

ECON 514

International Financial Economics

Department of Economics
Spring 2020

Instructor:

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DKH 10
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Lectures: Monday/Wednesday, 11:00 am-12:20 pm in DKH 317.

Office Hours: Wednesday afternoon. 4:00pm-5:00pm.

Course Description: This course will cover topics in international macroeconomics and financial crises.

Course Goals: This course has two major goals:

- 1) Give students a framework to understand important events in international macroeconomic history.
- 2) Help students apply those lessons to economic policy.

Prerequisites: The course is for MSPE students who have some familiarity with macroeconomics.

Course structure: The course will be a lecture, along with discussion. Students are expected to attend all classes and participate in all discusses. I will cold call throughout the semester. Phones are not allowed out during class at any point. If you wish to take notes on a computer, I request that you sit in the back rows, so as not to distract other students.

Learning Resources:

There is no assigned book, but students may find the online book by Schmitt-Grohe, Uribe, and Woodford to be useful for background material. It is available at the following URL:

<http://www.columbia.edu/~mu2166/UIM/index.html>

Additional materials, as well as assignments and practice materials will be available on Illinois Compass (<http://compass.illinois.edu>). Announcements about assignments, readings, and other course items will be posted on Compass.

Requirements:

- Assignments: There will be short weekly assignments on the lecture material. They will be assigned on Wednesday, and due the following Wednesday. They will account for 20 percent of the grade.
- Midterms: There will be two midterm exams that accounts for 15 percent of the grade each.

- Research Project: There will be a research project due in the second half of the semester that accounts for 20 percent of the grade.
- Final Exam: There will be a closed book, 3-hour exam during finals week which will cover the entire course material and be worth 30 percent of the grade.

Grading: Grades will be on a +/- scale and may follow a light curve.

Assessment Policies:

All assignments are to be turned in at the beginning of the class in which they are due. Late assignments receive *no* credit without an instructor approved excuse. Acceptable excuses include physical and mental illness, and personal or family emergencies. A written request for an extension must be submitted at least 48 hours in advance.

Assignments can be turned in early at your instructor's office or via email. You are encouraged to work as a group with your classmates on problems sets, although you have to hand in your own solutions.

Note that we cannot grade assignments that we cannot read. Consequently, please be careful to make all assignments legible.

Exam Policy:

In the event that a student misses one of the exams, the instructor reserves the right to give the student a zero on that exam. There are no make-up exams without an instructor approved excuse. Instructor approved excuses include 1) medical reasons, in which case you should bring a letter from a medical professional describing your reason for missing the exam, 2) death or serious illness of an immediate family member or close friend (documentation required), or 3) conflict with a religious holiday. Requests for exam make-ups should be made as far in advance as possible.

We will follow the University guidelines on student conflicts with final exams. For this year's student code, see http://admin.illinois.edu/policy/code/article3_part2_3-201.html.

Regrades:

All regrade requests must be submitted in writing no more than one week after the assignment or exam is returned. The request must be written and include a detailed summary of why the student believes the grade they received was incorrect. I generally regrade the entire exam or assignment, so the grade may go up or down. Consequently, students should only request a regrade if they are very confident that the original grade they received was incorrect.

Statement on Academic Integrity

We will follow Articles 1-401 through 1-406 of the *Student Code* (beginning at http://studentcode.illinois.edu/article1_part4_1-401.html). This rule defines infractions of academic integrity, which include, but are not limited to, cheating, fabrication, and plagiarism. You are responsible for following these guidelines (ignorance is no excuse). If you have any questions about whether something would be an infraction, consult with the instructor before proceeding.

Requests for Special Accommodations:

To obtain disability-related adjustments and/or auxiliary aids, students with disabilities must contact the course instructor and the Disability Resources and Educational Services (DRES) as soon as possible. To contact DRES, you may visit 1207 S. Oak St., Champaign, call (217)-333-4603, email disability@illinois.edu or go to the DRES website.

Please also schedule a private meeting with the course instructor to discuss your needs and requirements. The instructor will attempt to meet all reasonable course accommodations once the student self-identifies. Please note that accommodations are not retroactive to the beginning of the semester, but begin the day you contact the instructor with a current letter of accommodation from DRES.

Emergency Response Recommendations:

The university maintains guidelines for emergency responses. A list of recommendations when to evacuate and when to find shelter are available at:

http://illinois.edu/cms/2251/general_emergency_response_recommendations_8_16_13_final.doc

x Floor plans for specific buildings are available at: <http://police.illinois.edu/emergency-preparedness/building-emergency-action-plans/>

Course Schedule (Tentative)

Facts about International Macro (1 Class)

- Why do we study International Macro?

Current Accounts (2 Classes)

- Current account, capital account, net international investment position, the Lucas Paradox
- Constrained maximization, Lagrange multipliers

Risk-sharing across countries (3 Classes)

- the current account in recessions, complete and incomplete markets, home bias, precautionary savings

Determinations of Exchange Rate (3 Classes)

- the real and nominal exchange rate, Balassa-Samuelson, purchasing power parity, uncovered and covered interest parity, China's exchange rate policy

February 26: Mid-term 1

The Costs of Financial Crises (2 Classes)

- the Great Depression and Recession, the international experience, event studies and local projection

Sudden Stops (2 Classes)

- Case study of Argentina, tradable and non-tradable production, changing real exchange rates, wage stickiness and unemployment, trade openness and sudden stops

Sovereign Debt (2 Classes)

- history of sovereign debt and default, the relationship between interest rates and default, welfare of sovereign default, Greece's sovereign debt crisis

---Spring Break---

Currency Crises (2 Classes)

- Black Wednesday, seigniorage, self-fulfilling crises

Banking Crises (2 Classes)

- Banks, the financial accelerator, risk mismatch, liquidity mismatch, bank runs, complementarity, case study of Northern Rock

Housing Crises (2 Classes)

- Movements in house prices, the linkages of the banking and housing sectors, mortgage-backed securities, the effect of house prices on consumption

April 20: Mid-term 2

Safe Assets (2 Classes)

- Properties and examples of safe assets, Exorbitant privilege, safe asset shortages

Currency Unions (2 Class)

- Costs and benefits, optimal currency areas, and comparisons of the United States and Europe

Review (1 Class)

---Final Exam---