

2013-14

Winter Term · 冬学期

ECO 255

International Finance · 国際金融

Professor: MONTGOMERY, HEATHER A.

モンゴメリ ヘザー

COURSE DESCRIPTION · 目的:

This course is about international financial economics (also known as international monetary economics): the movement of currencies and other financial assets across national boundaries. In this course, students will develop a set of analytic tools that can be used to analyze world economic policy debates. In particular, this course will examine the determination of exchange rates and how they are influenced by various economic phenomena such as interest rates, money supply, output and unemployment. We will investigate different models of exchange rate determination and discuss how actual data supports or refutes these models.

Class meetings are interactive, usually beginning with a brief, student-led review of current events related to international finance. We then work through together, as a class, one of the models under study or look at some economic data and how it informs our understanding of the models under study.

COURSE LEARNING GOALS · 目標:

Students who successfully complete this course will:

- ✓ Understand the most fundamental economic models of exchange rate determination.
- ✓ Be familiar with the empirical data supporting or refuting economic models of exchange rate determination.
- ✓ Have the analytic tools to use those models to analyze the effects of economic policy on short-run and long-run exchange rates.
- ✓ Have an awareness of current events related to international finance and understand how those events relate to exchange rate changes.
- ✓ Understand the basic structure of economic writing and be able to produce a short analysis of a selected currency using the analytical tools learned in the course.

CONTENTS • 内容:

Introduction to Exchange Rates: Some basics of the FX Market

What are exchange rates?

Who are the major players in exchange markets?

Spot and Forward Rates, Swaps, Futures and Options.

Exchange Rates in the Long Run: Purchasing Power Parity

The Law of One Price

Purchasing Power Parity (PPP)

The Fisher Effect (the long run relationship between inflation and interest rates).

Exchange Rates in the Short Run: Structural “Supply and Demand” Factors

National Income Accounting 国民所得勘定^{かんじょう}

The Balance of Payments 国際収支

Economic policies and the current account: the “J-curve” and exchange rate pass-through.

Exchange Rates in the Short Run: Interest Rates and Exchange Rates

The Asset Approach to understanding Exchange Rates

Interest parity and equilibrium exchange rates.

The effects of changing interest rates on the current exchange rate.

The effect of changing expectations on the current exchange rate.

A review of the IS-LM Model

The Short-Run Effects of Monetary and Fiscal Policy

The Open Economy IS-LM Model: Economic Policy and Exchange Rates

Output market equilibrium in the short run. The effects of fiscal policy - changes in government spending & taxes – on exchange rates.

Asset market equilibrium in the short run. The effects of monetary policy - changes in money supply, prices, expectations, foreign interest rates and real money demand. – on exchange rates.

Temporary vs. Permanent changes in monetary policy and fiscal policy.

Exchange Rates in the Long Run: The Real Effective Exchange Rate

Real vs. Nominal Exchange Rates.

Relative output demand and relative supply.

The key determinants in long-run swings in nominal exchange rates: changes in money supply at home or abroad (PPP), changes in money supply growth rates at home or abroad (PPP), changes in relative demand at home or abroad, changes in relative supply at home or abroad.

Real Interest Parity and the Fischer Effect accounting for real exchange rate movements.

What about Fixed Exchange Rate Regimes?

How do central banks fix exchange rates?

The effects of monetary and fiscal policy under a fixed exchange rate regime.

Balance of Payments Crises and capital flight.

EVALUATION AND GRADING POLICY ・ 成績とグレーディングポリシー:

Grades will be based upon class participation, quizzes, a cumulative exam and a short paper. 授業への参加,小テスト、テスト、論文の総合点で評価。

Participation ・ **授業への参加 (15%)**: Participation includes contribution to the discussion on current events, as well as working through the course material together in class.

Quizzes ・ **小テスト(15%)**: The quizzes are designed to allow students to check their individual mastery of the models and other analytic tools developed in the course. Students who miss a quiz receive a 0.

Exam ・ **テスト(30%)**: A cumulative final exam will evaluate students' individual mastery of the models and other analytic tools developed in the course and students ability to apply those models and analytic tools in analyzing new questions and policy issues related to international finance.

Paper ・ **論文(40%)**: A five page paper (1,000-1,500 words) analyzing movements in a chosen currency using one of the models learned in this course.

REFERENCE BOOKS ・ 参考文献:

The textbook International Economics: Theory and Policy, by Paul Krugman, Maurice Obstfeld and Marc Melitz, is essential to perform well in this course. The Pearson International Edition (Ninth Edition, published by Addison-Wesley in 2011) is available in the campus bookstore at a reasonable price. Note that the ninth edition contains important updates from earlier editions. The book is also available in Japanese: 国際経済 理論と政策 I I : 国際金融 (The Japanese translation is divided into volumes I and II, but we will only cover material in volume II in this class on International Finance.)

Other readings may include selected Harvard Business School Case Studies:

Note on Transaction and Translation Exposure

Note on Operating Exposure to Exchange Rate Changes

Japan's Automakers Face *Endaka*

Tiffany & Co. - 1993

European Monetary Union

To contribute to class discussion, students will need to stay abreast of current events related to international finance. The Economist (available on-line or in the ICU bookstore), a weekly magazine published out of the U.K., is highly recommended.

NOTE ・ 注意事項:

ECO101, Principles of Macroeconomics is a recommended prerequisite to this course.

マクロ経済学原論推奨

COURSE SCHEDULE ・ コーススケジュール:

*4/M,*4/Th

Honkan 304

Contact

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Office Hours: Monday 10:00-12:00, or by appointment, in ERB 239.

COURSE OUTLINE AND TENTATIVE SCHEDULE (subject to change)

| Date | Topic & Reading |
|---|---|
| Mon 12/09 & Thurs 12/12 | <p>Exchange Rates in the Short Run: Structural “Supply and Demand”</p> <p><u>Reading:</u> Krugman, Obstfeld and Melitz (2011) <i>National Income Accounting and the Balance of Payments</i> (国民所得勘定および国際収支), Chapter 13 in <i>International Economics: Theory and Policy</i> pp. 323-350</p> <p>Case Study: Japan’s Automakers Face <i>Endaka</i></p> |
| Mon 12/16 & Thurs 12/19 | <p>Exchange Rates in the Long Run: Purchasing Power Parity</p> <p><u>Reading:</u> Krugman, Obstfeld and Melitz (2011) <i>Price Levels and the Exchange Rate in the Long Run</i> (長期的な価格水準と為替レート), Chapter 16 in <i>International Economics: Theory and Policy</i> pp. 414-451.</p> <p>Case Study: Tiffany & Co. - 1993</p> |
| Mon 1/6 & Thurs 1/9 | |
| [No classes Mon 1/13] Thurs 1/16 | <p>What are exchange rates? Some basics of FX Markets</p> |
| Mon 1/20 & Thurs 1/23 | <p>Exchange Rates in the Short Run: Interest Rates and Exchange Rates</p> <p><u>Reading:</u> Krugman, Obstfeld and Melitz (2011) <i>Exchange Rates & the Foreign Exchange Market: An Asset Approach</i> (為替レートと外国為替市場の基本) Chapter 14 in <i>International Economics: Theory and Policy</i>, pp. 358-384.</p> <p>Exchange Rates in the Short Run: Interest Rates and Exchange Rates</p> <p><u>Reading:</u> Krugman, Obstfeld and Melitz (2011) <i>Exchange Rates & the Foreign Exchange Market: An Asset Approach</i> (為替レートと外国為替市場の基本)</p> |

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| | Chapter 14 in <u>International Economics: Theory and Policy</u> , pp. 358-384. |
| Mon 1/27 & Thurs 1/30 | Economic Policy and Interest Rates: A Review of the IS-LM Model Economic Policy and <i>Exchange Rates</i>: The Open Economy IS-LM <u>Reading:</u> Krugman, Obstfeld and Melitz (2011) <i>Output and the Exchange Rate in the Short Run</i> (短期的な生産と為替レート), Chapter 17 in <u>International Economics: Theory and Policy</u> pp. 451-493. |
| Mon 2/3 & Thurs 2/6 | Temporary Economic Policies and Exchange Rates <u>Reading:</u> Krugman, Obstfeld and Melitz (2011) <i>Output and the Exchange Rate in the Short Run</i> (短期的な生産と為替レート), Chapter 17 in <u>International Economics: Theory and Policy</u> pp. 451-493. “Permanent” Economic Policies and Exchange Rates <u>Reading:</u> Krugman, Obstfeld and Melitz (2011) <i>Output and the Exchange Rate in the Short Run</i> (短期的な生産と為替レート), Chapter 17 in <u>International Economics: Theory and Policy</u> pp. 451-493. |
| Mon 2/10 & Thurs 2/13 | The Real Effective Exchange Rate <u>Reading:</u> Krugman, Obstfeld and Melitz (2011) <i>Price Levels and the Exchange Rate in the Long Run</i> (長期的な価格水準と為替レート), Chapter 16 in <u>International Economics: Theory and Policy</u> pp. 414-451. |
| Mon 2/17 & Thurs 2/20 | Fixed Exchange Rate Regimes <u>Reading:</u> Krugman, Obstfeld and Melitz (2011) <i>Fixed Exchange Rates and Foreign Exchange Intervention</i> (固定為替相場制と外国為替介入), Chapter 18 in <u>International Economics: Theory and Policy</u> pp. 493-534. |
| Mon 2/24 | Case Study: European Monetary Union |
| Tue 2/25 | A review session will be held during reading period, at our normally scheduled class time, 13:15-15:00. |

Winter Term Examinations will be scheduled by the university Wed-Fri, February 26-28 and Mon-Tues March 3-4.