International Finance (ECON 281)
Prathi Seneviratne
Spring 2014

Class meetings: T,Th 10:10 – 11:55 a.m.
Classroom: Willis 211

Office hours: M 2–3:30 p.m., W 2–3:30 p.m.
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Course description

International finance is the study of macroeconomics at the international level. We learn about how one country’s macroeconomic policies affect those of another, how exchange rate fluctuations affect GDP, and how financial crises spread across the globe. We will learn to identify and critique the practical applicability of economic theory to major financial crisis in the United States, Eurozone, and East Asia.

Class meetings

Class meetings will be a combination of lecture and discussion. The discussions will be based largely on assigned readings. You are expected to attend class and participate actively during these discussions.

Required text


Moodle

We will use Moodle for this course. Log in at https://moodle.carleton.edu/ and click on the tab “My courses” on the left to locate the folder for this course. This syllabus is posted, so you can refer to it at any time during the term. Required readings, optional readings, and homework assignments will be posted regularly, so please check frequently for updates. In addition, please send me news articles or opinion pieces that you think are interesting and relevant to the topics we will covered and I will post these on Moodle for everyone to access.

Evaluation

Your performance in this course will be evaluated on the basis of two exams, a term paper, homework assignments, and participation in class discussions. Conditional on completing all course requirements, your final grade will be determined as follows:
Attendance and participation: 10%
Homework assignments: 15%
Midterm exam: 25%
Final exam: 25%
Term paper: 25%

If you fail to submit the term paper by the deadline (see below), your course grade will be F, regardless of how well you perform in the exams and homework assignments.

Homework assignments will be graded as “check plus”, “check” and “check minus”. A good faith effort to answer all questions thoroughly will automatically earn a “check” even if some answers are incorrect. Particularly good work will earn a “check plus”. Unless otherwise specified, all homework is due at the beginning of class on the due date. No late homework will be accepted. Your lowest homework grade will be dropped when final grades are determined.

Regular class attendance is expected. You will be allowed two “free” absences for the term, no questions asked (though it would be nice to inform me beforehand if you plan to be absent). These two “free” absences will not affect your final grade. Any absences beyond the first two will negatively impact your course grade (unless you provide documentation from the academic deans stating that an extreme family or medical emergency caused you to miss more than two class meetings).

**Term paper**

At the start of the term, you will choose one of the following currencies: the Euro, the British pound, the Japanese yen, the Chinese renminbi/yuan, the Malaysian ringgit, the South Korean won, the Brazilian real, the Mexican peso, the Argentine peso, the South African rand, the Australian dollar, or the Indian rupee.

Throughout the term, you should carefully track the movement of your chosen currency over the previous few months. You should also track policy changes that might have affected your currency’s movements in the foreign exchange market. Your term paper should be an analysis of the overall movements of your currency using the theoretical models learned in class.


When writing the paper, you should consider the following questions: Has the currency appreciated/depreciated in the past few months, and by how much? What might be the reasons causing this appreciation/depreciation? What has happened in that particular country (e.g. changes in government policy, political changes) or in the rest of the world to cause these currency movements? What would you forecast for the currency for the next six months?

It is likely that two or more students choose to study the same currency. If so, you are encouraged to work together in finding and discussing readings related to your topic. However, the final versions of the paper should be written individually.

You must inform me of your chosen currency by Friday, April 11 5 p.m. via Moodle. Failure to meet this deadline will result in 10 points (out of 100) deducted from your term paper score. In some of
your homework assignments, you will be asked to briefly discuss the movements of your chosen currency using relevant models. Therefore, it is important to choose a currency within the first two weeks of the term.

Your paper is due Monday, June 9 at 5 p.m. You must submit a hardcopy (to my office in Willis 309) as well as an electronic copy. There is no exception to this deadline except in cases of extreme family or medical emergencies, for which documentation must be provided from the academic deans. No other excuses will be accepted (e.g. “my computer crashed”, “my computer mysteriously locked my paper”, “my dog ate my computer”, “I have another paper for another class”, “my roommate snores and I can’t sleep”, etc.). Carleton College does not grant extensions beyond the final exam period for technical glitches; you are expected to back up all your files.

For each 24 hours that your paper is late (either the paper version or electronic version, or both), you will be deducted 33.33 points (out of 100) of your total paper score. For example, if your paper is submitted between June 9 at 5:01 p.m. and June 10 at 5 p.m., 33.33 points will be deducted from your total paper score. If you fail to hand in your paper by Wednesday, June 11 at 5 p.m., you will receive a score of zero on your paper and you will receive a grade of F for the entire course, no matter how well you do on the exams and homework. The only way to obtain a non-penalized extension is to petition the Academic Standing Committee.

Exams

The two exams are on Tuesday, April 29 and Tuesday, June 3. Exams are cumulative. An exam cannot be missed except in the event of a severe family or medical emergency, for which official documentation must be provided from the academic deans. If you are excused from an exam, a makeup exam will be offered as long you give me at least one week’s notice prior to the regularly scheduled exam. If you give me less than one week’s notice, no makeup exam will be offered; instead, the entire weight of the excused exam will be transferred to the remaining exam.

Important dates

Friday, April 11: Last day to inform me of your currency choice (by 5 p.m.)
Tuesday, April 29: First exam (in class)
Tuesday, June 3: Second exam (in class)
Monday, June 9: Term paper due by 5 p.m.

Getting help

You are strongly encouraged to meet with me during office hours to discuss any material that you do not understand clearly. However, before meeting with me, please make sure you have thoroughly read your notes, the textbook and/or assigned readings. It will be much easier for me to help you if you can point to us exactly why/where you are unclear, so going over your notes first is essential us having a productive meeting during office hours.

Academic honesty

It is expected that students are familiar with and will abide by the college’s academic code of honor in all work related to this course. The term paper, homework assignments, and exams must be completed by you and only you. Unless explicitly allowed, you may not receive help from anyone other than me. You must properly cite all sources. Please refer to the following website to learn
what constitutes academic dishonesty at Carleton College:
http://apps.carleton.edu/campus/doc/integrity/

Writing center

If you would like to improve your writing skills, please consider meeting with a writing consultant at the Writing Center. You are encouraged to do this once you have a preliminary draft of your term paper. You can schedule appointments online at:
http://apps.carleton.edu/campus/asc/writingcenter/

Course outline

I. **Basic Concepts**

Introduction (FT Ch. 1)

National Income Accounting (FT Ch. 5)

Exchange Rates and the Foreign Exchange Market (FT Ch. 2)

Money, Exchange Rates and Prices in the Long Run (FT Ch. 3)

Exchange Rates and Interest Rates in the Short Run (FT Ch. 4)

**First Exam** (approximately here)

II. **Models of Open Economy Macroeconomics**

Output and Exchange Rates in the Short Run (FT Ch. 7)

Fixed versus Floating Exchange Rate Regimes (FT Ch. 8)

III. **The International Monetary System and Macroeconomic Policy**

The History of the International Monetary System (FT. Ch. 8)

1990s: Financial Crises, Debt, and Default (FT Ch. 7, 9 and 11 pp. 467-486)

The Global Financial Crisis and the Eurozone (FT Ch. 10 and Ch. 11 pp. 486-505)

**Second Exam**