

Department of Economics
Rutgers University
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ECONOMICS 436 INTERNATIONAL BALANCE OF PAYMENTS

Course Objectives and Content

This course is an introduction to main problems and methods in the field of International Macroeconomics and Finance. Topics include the determination of current accounts, exchange rate theory and evidence, financial crises, and macroeconomic policy in open economies. We will discuss basic theories that have been developed to understand these issues, review related empirical evidence, and identify implications for current events and public policy.

Prerequisites

The main prerequisites are Intermediate Microeconomics (220:320), Intermediate Macroeconomics (220:321) and Econometrics (220:322). Those courses have their own prerequisites, which you must have completed. In particular, you must have taken the necessary Calculus and Statistics courses. We will freely employ any associated concepts (e.g. partial derivatives of a function or t-statistics in a regression) during class discussion and also as needed for homework and exam questions.

Course Materials

The textbook for the course is *International Macroeconomics*, by Robert Feenstra and Alan Taylor, 3rd Edition (2014), Worth Publishers (henceforth FT). This is a standard reference and is available at the Rutgers Bookstore.

FT offers an associated web site called LaunchPad, whose URL is www.macmillanhighered.com/launchpad/feenstrataylorintlmacro3. You will be given access if you purchase (a new copy of) FT from the Rutgers bookstore. LaunchPad offers exercises, practice quizzes, and useful links to related resources.

The syllabus below includes some additional readings which complement FT and are strongly recommended.

Finally, I will feel free to assign any supplementary material as needed. In that case, those materials will be made available at my web page.

Attendance Guidelines and Homework

Regular class attendance and active participation is important, expected, and encouraged.

You will be assigned five problem sets during the semester. You are expected to turn in your homework assignments by the deadlines given.

Exams

There are two *midterm* exams, one in March and the second in April. (They will take place at regular class times; precise dates will be announced later). Given our grading policy (see below), there will be *no* makeup dates for the midterms.

The *final exam* will take place on Wednesday **May 10th, from 4 to 7 pm**. There is no makeup date for the final either, so you should *not take this course* if you know that you are unable to take the final.

Grades

Your homework counts for 10% of your final grade. If you fail to turn in more than one of the homework assignments on time, you will *lose* that 10%.

The other 90% of the grade will be based on your exams, according to the following procedure:

- If your final exam grade is lower than the average of your two midterms, then the two midterms and the final will each be 30% of your final grade.
- If not, then your final will be 50% of the grade, and the *best* of your midterms the remaining 40%.

This scheme is designed to help those of you that may have an abnormally low performance in one of the exams. Note also that missing one of the midterms implies that the second of the above procedures will automatically apply.

Any request for re-grading must be done *in writing* only.

Office Hours and Communication

My regular office hours will be on Thursdays, 2:30-4:00 pm, or by appointment.

Announcements and other course materials will be posted at the course's Sakai site.

Academic Honesty and Code of Conduct

Needless to say, you are expected to adhere to all of Rutgers University's policies and regulations, in addition to normal standards of acceptable behavior. In particular, you must be familiar with and adhere to the current Rutgers University's Academic Integrity Policy, available at:

<http://academicintegrity.rutgers.edu/academic-integrity-policy/>

Any violation of that policy will be reported as required by University procedures.

Course Outline

The outline below is tentative. I reserve the right to modify any part of it, and add or drop material, as I see fit.

1. Introduction to Global Macroeconomics

FT, chapter 1

2. Exchange Rates and Open Economy Macroeconomics

2.1. Exchange Rates and Asset Markets. Introduction

FT, ch. 2

2.2. Real Exchange Rates and Long Run Equilibrium

FT, ch. 3

2.3 Exchange Rates in the Short Run

FT, ch. 4

3. The Balance of Payments and the Current Account

3.1. Introduction to National Income Accounting and Balance of Payments

FT, ch. 5

3.2. National Savings and the Current Account

FT, ch. 6.1, 6.2

3.3. Production, Investment, and External Adjustment

FT, 6.3

3.4. World Equilibrium and Capital Flows

Schmitt Grohe, Stephanie, and Martin Uribe, *International Macroeconomics*, ch. 4

"The U.S. Capital Account Surplus," chapter 6 of the *2006 Economic Report of the President*

3.5. Risk, Diversification, and External Adjustment

FT, 6.4

4. Short Run Analysis and Macroeconomic Policy Analysis

FT, ch. 7

Romer, David, "Keynesian Macroeconomics Without the LM Curve," *Journal of Economic Perspectives*, 14 (2000), 149-69

Woodford, M., "Financial Intermediation and Macroeconomic Analysis," *Journal of Economic Perspectives*, 24 (2010), 21-44

5. Applications to Current Issues (as time permits)

5.1. Exchange Rate Regimes, Financial Crises, the Euro

FT, chapters 8, 9, and 10

Céspedes, L., R. Chang, and A. Velasco, "IS-LM-BP in the Pampas." *IMF Staff Papers* 50 (2003), 143-56

Ben Bernanke, 2012, "Monetary Policy Since the Onset of the Crisis", Remarks at the Federal Reserve of Kansas City Economic Symposium, Jackson Hole, August

5.2. Miscellaneous Topics

FT, ch. 11