INTERNATIONAL FINANCE THEORY AND POLICY

Department of Economics, National Chi Nan University
Syllabus (Fall 2019)

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Time and Location: Monday 3:10pm–6pm in College of Management Building 320R
Office Hours: Tuesday 12–2pm or by appointment
Class code: 115026

Course Objective: This course surveys some recent issues and standard materials for analyzing open macroeconomics theory, and gives students ability and confidence to tackle problems in international finance research. We will discuss the history of international finance system as well as the basic theoretical framework of macroeconomic dynamics approach applying to international finance field such as the Dornbusch overshooting model and Lucas tree model. A primary emphasis will follow lecture format and oral presentation.

Textbooks: There is no single textbook required for this class, while the followings are strongly recommended for any macroeconomic economist:

- Obstfeld, M. and K. Rogoff, 1996, *Foundations of International Macroeconomics*, The MIT Press.

Grading: There will be several problem sets and several oral presentations (or a term paper instead).

Course Outlines:

1. International Finance System
   (a) Foreign Exchange Rate
   (b) Fixed Exchange Rate and Floating Exchange Rate
   (c) Central Banks Balance Sheet
   (d) Balance of International Payments
   (e) Exchange Rate System
   (f) History of International Monetary System
      i. International Gold Standard
      ii. Bretton Woods System and the International Monetary Fund
      iii. European Monetary System
      iv. Exchange Rate System Nowadays
      v. Optimum Currency Area
   (g) Recent International Financial Research
2. Traditional Open-economy Models

(a) Basic Theory Review

(b) Mundell-Fleming Model

- Mundell, R., 1962, Capital Mobility and Stabilization Policy under Fixed and Flexible Exchange Rates, *Canadian Journal of Economics and Political Science*, 29, 475-487.

(c) Flexible Price Model

(d) Dornbusch Overshooting Model

- Dornbusch, R., 1976, Expectations and Exchange Rate Dynamics, *Journal of Political Economy*, 84:6, 1161-1176.

3. Purchasing Power Parity

- Rogoff, K., 1996, The Purchasing Power Parity Puzzle, *Journal of Economic Literature*, 34:2, 647-668.

4. Asset Pricing

(a) Capital Asset Pricing Model

(b) Lucas Tree Model

- Lucas, R.E., 1978, Asset Prices in an Exchange Economy, *Econometrica*, 46:6, 1429-1445.

Reading List:

A. Exchange Rate and Monetary Policy:

1. Benigno, G., 2004, Real exchange rate persistence and monetary policy rules, *Journal of Monetary Economics*, 51,473-502.

2. Benigno G. and P. Benigno, 2003, Price stability in open economies, *Review of Economic Studies*, 70:4, 743-764.

3. Bouakez, H. and M. Normandin, 2010, Fluctuations in the foreign exchange market: how important are monetary policy shocks? *Journal of International Economics*, 81, 139-153.

4. Chari, V. V., P. J. Kehoe, and E.R. McGrattan, 2002, Can sticky price models generate volatile and persistent real exchange rates? *Reviews of Economic Studies*, 69:3, 533-563.

5. Corsetti, G. and P. Pesenti, 2001, Welfare and macroeconomic independence, *Quarterly Journal of Economics*, 116:2, 421-445.

6. Cushman, D. O., and T. Zha, 1997, Identifying monetary policy in a small open economy under flexible exchange rates, *Journal of Monetary Economics*, 39:3, 433-448.

7. Devereux, M. and C. Engel, 2003, Monetary policy in the open economy revisited: exchange rate flexibility and price setting behavior, *Review of Economic Studies*, 70, 765-783.

8. Eichenbaum, M. and C. L. Evans, 1995, Some empirical evidence on the effects of shocks to monetary policy on exchange rates, *Quarterly Journal of Economics*, 110:4, 975-1009.

9. Faust, J. and J. H. Rogers, 2003, Monetary policy's role in exchange rate behavior, *Journal of Monetary Economics*, 50, 1403-1424.

10. Galí, J. and T. Monacelli, 2005, Monetary policy and exchange rate volatility in a small open economy, *Review of Economic Studies*, 72, 707-734.

11. Garcia, C.J., J.E. Restrepo, and S. Roger, 2011, How much should inflation targeters care about the exchange rate? *Journal of International Money and Finance*, 30, 1590-1617.

12. Kaminsky, G. L. and K. K. Lewis, 1996, Does foreign exchange intervention signal future monetary policy? *Journal of Monetary Economics*, 37, 285-312.

13. Taylor, J. B., 2001, The role of the exchange rate in monetary-policy rules, *American Economic Review*, 91:2, 263-267.

14. Zettelmeyer, J., 2004, The impact of monetary policy on the exchange rate: Evidence from three small open economies, *Journal of Monetary Economics*, 51, 635-652.

B. Purchasing Power Parity:

1. Carvalho, C. and F. Nechio, 2011, Aggregation and the PPP puzzle in a sticky-price model, *American Economic Review*, 101, 2391-2424.

2. Cerrato, M. and N. Kellard, 2008, The purchasing power parity puzzle: Evidence from black market real exchange rate, *The Manchester School*, 76:4, 405-423.

3. El-Gamala, M. A. and D. Ryu, Short-memory and the PPP hypothesis, *Journal of Economic Dynamics & Control*, 30, 361-391.

4. Gadea, M. D. and L. Mayoral, 2009, Aggregation is not the solution: The PPP puzzle strikes back, *Journal of Applied Econometrics*, 24:6, 875-894.

5. Lamont, O. A. and R. H. Thaler, 2003, The law of one price in financial markets, *Journal of Economic Perspectives*, 17:4, 191-202.

6. Papell, D. H., 2006, The panel purchasing power parity puzzle, *Journal of Money, Credit, and Banking*, 38:2, 447-467. (March 2006)