

York University
Faculty of Liberal Arts & Professional Studies
Department of Economics

Course: AP/ECON4200 Section O, 3.0 – Topics in International Monetary Economics

Course Webpage: <http://maple.eso.yorku.ca/2014bn w-apecon4200m-03>

Term: Winter 2022

Prerequisite / Co-requisite: See undergraduate calendar

Course Instructor Contact

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Time and Location

Lectures: Monday 11:30 am – 2:30 pm
TA hours: TBA

Course Description

Building on the key concepts in international finance and open-economy macroeconomics covered in AP/ECON 3580.03, this course covers, at the advanced level, topics including exchange rates, balance of payments accounts, monetary policy under fixed and flexible exchange rates, international monetary problems and possible solutions, and theories of the balance of payments.

Course Text / Readings

There is no required textbook for this course. Lectures will be based on a number of papers from academic journals and a reference textbook. The readings used for the lectures are listed below. Additional readings may be assigned or recommended during the course. Students can choose from these readings for their papers.

International Economics: Theory and Policy (Eleventh Edition), Paul R. Krugman and Maurice Obstfeld, Pearson Education (not required)

Topics and Required Readings

1. International Monetary Systems

Grilli, Vittorio and Kaminsky, Graciela, "Nominal Exchange Rate Regimes and the Real Exchange Rate," *Journal of Monetary Economics*, 1991, 27, 191-212.

McKinnon, Ronald I., "The Rules of the Game: International Money in Historical Perspective," *Journal of Economic Literature*, March 1993, 31, No. 1, 1-44.

Rolnick, Arthur J. and Warren E. Weber, "Money, Inflation, and Output under Fiat and Commodity Standards," *Journal of Political Economy*, 1997, Vol. 105, 1308-1321.

2. External Imbalances in China

Yang, Dennis Tao, "Aggregate Savings and External Imbalances in China," *Journal of Economic Perspectives*, Fall 2012, 24, 125-146.

McKinnon, Ronald, "China's Exchange Rate Trap: Japan Redux?" *American Economic Review*, Papers and Proceedings, May 2006, 96, 427-431.

Corden, Max, W., "China's Exchange Rate Policy, its Current Account Surplus and the Global Imbalances," *The Economic Journal*, November 2009, F430-F441.

Qiao, Hong, "Exchange Rates and Trade Balances under the Dollar Standard," *Journal of Policy Modeling*, September-October 2007, 765-782.

3. What Drives Exchange Rate Values?

Rossi, Barbara, "Exchange Rate Predictability," *Journal of Economic Literature*, December 2013, 51, No. 4, 1063-1119.

Engel, Charles and West, Kenneth D., "Exchange Rates and Fundamentals," *Journal of Political Economy*, June 2005, 113, No.3, 485-517.

Meese, Richard, "Currency Fluctuations in the Post-Bretton Woods Era," *Journal of Economic Perspectives*, Winter 1990, Vol. 4, No 1, 117-134.

Duarte, Margarida and Stockman, Alan C., "Rational speculation and Exchange rates," *Journal of Monetary Economics*, 2005, 52, 3-29.

4. Real Exchange Rates and Real Interest Rates

Engel, Charles, "The Real Exchange Rate, Real Interest Rates, and the Risk Premium," University of Wisconsin Working paper, October 2012.

Hoffmann, Mathias and MacDonald, Ronald, "Real Exchange Rates and Real Interest Rate Differentials: A present Value Interpretation," *European Economic Review*, 2009, 53, 952-970.

Froot, Kenneth A. and Ramadorai, Tarun, "Currency Returns, Intrinsic Value, and Institutional-Investor Flows," *Journal of Finance*, June 2005, 3, 1535-1558.

Charles Engel and Kenneth D. West, "Global Interest Rates, Currency Returns and the Real Value of the Dollar.

Clarida, Richard and Gali, Jordi, "Sources of Real Exchange-Rate Fluctuations: How Important Are Nominal Shocks?," *Carnegie-Rochester Conference Series on Public Policy*, 1994, 41, 1-56.

Engel, Charles, "Accounting for U.S. Real Exchange Rate Changes," *Journal of Political Economy*, 1999, 107, No. 3, 507-538.

5. Saving, Investment and International Capital Movements

Feldstein, Martin and Horioka, Charles, "Domestic Savings and International Capital Flows," *Economic Journal*, June 1980, 90, 314-29.

Mendoza, Enrique G., "Real Business Cycles in a Small Open Economy," *American Economic Review*, September 1991, 81, No. 4, 797-818.

Cardia, Emanuela, "The Dynamics of a Small Open Economy in Response to Monetary, Fiscal, and Productivity Shocks," *Journal of Monetary Economics*, 1991, 411-434.

6. Open Economy Real Business Cycles

Mendoza, Enrique G., "Real Business Cycles in a Small Open Economy," *American Economic Review*, September 1991, 81, No. 4, 797-818.

Cardia, Emanuela, "The Dynamics of a Small Open Economy in Response to Monetary, Fiscal, and Productivity Shocks," *Journal of Monetary Economics*, 1991, 411-434.

7. The U.S. Current Account Deficit

Bernanke, Ben, S. (2005). "The Global Saving Glut and the U.S. Current account Deficit," Speech at the Sandridge Lecture, Virginia Association of Economists, Richmond, VA, March 10

Mann, Catherine L., "Perspectives on the U.S. Current Account Deficit and Sustainability," *Journal of Economic Perspectives*, Summer 2002, 16, No. 3, 131-152.

Howard, David H., "Implications of the U.S. Current Account Deficit," *Journal of Economic Perspectives*, Fall 1989, 3, No. 4, 153-165.

Gourinchas, Pierre-Olivier and Rey, Helene, "International Financial Adjustment," *Journal of Political Economy*, August 2007, 115, 113, No. 4, 665-703.

Kouparitsas, Michael, "Is the U.S. Current Account Sustainable," *Chicago Fed Letter*, The Federal Reserve Bank of Chicago, June 2005, No. 215.

Gourinchas, Pierre-Olivier and Rey, Helene, "From World Banker to World Venture Capitalist: U.S. External Adjustment and the Exorbitant Privilege," *National Bureau of Economic Research Working Paper*, May 2007, 11-66.

Marina Azzimonti, Eva de Francisco, and Vincenzo Quadrini, "Financial Globalization, and the Rising Public Debt," *American Economic Review*, 2024, 2267-2302.

Tille, Cedric (2003). "The impact of Exchange Rate Movements on U.S. Foreign Debt," *Current Issues Econ. And Finance* 9 (January), 1-7.

8. Is Europe an Optimal Currency Area?

Eichengreen, Barry, "Is Europe an Optimal Currency Area," *University of California at Berkeley, Working paper No. 90-151*, October 1990.

Canzoneri, Matthew B. and Rogers Carol Ann, "Is the European Community an Optimal Currency Area? Optimal Taxation Versus the Cost of Multiple Currencies," *American Economic Review*, June 1990, 80, No. 3, 419-433.

Casella, Alessandra, "Participation in a Currency Union," *American Economic Review*, September 1992, 82, No.4, 847-863.

Lane, Philip R., "The Real Effects of European Monetary Union," *Journal of Economic Perspectives*, Fall 2006, 20, No. 4, 47-66.

O'Rourke, Kevin H. and Taylor Alan M., "Cross of Euros," *Journal of Economic Perspectives*, Summer 2013, 27, No. 3, 167-192.

9. The European Sovereign Debt Crisis

Lane, Philip R., "The European Sovereign Debt Crisis," *Journal of Economic Perspectives*, Summer 2012, 26, No. 3, 49-68.

Obstfeld, Maurice, "Does the Current Account Still Matter?," *American Economic Review, Papers and Proceedings*, May 2012, 102, No. 3, 1-23.

Sims, Christopher A., "Paper Money," *American Economic Review*, April 2013, 103, No. 2, 563-584.

Wolf, Martin, "Merkozy Failed to Save the Euro Zone," *Financial Times*, December 6, 2011.

10. Fixed Versus Flexible Exchange rates

Kindleberger, Charles, "The case for Fixed Exchange rates," *In the International Adjustment Mechanism, Proceedings of the Monetary Conference*, 1969, 93-108.

Genberg, Hans, "Exchange Rate management and Macroeconomic Policy: A National Perspective," *Scandinavian Journal of Economics*, 1989, 91, No. 2, 439-469.

Frankel, Jeffrey A., "No Single Currency Regime is Right for All Countries or At All Times," *National Bureau of Economic Research, NBER Working Paper 7338*, 1999.

Baxter, Marianne and Stockman Alan, "Business Cycles and the Exchange Rate Regime: Some International Evidence," *Journal of Monetary economics*, May 1989, 23, No. 3, 377-400.

Rogoff, Kenneth, "Why Not a Global Currency," *American Economic Review, Papers and Proceedings*, 2001, 91, No. 2, 243-247.

Fischer, Stanley, "Exchange Rate Regimes: Is the Bipolar View Correct?," *Journal of Economic Perspectives*, Spring 2001, 15, No. 2, 3-24.

Obstfeld, Maurice and Kenneth Rogoff, "The mirage of Fixed Exchange Rates," *Journal of Economic Perspectives*, Fall 1995, 73-96.

Calvo, Guillermo and Carmen M. Reinhart, "Fear of Floating," *Quarterly Journal of Economics*, May 2002, 379-405.

11. Financial Crises

Reihart, Carmen M. and Rogoff, Kenneth S., "From Financial Crash to Debt Crisis," *American Economic Review*, 2011, 101, No. 5, 1676-1706.

Taylor Alan M., "Global Financial Stability and the Lessons of History: A Review of Carmen M. Reinhart and Kenneth Rogoff's *This Time Is Different: Eight Centuries of Financial Folly*," *Journal of Economic Literature*, 2012, 50, No. 2, 1092-1105.

Summers, Lawrence H., "International Financial Crises: Causes, Prevention, and Cures," *American Economic Review, Papers and Proceedings*, May 2000, 90, No. 2, 1-16.

Krugman, Paul, "A Model of Balance-of-Payments Crises," *Journal of Money, Credit and Banking*, August 1979, 11, No. 3, 311-325.

12. Monetary Policy in an Open Economy

Shambaugh, Jay C., "The Effect of Fixed Exchange Rates on Monetary Policy," *Quarterly Journal of Economics*, February 2004, 301-352.

Engel, Charles, "Currency Misalignments and Optimal Monetary Policy: A Reexamination," *American Economic Review*, October 2011, 101, 2796-2822.

Symposium on the Monetary Transmission Mechanism: five papers in the *Journal of Economic Perspectives*, 1995, 9, 3-96.

Svensson, Lars E. O., "Open-Economy Inflation Targeting," *Journal of International Economics*, 2000, 50, 155-183.

Trichet, Jean-Claude, "Supply Side Economics and Monetary Policy," Speech by President of the European Central Bank, European Central Bank, June 22, 2004.

Bernanke, Ben S. and Blinder Alan S., "The Federal Funds Rate and the Channels of Monetary Policy," *American Economic Review*, September 1992, 82, No. 4, 901-921.

Frenkel, Jacob A., "Monetary Policy: Domestic Targets and International Constraints," *American Economic Review, Papers and Proceedings*, May 1983, 72, No. 2, 48-53.

David, Romer, "Openness and Inflation: Theory and Evidence," *Quarterly Journal of Economics*, November 1993, 869-903

Schmitt-Grohe, Stephanie and Martin Uribe, "Downward Nominal Wage Rigidity, Currency Pegs, and Involuntary Unemployment," *Journal of Political Economy*, 2016, 1466-1514.

Schmitt-Grohe, Stephanie and Martin Uribe, "Downward Nominal Wage Rigidity and the Case for Temporary Inflation in the Eurozone," *Journal of Economic Perspective*, Summer 2013, 193-212

13. International Money: the Dollar, the Euro and External Seigniorage

Eichengreen, Barry, *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System*, Oxford and New York, Oxford University Press, 2011.

Kindleberger, C. P., "The benefits of International Money," *Journal of International Economics*, 1972, 425-442.

Barro, Robert J., "An Exit Strategy From the Euro," *The Wall Street Journal*, January 9, 2012.

Mundell, R., "What the Euro Means for the Dollar and the International Monetary System," *Atlantic Economic Journal*, 36, No. 3, 227-237.

Feldstein Martin S., "The Euro and European Economic Conditions," National Bureau of Economic Research, NBER Working Paper 17617, November 2011.

Cohen, Benjamin J., "The Seigniorage Gain of an International Currency: An Empirical Test," *Quarterly Journal of Economics*, August 1971, 494-507.

Kirschen, E. S., "The American External Seigniorage," *European Economic Review*, 1974, 355-378.

Maggiore, Matteo, Brent Neiman and Jesse Schreger, "The Rise of the Dollar and Fall of the Euro as International Currencies," *AER Papers and Proceedings*, 2019, 109, 521 – 526.

Weighting of Course

Evaluation

Evaluation of students' academic performance will be based on class participation and a presentation, a research paper and a final exam. The weights for the calculation of the final course grade are as follows:

Assignments:	10%
Presentation:	20%
Research Paper:	30%
Final Exam:	40%

Winter Examinations April 12 - 29

As part of term work, students are expected to read and summarize a number of journal articles on a weekly basis. For the research paper, students should choose a topic from the topics listed on the course outline. The paper should be 10-15 pages long. It can be written individually or by a group of two students. Once students have the paper well under way, they are required to do a 20-minute presentation of their paper.

In the research paper, students should demonstrate that they are able to conduct individual research and present empirical findings on a major monetary topic, incorporating both economic and empirical evidence. They should be able to argue a point logically and support their argument with appropriate theory and empirical evidence, whether in written or oral discussions. Finally, they should be able to critically debate current international monetary events and readings from the economic literature, mainly from academic economic journals.

Missed Tests

All students are required to complete the term-work (assignments, presentation, and research paper). There will be no make-ups for the term work and no weight of the term-work transferred to the final exam. The deferred exam for the final exam will be granted only for medical reasons. In such cases students should submit a deferred exam application together with the supporting documents (attending physician's statement) to the economics department to my attention. The date and time of the deferred exam will be set at a later date. Students who may require further extensions or accommodation will have to submit a formal petition to the Faculty.

Grading

The grading scheme for the course conforms to the 9-point grading system used in undergraduate programs at York (e.g., A+ = 9, A = 8, B+ = 7, C+ = 5, etc.). Assignments and tests will bear either a letter grade designation or a corresponding number grade (e.g. A+ = 90 to 100, A = 80 to 90, B+ = 75 to 79, etc.)

Organization of the Course

The course involves formal lectures by the course director. The lectures will be supplemented by discussion questions and problems to be worked out by the students. Students who have difficulties answering the questions should consult with the teaching assistant(s) who will be available to assist students during their office hours. The required readings are central to the course. The lectures and tutorials, where applicable, will serve to enrich, clarify, and illustrate crucial issues from the assigned readings.

Course Learning Objectives

Additional Information/Notes

Important Course Information for Students

All students are expected to familiarize themselves with the following information, available on the Senate Committee on Curriculum & Academic Standards webpage;

<http://www.yorku.ca/secretariat/policies/index-policies.html/>

- York's Academic Honesty Policy and Procedures/Academic Integrity Website
- Ethics Review Process for research involving human participants
- Course requirement accommodation for students with disabilities, including physical, medical, systemic, learning and psychiatric disabilities
- Student Conduct Standards
- Religious Observance Accommodation

As part of York's Community of Care Commitment, all members of the York community share in the responsibility of keeping others safe on campuses. In this class, as elsewhere on campus, students must comply with all University health and safety protocols, including:

- Self-screening using the YU Screen tool prior to coming to campus for any in-person activities
- Not attending in-person activities at any of York University's campuses/locations where you are feeling unwell or if you answer YES to any of the screening questions.
- Wearing masks or face coverings that completely cover the mouth, nose and chin while on campus
- Avoiding eating and drinking in classrooms, research and in shared spaces, where eating is explicitly not permitted (e.g., Libraries)
- Engaging in good hand hygiene
- Following instructions in designated spaces, as they pertain to giving space to one another and/or protocols for entry to and exit from classrooms, instructional and other shared spaces (e.g., Libraries), when applicable.

Information about COVID-19 health and safety measures can be found on the Better Together website. Le texte en français est disponible ici:

<https://www.yorku.ca/bettertogether/?lang=fr>