ECON6020 INTERNATIONAL ECONOMICS II

Semester II, 2019-20
Lecturer: Dr. Andre Haughton
ECON-Room 17
Office Hours: Tue: 6:00pm -7:00pm, Wed: 2:00pm-3:00pm

COURSE DESCRIPTION

This course deals with international finance. It covers issues concerning balance of payments problems, determination of exchange rate, foreign exchange markets, policies affecting exchange rate, and currency unions. Special attention will be paid to empirical studies, especially of developing countries with the CARICOM economies as a point of focus.

Class attendance and participation are very important because each week's learning depends on accurate understanding of what has preceded it. Students are encouraged to read many of the articles listed in the readings that will be provided in class. Knowledge in Mathematics is required, especially single and multivariable calculus. There is no specific principal text book for this course.

The date for the mid-term examination and the content of the said examinations will be determined by students' consensus with the tacit approval of the instructor. Note that the term paper will be due on April 19, 2019. Students are required to attach all data employed in the empirical studies to their completed term papers for replications whenever necessary.

Learning Outcomes:

1: Define, describe, analyze, distinguish and discuss the balance of payments and national income accounts, rational expectation, foreign exchange markets, exchange rates, options contracts, currency swaps, hedging, arbitrage, speculation, futures, spot and forward exchange market, covered interest arbitrage, uncovered interest arbitrage, purchasing power parity, among others.
2: Determine factors that affect the exchange rate in the short-term and over the long-run.
3: Distinguish and analyze flexible versus fixed exchange rate regimes and currency unions, and derive exchange market pressure model.
4: Derive rational expectation and solve problems which involve it, and prove weak-form foreign exchange market efficiency.
5: Demonstrate how the elasticity approach, absorption approach, monetary and portfolio balance approaches are used to determine the exchange rate and the balance of payments of countries.
6: Collect data on foreign exchange markets and estimate equations relating to exchange rates, balance of payments, etc. to assess international finance and balance of payments problems, and provide policy recommendations to solve such problems.

Text Books:

Paul R. Krugman, Maurice Obstfeld and Marc J. Melitz (2015), **International Economics: Theory and Policy**, (New York: Pearson). [PRKMOMJM (2000)].

Dominick Salvatore (2010), **International Economics**, (New York: John Wiley & Sons Inc.). [DS (2010)].

Haughton, A.Y. (2017) **Developing Sustainable Balance of Payments in Small Countries: Lessons from Macroeconomic Deadlock in Jamaica**. Palgrave McMillan, ISBN 978-3-319-53030-7 ISBN 978-3-319-53031-4 (eBook) DOI 10.1007/978-3-319-53031-4 Library of Congress Control Number: 2017936951

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Distribution of Grades

Examination 1	30%
Term Paper	15%
Presentation	5%
Final Examination	50%

Course Outline

(1)   National Income Accounting and the Balance of Payments (BOPs)

   Readings: PRKMO (2000), Chapter 13; DS (2010), Chapter 13. IMF (2013), 99-109.

   *Ghartey, Edward E (1993), "Causal relationship between exports and economic growth: some empirical evidence in Japan, Taiwan, and U.S.A.," **Applied Economics**, 25 (9): 1145-1152.*

(2)   Rational Expectations

   Readings: BTM (1989), Chapter 8; BTM (1996), Chapter 8
        Muth, John (1961)

(3)   Foreign Exchange Markets and Exchange Rates

   Exchange Rate and International Transactions
   The Foreign Exchange Market (FEM)
   Foreign Exchange Rates
   Spot and Foreign Exchange Rate, Currency Swaps, Future and Options
   Foreign Exchange Risks, Hedging and Speculation
   Interest Arbitrage and the Efficiency of FEM

   Readings: DS (2010), Chapter 14; PRKMO (2000), Chapter 13

   *Ghartey, Edward E (2004), "Random Walk as a Universal Test of Weak-Form Foreign Exchange Market Efficiency: A Proof." **Frontiers in Finance and Economics**, 1 (1): 37-45.*

(4)   Exchange Rate Determination

   The law of One Price

Absolute and Relative Purchasing Power Parity (PPP)
Empirical Tests of PPP Theory
Monetary Approach to the BOPs and Exchange Rates
Portfolio Balance Model of Exchange Rates

Readings: DS (2010), Chapter 15; PRKMO (2000), Chapter 15; IMF (2013), Chapter 4.

*Ghartey, Edward E. (1997), "Dynamic Analysis of Purchasing Power Parity in Jamaica." **Social and Economic Studies**, 46 (1), 57-74.*
*Ghartey, Edward E. (2009). "The Mid 1990s Peso Crisis in Mexico: An Application of the Girton-Roper Model." **Frontiers in Finance and Economics**, 6 (1), 73-92.*
*Ghartey, Edward E (2002), "Exchange Market Pressure and Optimal Foreign Exchange Regime in Jamaica," **Social and Economic Studies**, 51 (2): 49-62.*

(5)   The Pure Adjustment Mechanism with Flexible and Fixed Exchange Rates

Stability of Foreign Exchange Markets
Elasticities in the Real World

Readings: DS (2010), Chapter 16

*Ghartey, Edward E (1987), "Devaluation as a balance of payments corrective measure in developing countries: a study relating to Ghana," **Applied Economics**, 19 (7): 937-947.*
*Ghartey, Edward E. (2018), ""Asymmetries in Exchange Rate Pass-through and Monetary Policy Principle: Some Caribbean Empirical Evidence." **North American Journal of Economics and Finance**, (doi, June 19). Forthcoming.*

(6)   Optimum Currency Area and Monetary Union

The Case for Flexible Exchange Rate
Market Efficiency and Policy Advantages
The Case for Fixed Exchange Rate
Less Uncertainty and Stabilizing Speculation
Price Discipline
Optimum Currency Area

Readings: DS (2010), Chapter 20; PRKMO (2000), Chapter, 20; LSC (1995), Chapter 10.

*Ghartey, E.E. (2008), "Is the Caribbean Community an Optimum Currency Area?" **Economic Studies of International Development**, 8(1), 5-36.*

Additional Readings will be provided in class.