

The Pennsylvania State University

Department of Economics

Econ 434: International Finance and Open Economy Macroeconomics

Fall 2015, TR, 9:45-11:00 AM; 060 Willard Bldg

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E-mail messages to the instructor and the TA should be marked by beginning the subject line with 'ECON 434'.

The course webpage is <http://www.alessandrodovis.com/econ-434-f15.html>

Course Description and Pre-requisite

This is a one-semester course in international finance and open economy macroeconomics. In this course, we will develop a set of theoretical tools to model an economy open to trade in goods and assets. We will cover determination of the balance of payments and the current account, the real and nominal exchange rates, sovereign debt crises, and currency unions. The main goal for the course is to be able to use the tools developed in class to analyze current events and understand topical macroeconomic

policy issues such as current account deficits and global imbalances, sovereign debt crises, and the current financial crisis.

The pre-requisite for the course is Econ 304 or Econ 333.

Knowledge of calculus is not a prerequisite for this course. Some of the material for the course uses calculus. In most cases, calculus notation is used merely as a symbol for the slope of a line, and this fact is apparent from the accompanying verbal explanation in the text. In such a case, a student is expected to be able to reformulate the author's argument as an informal, graphical argument regarding the slope. On the few occasions where an author makes more ambitious use of the calculus, students are not held responsible to understand the details. All the mathematical and analytical tools required to understand the material will be reviewed in class.

Please see me if you have concerns or comments about the course. If you would like to provide feedback about this course you may also contact the Director of Undergraduate Studies in Economics or leave a comment in the box that the Department maintains in 303 Kern.

Course Material

There is no textbook for the course. The main references are the lecture notes from Stephanie Schmitt-Grohe and Martin Uribe (referred to as SGU below) available on the course webpage and at <http://www.columbia.edu/~mu2166/UIM/index.html>

In addition I will cover additional articles. I will post them on the class website. You will be responsible for the material from the articles for exams.

Tentative Course Outline and References

1. Current Account, Global Imbalances and Capital Market Integration:

SGU Chapters 1-6 and 8

2. Current Accounts and Fiscal Deficits:

SGU Chapter 7

3. Real Exchange Rates:

SGU Chapters 9-10

4. Nominal Exchange Rates and Monetary Policy:

SGU Chapter 12

5. External Debt and Sovereign Default:

SGU Chapter 11

(more articles to be posted)

6. Optimum Currency Area and the Eurozone Crisis:

Lecture notes (to be posted)

Brunnermeier, Markus K, and Ricardo Reis. "A Crash Course On The Euro Crisis". (In Preparation).

Fernández-Villaverde, Jesús, Luis Garicano, and Tano Santos. 2013. "Political Credit Cycles: The Case of the Eurozone." *Journal of Economic Perspectives*, 27(3): 145-66.

Schmitt-Grohé, Stephanie, and Martin Uribe. 2013. "Downward Nominal Wage Rigidity and the Case for Temporary Inflation in the Eurozone." *Journal of Economic Perspectives*, 27(3): 193-212.

Course Evaluation

Home works (4 in total): 20 percent (equal weights)

Two in-class midterms: 40 percent (equal weights)

Final exam: 40 percent

The grading scale is:

A	100-92
A-	91-89
B+	88-86
B	85-80
B-	77-79
C+	75-76
C	74-70
D	69-60
F	below 60

The two in-class midterms are tentatively scheduled on October 6 and November 17. There will be a review session by the TA before each midterm. The final exam will be cumulative and will be held during finals week.

Working on home works will be essential preparation for the exams. You can work in groups on the home works, but you must write up your own solutions. Problem set solutions will be posted by the TA on ANGEL. You will hand them in at the end of the class on which they are due. No late problem set will be accepted.

Policies Regarding Disability, Academic Integrity, and Absences

Disability

The Pennsylvania State University encourages qualified people with disabilities to participate in its programs and activities and is committed to the policy that all people shall have equal access to programs, facilities, and admissions without regard to personal characteristics not related to ability, performance, or qualifications as determined by University policy or by state or federal authorities. If you anticipate needing any type of accommodation in this course or have questions about physical access, please tell the instructor as soon as possible.

Academic Integrity

The ability of the University to achieve its purposes depends upon the quality and integrity of the academic work that its faculty, staff and students perform. Academic freedom can flourish only in a community of scholars which recognizes that intellectual integrity, with its accompanying rights and responsibilities, lies at the heart of its mission. Observing basic honesty in one's work, words, ideas, and actions is a principle to which all members of the community are required to subscribe.

All course work by students is to be done on an individual basis unless an instructor clearly states that an alternative is acceptable. Any reference materials used in the preparation of any assignment must be explicitly cited. In an examination setting, unless the instructor gives explicit prior instructions to the contrary, whether the examination is in-class or take-home, violations of academic integrity shall consist of any attempt to receive assistance from written or printed aids, or from any person or papers or electronic devices, or of any attempt to give assistance, whether the one so doing has completed his or her own work or not. Other violations include, but are not limited to, any attempt to gain an unfair advantage in regard to an examination, such as tampering with a graded exam or claiming another's work to be one's own.

Violations shall also consist of obtaining or attempting to obtain, previous to any examinations, copies of the examination papers or the questions to appear thereon, or to obtain any illegal knowledge of these questions.

Lying to the instructor or purposely misleading any Penn State administrator shall also constitute a violation of academic integrity.

In cases of a violation of academic integrity it is the policy of the Department of Economics to impose the most severe penalties that are consistent with University guidelines.

Valid Excuses and Missed Evaluative Events

During the course many possible situations may arise that would result in your inability to attend class, attend exams, or perform at a minimally acceptable level during an examination. Illness or injury, family emergencies, certain University-approved curricular and extra-curricular activities, and religious holidays can be legitimate reasons to miss class or to be excused from a scheduled examination.

In the case of your own illness or injury, confirmation from a physician, physician's assistant, a nurse-practitioner, or a nurse is required. Be advised that University Health Services cannot provide such verification unless they have provided treatment and the student authorizes release of information to the instructor. Further, barring extraordinary circumstances, the confirmation must be available to the instructor prior to the missed course event.

With regard to family emergencies, you must provide verifiable documentation of the emergency. Given the vast array of family emergencies the instructor will provide precise guidance as to what constitutes adequate documentation. Unless the emergency is critical you should notify the instructor in advance of your absence from the scheduled course event. In cases of critical emergencies, you must notify the instructor within one week of your absence.

For University-approved curricular and extra-curricular activities, verifiable documentation is also required. The student should obtain from the unit or department sponsoring the activity a letter (or class absence form) indicating the anticipated absence(s). The letter must be presented to the instructor at least one week prior to the first absence.

In the case of religious holidays, the student should notify the instructor by the third week of the course of any potential conflicts.

If a student misses a class during which an evaluative event (e.g., a quiz or an exam) takes place, and the student has a valid excuse, it is the policy of the Economics Department that the missed event may be made up in one of two ways that are to be decided by the instructor:

1. the student will take a make-up version for the missed evaluative event; or
2. the student will be excused from the missed event, and the weight of that event in the overall course grade will be reassigned to either the course final exam or to a subset of the subsequent evaluative events in the course.