

INTERNATIONAL FINANCE THEORY AND POLICY I

Department of Economics, National Chi Nan University
Syllabus (Fall 2021)

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Time and Location: Wednesday 9:10am–12pm in College of Management Building R316

Office Hours: Tuesday 1–2pm 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 new open economy models. 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.
- Walsh, C.E., 2017, *Monetary Theory and Policy*, 4th Edition, 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 Target Zone
 - ▶ Krugman, P., 1991, Target Zones and Exchange Rate Dynamics, *Quarterly Journal of Economics*, 106, 669-682.

v. Exchange Rate System Nowadays

2. Traditional Open-economy Models

(a) 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.

(b) Flexible Price Model

(c) The Dornbusch Overshooting Model

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

3. New Open Economy Macroeconomics

(a) Redux Model

- ▶ Obstfeld, M. and K. Rogoff, 1995, Exchange Rate Dynamics Redux, *Journal of Political Economy*, 103, 624-660.

(b) Sticky Prices

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

(c) Flexible Price Equilibrium

(d) Ramsey Model

4. The Shopping-time Monetary Model

- ▶ King, R. and C. Plosser, 1984, Money, Credit, and Prices in a Real Business Cycle, *American Economic Review*, 74:3, 363-380.

5. Monetary Theories of Inflation

(a) Zero Inflation Policy

(b) Exchange Rate Indeterminacy

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. 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.
3. 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.

4. 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.
5. 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.
6. 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.
7. Faust, J. and J.H. Rogers, 2003, "Monetary policy's role in exchange rate behavior," *Journal of Monetary Economics*, 50, 1403-1424.
8. Kaminsky, G.L. and K.K. Lewis, 1996, "Does foreign exchange intervention signal future monetary policy?" *Journal of Monetary Economics*, 37, 285-312.
9. Taylor, J.B., 2001, "The role of the exchange rate in monetary-policy rules," *American Economic Review*, 91:2, 263-267.

B. The 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. Lamont, O.A. and R.H. Thaler, 2003, "The law of one price in financial markets," *Journal of Economic Perspectives*, 17:4, 191-202.
3. O'Connell, P.G.J., 1998, "The overvaluation of purchasing power parity," *Journal of International Economics*, 44, 1-19.
4. Papell, D.H., 2006, "The panel purchasing power parity puzzle," *Journal of Money, Credit, and Banking*, 38:2, 447-467.