



# Economics

COLLEGE OF LIBERAL ARTS & SCIENCES

**ECON 514**

**Course Syllabus**

**International Financial Economics**

**Semester:** Spring 2022

**Meeting Details:** MW, 9:30AM – 10:50AM, Bevier Hall 108

**Credits:** 4 hours

**Instructor:** Professor Greg Howard

**Email:** [glhoward@illinois.edu](mailto:glhoward@illinois.edu)

**Office Hours:** By appointment, on Canvas

**Course Description:**

This class covers topics in international finance, including balance of payments, exchange rates (real and nominal), business cycle risk, currency unions, and safe assets. There is a particular emphasis on understanding different types of financial crises from a positive and normative perspective. The course will cover theoretical models (including some basic calculus), a few econometric techniques building on regression, and many case studies of historical financial crises.

**Prerequisites:**

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

**Learning Outcomes:**

- Examine case studies to understand historical patterns and events in international macroeconomic history
- Compare and evaluate policy proposals using economic analysis and statistical techniques
- Communicate economic knowledge, applying historical economic lessons to new situations, through writing and discussion

**Learning Resources:**

There is no required text for this course. Students may find the optional online book “International Macroeconomics” by Schmitt-Grohe, Uribe, and Woodford to be useful for background material. It is available at the following URL: <http://www.columbia.edu/%7Emu2166/UIM/index.html>

Additional materials, including the instructor’s notes, assignments, and practice materials will be available on Illinois Canvas. Announcements about assignments, readings, and other course items will be posted on Canvas

**Course Structure:**

Course meetings consist of lecture and discussion. Students are expected to attend all classes and participate in all discussions.

A typical class might look like the following:

1. Reflection question (something to think about when you come in)
2. Class announcements (5 minutes)
3. Reading and Discussion (15 minutes)
4. Lecture (45 minutes)
5. Short assignment (15 minutes)

**Requirements:**

- In-class daily assignments: I will assign a short word problem or writing assignment in the last few minutes of every class. Bring a pencil/pen and paper to turn it in. They will cover material that we learn and will be a chance to work with your peers to learn the material. These assignments are meant to be a resource to you, and are not graded for accuracy.
- Homework Assignments: I will assign 11 short, weekly assignments covering the lecture material. They typically include an empirical or historical part, in which students find data on the internet or critically analyze economic writing on historical events. The homeworks also usually include a problem based on a model we learn in class. They are meant to ensure that students are following along with each unit of the class. Each homework will correspond to a specific unit and will be due soon after the end of the unit.

The expectation is that students will spend about 8 hours outside the classroom on class assignments and readings.

- Research Project: There will be a research project due in the second half of the semester that accounts for 20 percent of the grade.
- Midterms: There will be two in-class 80-minute midterm exams. There will be questions focused on critical thinking and require short writing responses, as well as model-based questions akin to the homework assignments.
- Final Exam: There will be a closed book, 3-hour exam during finals week, which will cover the entire course material. It will be similar to the midterms in the format, but the final exam will be longer.

**COURSE POLICIES****Grading:**

In-class daily assignments are worth 5 percent of the grade and are graded solely on completion. If you miss class for any reason, simply put in the Canvas assignment why you were not able to make it, and you will get full credit.

The homework assignments are worth a total of 30 percent of the grade. The lowest score will be dropped, meaning that each assignment is worth 3 percent of the final grade.

Each midterm is worth 15 percent of the grade. Midterms may be curved. At the time they are graded, any curve will be announced, including how to convert that curve to a typical 10-point scale.

The final project is worth 20 percent of the grade.

The final is worth 15 percent of the grade. It also may be curved.

At the end of the semester, the grades will be averaged according to the weights above. The grading scale will be:

98 and up=A+, 92 to 97.99=A, 90 to 91.99=A-, 88 to 89.99=B+, 82-87.99=B, 80-81.99=B-, 78-79.99=C+, 72-77.99=C, 70-71.99=C-, 68-69.99=D+, 62-67.99=D, 60-61.99=D-, below 59.99=F

**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.

**Assessment Policies:**

All assignments are to be turned in on Canvas by the due date and time. 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.

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. Instructor approved excuses include 1) sickness, 2) death or serious illness of an immediate family member or close friend (documentation required), or 3) conflict with a religious holiday. With an approved excuse, the weight of the mid-term will be moved to the final exam.

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](http://admin.illinois.edu/policy/code/article3_part2_3-201.html) .

**Statement on Academic Integrity:** According to the Student Code, 'It is the responsibility of each student to refrain from infractions of academic integrity, from conduct that may lead to suspicion of such infractions, and from conduct that aids others in such infractions.' Please know that it is my responsibility as an instructor to uphold the academic integrity policy of the University, which can be found here: <https://studentcode.illinois.edu/article1/part4/1-401/>

Academic dishonesty may result in a failing grade. Every student is expected to review and abide by the Academic Integrity Policies. It is your responsibility to read this policy to avoid any misunderstanding. Do not hesitate to ask the instructor(s) if you are ever in doubt about what constitutes plagiarism, cheating, or any other breach of academic integrity. **Read the full Student Code at <https://studentcode.illinois.edu/>**

**Students with Disabilities:** 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](mailto: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.

### **Community of Care**

As members of the Illinois community, we each have a responsibility to express care and concern for one another. If you come across a classmate whose behavior concerns you, whether in regards to their well-being or yours, we encourage you to refer this behavior to the Student Assistance Center (217-333-0050 or <http://odos.illinois.edu/community-of-care/referral/>). Based on your report, the staff in the Student Assistance Center reaches out to students to make sure they have the support they need to be healthy and safe. Further, we understand the impact that struggles with mental health can have on your experience at Illinois. Significant stress, strained relationships, anxiety, excessive worry, alcohol/drug problems, a loss of motivation, or problems with eating and/or sleeping can all interfere with optimal academic performance. We encourage all students to reach out to talk with someone, and we want to make sure you are aware that you can access mental health support at the Counseling Center (<https://counselingcenter.illinois.edu/>) or McKinley Health Center (<https://mckinley.illinois.edu/>).

For mental health emergencies, you can call 911 or walk into the Counseling Center, no appointment needed.

**Disruptive Behavior:** Behavior that persistently or grossly interferes with classroom activities is considered disruptive behavior and may be subject to disciplinary action. Such behavior inhibits other students' ability to learn and an instructor's ability to teach. A student responsible for disruptive behavior may be required to leave class pending discussion and resolution of the problem and may be reported to the Office for Student Conflict Resolution for disciplinary action.

**Religious Observances:** The Religious Observance Accommodation Request form is available at <https://odos.illinois.edu/community-of-care/resources/students/religious-observances/>. Submit the form to the instructor and to the Office of the Dean of Students (helpdean@illinois.edu) by the end of the second week of the course; in the case of exams or assignments scheduled after this period, students should submit the form to the instructor and to the Office of the Dean of Students as soon as possible.

**Family Educational Rights and Privacy Act (FERPA):** Any student who has suppressed their directory information pursuant to Family Educational Rights and Privacy Act (FERPA) should self- identify to the instructor to ensure protection of the privacy of their attendance in this course. See <http://registrar.illinois.edu/ferpa> for more information on FERPA. Student information and records will not be released to anyone other than the student unless the student has provided written approval or as required by law.

**Sexual Misconduct Reporting Obligation:** The University of Illinois is committed to combating sexual misconduct. Faculty and staff members are required to report any instances of sexual misconduct to the University's Title IX and Disability Office. In turn, an individual with the Title IX and Disability Office will provide information about rights and options, including accommodations, support services, the campus disciplinary process, and law enforcement options. A list of the designated University employees who, as counselors, confidential advisors, and medical professionals, do not have this reporting responsibility and can maintain confidentiality, can be found here:

<http://www.wecare.illinois.edu/resources/students/#confidential>.

Other information about resources and reporting is available here: <http://wecare.illinois.edu/>.

### **Student Support**

The Counseling Center is committed to providing a range of services intended to help students develop improved coping skills in order to address emotional, interpersonal, and academic concerns.

Please visit their website to find valuable resources and services:

<https://counselingcenter.illinois.edu/>.

**Counseling Center Information:** 217-333-3704

Location: Room 206, Student Services Building (610 East John Street, Champaign IL)

**McKinley Mental Health Information:** 217-333-2705

Location: 3rd Floor McKinley Health Center 1109 South Lincoln, Urbana, IL

**Emergency Dean:** The Emergency Dean may be reached at (217) 333-0050 and supports students who are experiencing an emergency situation after 5 pm, in which an immediate University response is needed and which cannot wait until the next business day. The Emergency Dean is not a substitute for trained emergency personnel such as 911, Police or Fire. If you are experiencing a life threatening emergency, call 911. Please review the Emergency Dean procedures:

<http://odos.illinois.edu/emergency/>

**Academic Dates and Deadlines:** Students should make note of important academic deadlines for making changes to their courses (add, drop, credit/no-credit, grade replacement, etc.).

<https://registrar.illinois.edu/academic-calendars>. Please check with your academic department regarding specific procedures and policies.

**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.docx](http://illinois.edu/cms/2251/general_emergency_response_recommendations_8_16_13_final.docx)

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

### Course Schedule (Tentative)

Jan 19	Introduction/Welcome to International Macroeconomics	
Jan 24	Balance of Payments <ul style="list-style-type: none"> <li>• Current Account, capital account, net international investment position, the Lucas Paradox</li> <li>• Constrained maximization, Lagrange multipliers</li> <li>• Reading: "Balance of Payments" note</li> </ul>	HW #1 due Feb 4
Jan 26		
Jan 31	International Risk <ul style="list-style-type: none"> <li>• The current account in recessions, complete and incomplete markets, home bias, precautionary savings</li> <li>• Reading: "Risk" note</li> </ul>	HW #2 due Feb 11
Feb 2		
Feb 7		
Feb 9	Exchange Rates <ul style="list-style-type: none"> <li>• The real and nominal exchange rate, Balassa-Samuelson, purchasing power parity, uncovered and covered interest parity, China's exchange rate policy</li> <li>• Reading: "Exchange Rates" note</li> </ul>	HW #3 due Feb 18
Feb 14		
Feb 16		
Feb 21		Midterm 1
Feb 23	Costs of Financial Crises <ul style="list-style-type: none"> <li>• The Great Depression and Recession, the international experience, event studies and local projection</li> <li>• Reading: "Costs of Financial Crises" note</li> </ul>	HW #4 due Mar 4
Feb 28		
Mar 2	Sudden Stops <ul style="list-style-type: none"> <li>• Case study of Argentina, tradable and non-tradable production, changing real exchange rates, wage stickiness and unemployment, trade openness and sudden stops</li> <li>• Reading: "Sudden Stops" note</li> </ul>	Financial Crisis Draft Mar 9
Mar 7		
Mar 9		HW #5 due Mar 11
Mar 14	Spring Break	
Mar 16		
Mar 21	Sovereign Debt Crises <ul style="list-style-type: none"> <li>• History of sovereign debt and default, the relationship between interest rates and default, welfare of sovereign default, Greece's sovereign debt crisis</li> <li>• Reading: "Sovereign Debt Crises" note</li> </ul>	HW #6 due Apr 1
Mar 23		

Mar 28	Currency Crises	Major Events Summary due Apr 1  HW #7 due Apr 8
Mar 30	<ul style="list-style-type: none"> <li>Black Wednesday, seigniorage, self-fulfilling crises</li> <li>Reading: "Currency Crises" note</li> </ul>	
Apr 4	Banking Crises	Policy Choices Due Apr 8  HW #8 due Apr 15
Apr 6	<ul style="list-style-type: none"> <li>Banks, the financial accelerator, risk mismatch, liquidity mismatch, bank runs, complementarity, case study of Northern Rock</li> <li>Reading: "Banking Crises" note</li> </ul>	
Apr 11	Housing Crises	HW #9 due Apr 22
Apr 13	<ul style="list-style-type: none"> <li>Movements in house prices, the linkages of the banking and housing sectors, mortgage-backed securities, the effect of house prices on consumption</li> <li>Reading: "Housing Crises" note</li> </ul>	
Apr 13	Pandemics	
Apr 13	<ul style="list-style-type: none"> <li>Externalities, supply versus demand shortfalls</li> </ul>	
Apr 18		Midterm 2
Apr 20	Currency Unions	Lessons from Crisis Due Apr 29  HW #10 due Apr 22
Apr 25	<ul style="list-style-type: none"> <li>Properties and examples of safe assets, Exorbitant privilege, safe asset shortages</li> <li>Reading: "Currency Unions" note</li> </ul>	
Apr 27	Safe Assets	HW #11 due May 4
May 2	<ul style="list-style-type: none"> <li>Costs and benefits, optimal currency areas, and comparisons of the United States and Europe</li> <li>Reading: "Safe Assets" note</li> </ul>	
May 4	Review	Final Project Due May 4
TBD	Final Exam Dates are typically announced midway through the semester	