone countries start growing together again? <https://voxeu.org/article/types-ez-convergence-nominal-real-and-structural>

De Grauwe (1991): Costs and Benefits of a Monetary Union

Falargia et al (2023): Has the euro changeover really caused extra inflation in Croatia?

Ha & Reddell (1998): What do forward interest and exchange rates tell us?

King, Osler, Dagfinn (2011) - Foreign Exchange Market Structure, Players and Evolution

Kremer & Jayachandran (2003): Odious Debt: When Dictators Borrow, Who Repays the Loan?
<https://www.brookings.edu/articles/odious-debt-when-dictators-borrow-who-repays-the-loan/>

McLeay et. al. (2014): Money in the modern economy: an introduction

Masterson (2022): What happens if a country defaults on its debts?
<https://www.weforum.org/agenda/2022/03/russia-default-debt-crisis/>

Mundell (1961): A Theory of Optimum Currency Areas. AER

Obstfeld & Taylor (2017): International Monetary Relations: Taking Finance Seriously

Paulson, Henry J. (2020): The Future of Dollar.

Reinhart & Rogoff (2004): The Modern History of Exchange Rate Arrangements: A Reinterpretation.

Rogoff, K. (1996): The Purchasing Power Parity Puzzle. Journal of Economic Literature, Vol. 34, No. 2 (Jun., 1996), pp. 647-668

Rose (2015): How do currency unions affect trade

Wren-Lewis et al (1998): What are equilibrium real exchange rates?

Yang (2012): Aggregate Savings and External Imbalances in China