Econ 3633.001 International Finance, Theory and Problems

Instructor: Fırat Demir; Office: Cate 1 Room 436; Office Hours: M 10:00-12:00 & by appointment; Tel. 325-5844; E-mail: fdemir@ou.edu. Class time: TR 12:00-1:15 pm, Dale Hall 122

TA: Salimeh A. Birang, Office: Cate 4 Room 233; Office Hours: W 10:00-12:00; E-mail: saliab@ou.edu

1. Course Objective

This course is an introduction to international finance and is designed to introduce students to theoretical and empirical analysis of global financial markets. In this era of globalization (and financial crisis!) no student of economics, finance or any other field can fully understand current economic and political developments without a strong background in international finance.

Traditionally, international economics is divided into two broad subfields: the study of international trade and the study of international finance. Intentional trade analysis focuses primarily on the real transactional economy, that is, on those transactions that involve a physical movement of goods or a tangible commitment of economic resources. International finance focuses on the monetary side of international economy, that is, on financial transactions such as foreign purchases of U.S. dollars. Furthermore, while international trade analysis primarily uses microeconomic theory, international finance uses macroeconomic theory.

We will first study the macroeconomic accounting system in an open economy framework using the balance-of-payments accounts. Next we will cover the foreign exchange market and apply no arbitrage ideas to derive parity conditions for exchange rates. We will also explore the determinants of international capital flows, foreign exchange risk and financial derivatives as well as different theories of exchange rate determination. Once these corner stones are in place we will study the past and present international monetary arrangements, issues and problems. We will conclude by visiting the current challenges and dilemmas faced by the existing international financial order, including the US current account problems and the 2008 global financial crisis. Overall, the subjects can be broken down into two sections: open economy macroeconomics (Chapters 2 through 7) and the applications of the theory to international monetary policy (Chapters 8 through 11).

Briefly, the main objectives of the course are:

• To provide students with theoretical knowledge regarding the functioning of international finance including a variety of methods and models used for this purpose.

• To locate, organize, and analyze international finance data to get insightful conclusions.

• To enable students to develop necessary skills to apply the methods and models to policy making as well as to current economic debates.

2. Course Structure

The course is designed around lectures, assigned readings, and class discussions. The students are expected to come to each class after having read the assigned readings, and to participate in classroom discussions. The topics covered in the lectures will overlap the materials found in the textbook. However, the lectures and discussions will, on occasion, cover some materials that are not found in the textbook or in the assigned readings. Students will be responsible on examinations for ALL ASSIGNED MATERIALS. Note, since each examination will include some material that is not in your textbook, it is strongly recommended that you attend the formal lectures. We will use Canvas for additional readings and homework assignments.

3. Course Requirements

The final grade will be based on your performance from: a) two midterms and a final exam (25% each); b) homework assignments and quizzes (15%); c) class attendance and participation (10%).

4. Exam Structure

The midterms are non-comprehensive. However, all parts of the course are closely related and therefore you need to have a good understanding of the previous material in order to understand the later parts. The
purpose of exams is twofold: to enhance your understanding of theories and concepts, and to encourage you to apply the theories to the real world. Therefore, you may expect applied as well as theoretical questions.

5. Policy on Make-up Exam

There are no make-up exams. If you miss an exam because of a valid reason the weight of your remaining exams will be increased by 25%. Otherwise you will receive zero.

6. Assignments and Quizzes

There will a total of 6-10 homework assignments/quizzes and pop quizzes (I will drop your lowest quiz/assignment score from final grade).

7. Attendance Policy

Attendance is strongly recommended and is crucial for your success in this class. I will take attendance every class and it will count towards 10% of your final grade. I will waive three days of missing attendance for the semester. However, if you miss more than six classes in total without a valid excuse, you will receive 0 for your attendance score.

8. Textbook and Additional Readings


Additional readings are available from the course website at Canvas.

9. Academic Ethics

Students must follow the standards of Academic Integrity of the University of Oklahoma. Cheating on assignments and exams, or plagiarizing is penalized by the University of Oklahoma. A student found in such a situation will be brought to University of Oklahoma Integrity Council for penalties as defined under Academic Misconduct. All students should be familiar with the OU Student Guide to Academic Integrity, accessible at http://integrity.ou.edu/

10. Reasonable Accommodation Policy

Students requiring academic accommodation should contact the Disability Resource Center for assistance (http://www.ou.edu/drc/home.html). Any student in this course who has a disability that may prevent him or her from fully demonstrating his or her abilities should contact me personally as soon as possible so we can discuss any necessary accommodations to ensure full participation in class.

11. Religious Holidays

“It is the policy of the University to excuse the absences of students that result from religious observances.”

12. Title IX Resources and Reporting Requirement

For any concerns regarding gender-based discrimination, sexual harassment, sexual assault, dating/domestic violence, or stalking, the University offers a variety of resources. To learn more or to report an incident, please contact the Sexual Misconduct Office at 405/325-2215 or smo@ou.edu. Also, please be advised that a professor/GA/TA is required to report instances of sexual harassment, sexual assault, or discrimination to the Sexual Misconduct Office.

13. Adjustments for Pregnancy/Childbirth Related Issues

Should you need modifications or adjustments to your course requirements because of documented pregnancy-related or childbirth-related issues, please contact me or the Disability Resource Center asap. See http://www.ou.edu/eoo/faqs/pregnancy-faqs.html for answers to commonly asked questions.
14. Laptop and Phone Policy

The use of laptops and tablets is subject to permission from the instructor. Mobile phones must either be switched off or set to the silent mode during lectures, and texting is NOT allowed. Tape or video recording lectures without my prior approval is not allowed. If there is an emergency and you need to answer your phone you have to leave the classroom. This rule will be strictly enforced. The use of such devices in the classroom impedes not only your learning but also those who are seated near you.

15. Grading Scale

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<thead>
<tr>
<th>Grade</th>
<th>90-100: A</th>
<th>70-79.9: B</th>
<th>60-69.9: C</th>
<th>&lt;60: F</th>
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</table>

I reserve the right to adjust this schedule of grade equivalents in the student’s favor.

16. Course Outline and Reading Assignments

The following is a tentative list of topics and required readings. All readings should be completed (except those marked *, which are optional). Additional readings may be assigned from time to time. Chapter numbers refer to the Krugman, Obstfeld and Melitz textbook.

I. Exchange Rates and Open-Economy Macroeconomics

1. National Income Accounting and the Balance of Payments, Ch. 2
2. Exchange Rates and the Foreign Exchange Market, Ch. 3
3. Money, Interest Rates, and Exchange Rates, Ch. 4
4. Price Levels and the Exchange Rate in the Long Run, Ch. 5

Exam 1: February 20

II. International Macroeconomic Policy

5. Output and the Exchange Rate in the Short Run, Ch. 6
6. Fixed Exchange Rates and Foreign Exchange Intervention, Ch. 7
7. The International Monetary System, 1870-1973, Ch. 8 (pp. 236-270)

Exam 2: March 2
III. The Global Capital Market: Performance and Policy Problems

7. Costs and Benefits of Liberalization of Financial Markets, Ch. 8 (pp. 270-274; 281-285) Ch. 9 (pp. 295-313; 320-327); Handout.

8. Developing Countries and the New Financial Order, Ch.11
   • *Krugman, P. Currency Crises, available on Krugman's website.

9. U.S. Current Account Deficit, Ch.8 (pp. 275-281)
   • Wyplosz, C. 2010. The dollar is the worst international currency, except for all others, What Matters, McKinsey & Co.

10. a. The Great Recession: Global Financial Crisis of 2008, Ch.9 (pp.303-320)

b. Trade Wars

c. The Birth of Euro and the European Financial Crisis of 2009, Ch. 10
   • Krugman, P. 2011. NYT Magazine.

Final Exam: May 5, 1:30 - 3:30 am
### 13. Tentative Schedule

<table>
<thead>
<tr>
<th>Week</th>
<th>Date</th>
<th>Chapter (from the textbook) / Section (from the syllabus)</th>
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<tbody>
<tr>
<td>1</td>
<td>1/14</td>
<td>Introduction/Ch. 1</td>
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<td>1/16</td>
<td>Ch. 2 / Section 1</td>
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<td>2</td>
<td>1/21</td>
<td>Ch. 2 / Section 1</td>
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<td>1/23</td>
<td>Ch. 2 / Section 1</td>
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<td>1/28</td>
<td>Ch. 3 / Section 2</td>
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<td>Ch. 3 / Section 2</td>
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<td>Ch. 4 / Section 3</td>
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<td>2/11</td>
<td>Ch. 5 / Section 4</td>
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<td>Ch. 7 / Section 6</td>
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<td>3/12</td>
<td>Ch. 7 / Section 6</td>
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<td>10</td>
<td>3/17</td>
<td><em>Spring Break</em></td>
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<td>3/19</td>
<td><em>Spring Break</em></td>
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<td>11</td>
<td>3/24</td>
<td>Ch. 8 / Section 7</td>
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<td>Ch. 8 / Section 7</td>
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<td>3/31</td>
<td>Ch. 8 / Section 7</td>
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<td>4/2</td>
<td><strong>Exam 2</strong></td>
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<td>13</td>
<td>4/7</td>
<td>Section 8. Costs and Benefits of Liberalization of Financial Markets</td>
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<td>Section 9: Developing Countries and the New Financial Order</td>
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<td>Section 10: U.S. Current Account Deficit</td>
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<td>Section 11a: Global Financial Crisis of 2008-2011</td>
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<td>Section 11a: Global Financial Crisis of 2008-2011</td>
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<td>4/28</td>
<td>Section 11b: Trade Wars</td>
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<td>4/30</td>
<td>Section 11c: European Financial Crisis of 2009-2019</td>
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<td>5/5</td>
<td><strong>Final Exam: 1:30 – 3:30 pm</strong></td>
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