

# DEPARTMENT OF ECONOMICS INTERNATIONAL FINANCE

Spring 2023

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<b>Instructor:</b>	Dr. Caroline Betts
<b>Lecture hours:</b>	Tuesday, Thursday, 10:00am-11:50am
<b>Lecture location:</b>	WPH B28
<b>Instructor office hours:</b>	Tuesday KAP 316c 8.50-9.50 and by appointment (email cbetts@usc.edu in advance to set a time).
<b>Instructor office location:</b>	Kaprielian 316c
<b>Instructor email:</b>	cbetts@usc.edu
<b>Teaching assistant:</b>	Andreas Bech
<b>Teaching assistant email:</b>	bech@usc.edu

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## COURSE GOALS AND OVERVIEW

The course provides students with a foundation in the theory and practice of international finance and open economy macroeconomics. In the course, we develop simple mathematical models that are used to explain how international markets work and the effects of policies in an open economy. We cultivate algebraic and diagrammatic techniques to analyze these models and their implications. Students also learn how to collect and examine historical and contemporary data to evaluate the empirical performance of the models and their implications. Finally, econometrics and other quantitative techniques used to evaluate the empirical performance of the theories are discussed and their use encouraged in course assignments.

The course analyzes how and why countries interact with each other through global markets in goods, services, and assets including currencies. It begins by reviewing recent evidence on “globalization”; the dramatic growth in trade in goods, services, and assets over the past fifty years. It provides historical perspective to this growth, discusses measurement of trade, and summarizes alternative theoretical explanations for globalization. It analyzes, from an institutional and theoretical perspective, international goods, asset, and currency markets, with emphasis on the determination of real and nominal exchange rates and international relative prices of goods and assets. The course also emphasizes how globalization affects the efficacy of monetary, fiscal, and trade policy and options for international policy coordination.

## STRUCTURE AND EVALUATION

There are two lectures per week, and regular class discussions of current events. Lecture notes will be provided weekly.

Students complete four assignments throughout the semester, which are graded and returned by the teaching assistant (TA). Answer guides are provided to students via the TA. In addition, there is a midterm examination, held on **Tuesday, February 28<sup>th</sup>** in class time (10.00am–11.50am), and a final examination on **Tuesday May 9<sup>h</sup>** (11.00am–1.00pm). The material covered on the final exam is not cumulative relative to the midterm exam. Finally, each student will prepare a short research project and present the results in a **ten-minute** class time presentation. The research project will involve an original study of some current event in international financial markets or international policy issue using a minimum of two original sources. The student will present the study in class and submit a hard copy of the presentation to the TA.

The final evaluation of each student's work in the course is allocated as follows:

Assignments (four)	:	25%
Midterm	:	30%
Research Project and Presentation	:	15%
Final Exam	:	30%

No exceptions will be made to this grading scheme: it is immutable.

## TEXTBOOKS AND READINGS

The required textbook for the course is Paul Krugman, Maurice Obstfeld, and Marc Melitz *International Finance: Theory and Policy* (10th edition). The course outline below references the required chapters for each section of the course. Additional readings are assigned as current events become relevant throughout the semester and are typically available online. However, the instructor's own lecture notes form the core material of the course and are the basis for assignment and exam questions. The lecture notes as presentation slides are provided to students via Blackboard.

## ACADEMIC ACCOMMODATIONS

Any student requesting academic accommodations based on a disability is required to register with Office of Student Accessibility Services (OSAS) each semester. Such a student must acquire a letter of verification for approved accommodations from OSAS and

deliver it to the instructor as early as possible in the semester. OSAS is located in GFS 120 and is open 8.30am-5.00pm, Monday through Friday. The phone number for OSAS is (213) 740-0776 and the website address is <https://osas.usc.edu/>.

## **ACADEMIC CONDUCT**

Plagiarism – presenting someone else’s ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences. Please familiarize yourself with the discussion of plagiarism in *SCampus* in Part B, Section 11, “Behavior Violating University Standards”. Other forms of academic dishonesty are equally unacceptable. See additional information in *SCampus* and university policies on scientific misconduct, <http://policy.usc.edu/scientific-misconduct>.

Class notes provided online by the instructor are for your *personal study use only*. They are the property of the instructor, and cannot be shared electronically or in hard copy, or sold, or otherwise transferred to any other person, business, or institution.

Discrimination, sexual assault, intimate partner violence, stalking, and harassment are prohibited by the university. You are encouraged to report all incidents to the *Office of Equity and Diversity/Title IX Office*, <http://equity.usc.edu>, and/or to the *Department of Public Safety* <http://dps.usc.edu>. This is important for the health and safety of the whole USC community. Faculty and staff must report any information regarding an incident to the Title IX Coordinator who will provide outreach and information to the affected party. The sexual assault resource center webpage <http://sarc.usc.edu> fully describes reporting options. Confidential relationship and sexual violence services are available 24/7 at <https://engemannshc.usc.edu/rsvp>.

## **SUPPORT SYSTEMS**

Several USC schools provide support for students who need help with scholarly writing. Check with your advisor or program staff to find out more. Students whose primary language is not English should check with the *American Language Institute* <http://ali.usc.edu>, which sponsors courses and workshops specifically for international graduate students. *The Office of Disability Services and Programs* <http://osas.usc.edu> provides certification for students with disabilities and helps arrange the relevant accommodations.

# COURSE OUTLINE

## I. Foundations

World trade facts and globalization  
Measurement of international trade and openness  
Summary of rationales for intra-temporal trade  
Balance of payments accounting  
National income accounting in the open economy  
Intertemporal trade

**Required Reading:** Krugman, Obstfeld, and Melitz chs. 1,2  
(You may begin reading chapters on crises)  
Instructor's notes

## II. The Foreign Exchange Market

The foreign exchange market  
Fixed vs. flexible exchange rates  
Forward contracts  
Futures contracts  
Options in foreign exchange

**Required Reading:** Krugman, Obstfeld, and Melitz ch. 3  
Instructor's notes

## III. International Money and Capital Markets

Uncovered investments  
Covered investments  
Efficiency and tests of inefficient markets

**Required Reading:** Krugman, Obstfeld, and Melitz ch3 appendix  
Instructor's notes

## IV. Exchange Rate Determination

Theories of nominal exchange rate determination  
Producer, consumer, and dominant currency pricing  
Real exchange rate determination  
Purchasing power parity

**Required Reading:** Krugman, Obstfeld, and Melitz chs. 4, 5  
Instructor's notes

## **V. Open Economy Macroeconomics**

Macroeconomic equilibrium in an open economy  
Monetary and fiscal policy in an open economy

**Required Reading:** Krugman, Obstfeld, and Melitz ch. 6  
Instructor's notes

## **VI. Exchange Rate Regimes and Balance of Payments Crises**

Fixed vs. flexible exchange rate regimes  
Collapsing exchange rate regimes and balance of payments crises  
Single currency areas and the Euro

**Required Reading:** Krugman, Obstfeld, and Melitz chs. 6-10  
Instructor's notes