



Lahore University of Management Sciences

ECON 352– International Finance Spring 2011-12

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Course URL (if any)	-

Course Basics				
Credit Hours				
Lecture(s)	Nbr of Lec(s) Per Week	2	Duration	1 hour 50 minutes
Recitation/Lab (per week)	Nbr of Lec(s) Per Week	-	Duration	-
Tutorial (per week)	Nbr of Lec(s) Per Week	-	Duration	-

Course Distribution	
Core	
Elective	✓
Open for Student Category	Junior/Senior
Close for Student Category	

COURSE DESCRIPTION
<p>The goal of this course is to introduce students to major topics in international finance and provide a simple analytical framework for addressing issues in international monetary economics. After a brief overview of balance of payment accounting we will develop a model to understand the major relationships in open-economy macroeconomics. The tools developed will be used to study the implications of different policies such as fixed vs. floating exchange rates and devaluations. The second part of the course will cover major issues in international macroeconomic policy such as the international monetary system, optimum currency areas and global capital markets.</p>

COURSE PREREQUISITE(S)
<ul style="list-style-type: none">• ECON 221 Intermediate Macroeconomics••

COURSE OBJECTIVES
<ul style="list-style-type: none">• Build the theoretical background for studying issues in international finance• Use real world examples to understand the application of the models studied and develop an understanding of policy issues in open economy macroeconomics•

Learning Outcomes



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<ul style="list-style-type: none"> • • • 	<p>Understand basic analysis of open economy models</p> <p>Apply the analysis learnt to key policy issues</p> <p>Understand the debates in the area of international finance</p> <p>Be able to understand the economic content regarding international finance in sources such as the Economist and Financial Times</p>
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Grading Breakup and Policy

<p>Assignment(s):</p> <p>Home Work:</p> <p>Quiz(s): 20%</p> <p>Class Participation:</p> <p>Attendance:</p> <p>Midterm Examination: 30%</p> <p>Project: 15%</p> <p>Final Examination: 35%</p>
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Examination Detail

Midterm Exam	<p>Yes/No: Yes</p> <p>Combine Separate: Separate</p> <p>Duration: 1 hour 40 minutes</p> <p>Preferred Date:</p> <p>Exam Specifications: Closed books/closed notes, calculator allowed</p>
Final Exam	<p>Yes/No: Yes</p> <p>Combine Separate: Separate</p> <p>Duration: 2 hours</p> <p>Exam Specifications: Closed books/closed notes, calculator allowed</p>

COURSE OVERVIEW

Week/ Lecture/ Module	Topics	Recommended Readings	Objectives/ Application
Lecture 1 & 2	National Income Accounts	Chapter 12 : Krugman and Obstfeld	National Income Accounting for an Open Economy, Balance of Payment Accounts
Lecture 3 & 4	Exchange rates and foreign exchange market : An asset approach	Chapter 13 : Krugman and Obstfeld	Foreign exchange market, spot and forward rates, demand for foreign currency assets, equilibrium in foreign exchange market, covered interest rate parity
Week 5,6 and 7, Quiz 1	Money, Interest Rates and Exchange Rates	Chapter 14 : Krugman and Obstfeld	Money Demand and Supply, MS and exchange rate in short run, MS and exchange rate in long run, inflation and exchange rate, overshooting
Lecture 8 & 9	Price Level and exchange rate in the LR	Chapter 15 : Krugman and Obstfeld	Law of one price, PPP, Long run exchange rate model based on



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			PPP, Fisher Effect, Problems of PPP, Empirical evidence of PPP, General Model of Long Run exchange rates , Real Interest Rate Parity
Lecture 10, 11 and 12 Quiz 2	Output and exchange in SR	Chapter 16 : Krugman and Obstfeld	Determinants of AD in Open Economy, Output Market equilibrium in short run: DD schedule, Asset Market Equilibrium : AA schedule, Putting AA and DD together Changes in Monetary and fiscal policy Macroeconomic policies and current account , J curve and pass through inflation, Marshall Lerner conditions
Lecture 13, 14 and 15, Quiz 3	Fixed exchange and foreign exchange intervention	Chapter 17 : Krugman and Obstfeld	Stabilization policies, Balance of Payment crises and capital flight, managed float and sterilized intervention Reserve currencies of the world, monetary system (Gold standard, Bimetallic standard, gold exchange)
Lecture 16 and 17	The international Monetary System Macroeconomic policy goals in the open economy	Chapter 18 : Krugman and Obstfeld	Macro Policy under Gold standard, Price Specie Flow Mechanism, Bretton Woods system and IMF, Policy options under Bretton Woods,
Lecture 18 and 19	Macroeconomic Policy and coordination under floating exchange rates	Chapter 19 : Krugman and Obstfeld	Case for and against floating exchange rate, macroeconomic independence under a floating rate
Lecture 20 and 21 Quiz 4	Optimum Currency Areas and European Experience	Chapter 20 : Krugman and Obstfeld	Evolution of European currency, Euro and Economic Policy in the Euro Zone, Theory of Optimum Currency areas,
Lecture 22 and 23	Global Capital Market : Performance and Policy problems	Chapter 21 : Krugman and Obstfeld	International Capital markets and gains from trade, International banking, regulating international banking, performance of international capital markets
Lecture 24 and 25	Developing countries : Growth, Crisis and Reform	Chapter 22 : Krugman and Obstfeld	Structural features of developing economy, Developing country borrowing and debt, East Asian case, lessons of developing country crises
Lecture 26	Cases : Crisis hit countries		
Lecture 27	Quiz 5 and Review		

Textbook(s)/Supplementary Readings



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Main Reading :

Krugman, Paul and Maurice Obstfeld (2009), "*International Economics: Theory and Policy*", Eighth Edition, New York: Addison Wesley.

Optional Text :

Melvin, Michael, (2004), "*International Money and Finance*", Seventh Edition, Pearson Addison-Wesley Publishing.