

# ECO 4895: International Monetary Economics

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Office Hours: MWF 10am-11am, 12pm-1pm, MW 2pm-3pm Meeting Time: 9am MWF

Office: Massey 322

Class Room: Massey 103

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## Course Description

ECO 4895 is a course designed to introduce students to the basics of international finance and open-economy macroeconomics. Topics covered include the determination of exchange rates, balance of payments accounting, the use of exchange rates as a policy tool, the relationship between capital flows, exchange rates, and monetary policy, currency crises, and the implications of financial liberalization for economic development.

*Objectives and Goals:* Upon completion of this course students should: 1) Be familiar with basic terminology, concepts, and theories related to open-economy macroeconomics; 2) Understand basic models of exchange rate, interest rate, and output determination in an international context; 3) Be familiar with the basics of international financial history and varying currency regimes; 4) Identify economic policies related to international financial markets with the potential to aid economic development efforts; 5) Compare and contrast the international financial constraints faced by the US and other countries.

*Method(s) of Instruction:* Lecture, discussion, and research.

## Mission Statement of the Massey College of Business

The mission of the College of Business Administration is to be an innovative, student-centered learning community that prepares entrepreneurial, ethical and socially responsible future business leaders for the dynamic global economy.

## Required Materials

- Gandolfo, G. 2002. *International Finance and Open-Economy Macroeconomics*. New York: Springer.
- Epstein, G. (ed). 2005. *Financialization and the World Economy*. Cheltenham: Edward Elgar.
- Eatwell, J., and Taylor, J. 2000. *Global Finance at Risk*. New York: The New Press.
- Additional articles posted on Blackboard.

## Prerequisites/Corequisites

Prerequisites: ECO 2210 or ECO 2220.

## Course Objectives

Successful students will be able to:

1. Communicate effectively.
2. Demonstrate a basic understanding of the economic concepts and principles.
3. Apply economic reasoning to personal and professional decision making.
4. Utilize analytical and technical methods to identify and evaluate economic and public policy issues.
5. Identify the impact and economic consequences of global interdependence.

## Social Science Objectives

- Students will be able to analyze social institutions in historical and cultural context.
- Students will be able to make arguments based on logic and reason.
- Students will be able to apply abstract concepts to understand concrete social problems.
- Students will be able to examine how historical, social, and institutional factors shape their lives.

## Course Requirements

### Attendance

Belmont University is committed to the idea that regular class attendance is essential to scholastic achievement. Absence is excused only in cases of illness or other legitimate cause. Attendance is checked from the first class meeting. Late registrants will have accrued some absences prior to formal registration in the course. In the case of excused absence from class, students have the

right and responsibility to make up all class work missed.

Attendance and engagement are assessed from the first class meeting, whether in the traditional classroom setting, in an online classroom, or a hybrid of the two. Late registrants will automatically have accrued some absences prior to formal registration in the course. In the case of an excused absence from class, students have the right and responsibility to make up all class work missed. If a student demonstrates no engagement in more than 20% of synchronous and/or asynchronous sessions, the faculty member may assign the grade "FN" (failure for non-engagement) to that student. For this course, engagement will be assessed via attendance and participation at class meetings.

**Participation is crucial in this course.** Although I have made research in macroeconomics the principle output of my scholarly career, I am still learning. Thus, I hope to avoid a knowledge transfer model of teaching. Although there will inevitably some class periods that are primarily lecture, much of the class will be conducted as a seminar. My plan is to propose to you the topics and readings I consider to be seminal in the field, propose to you some fundamental questions, share the benefit of my thinking on the articles and ideas presented, and guide you in your queries. But I hope and intend to learn from you. I will treat you similar to how I would treat an economics graduate student (although without the intensive thesis writing requirement). I am expecting that each of you: (a) complete each class period's reading well in advance, (b) formulate at least one critical question or insight each week based on the reading, (c) each week share that question or insight with the class, and (d) listen respectfully, but critically, to the questions and insights of others and respond accordingly during the class discussion. *In other words, the quality of this class depends strongly on your level of participation.* **As such, I reserve the right to deduct points from your discussion paper assignments if I feel you are not participating in class discussions.** Conversely, students may receive extra points for active participation.

### Discussion Papers (500 Points)

Students will write five short (2 to 4 page) discussion papers on readings covered throughout the semester. Each discussion paper will A) summarize the main ideas covered in the assigned reading for a given topic, and B) extend, critique, or otherwise react to the ideas in the reading. Each discussion paper must be a maximum of four pages in length, with 1.5 inch spacing, 12-point font (Times New Roman or equivalent) and one-inch margins all the way around. Discussion papers must be completed and submitted in Microsoft Word (or equivalent). Students may write discussion papers on any five readings covered in the semester, but they must write at least five such papers. **Discussion papers must cover the academic journal articles assigned, rather than the textbook chapters<sup>1</sup>.** Students can submit up to a maximum of seven discussion papers, in which case the five discussion papers with the highest grades will count toward the final grade.

### Take Home Exams (300 Points)

There will be three take home exams (two midterm exams and a final exam) throughout the semester. The exams will be a mix of modeling exercises, data analysis, and short essay questions.

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<sup>1</sup>Articles from the Epstein (2005) book are acceptable, but discussion papers may not cover chapters of Gandolfo (2002).

Exams will be posted on Blackboard approximately one week in advance of the due date. Due dates for each exam are listed on the course schedule below.

### Research Proposal and Presentation (300 Points)

Students must write a 6 to 8 page research proposal on a topic of interest in international monetary economics. The research proposal must include: a clear research question with a strong motivation, a review of the existing academic literature, and a discussion of proposed data sources and research methods—i.e., what data sources will you use? why are the chosen data sources appropriate for your question? how will you conduct the analysis? (while you are not expected to have completed any data analysis at this time, extra points may be given if you show substantial progress on this front, e.g., by presenting summary statistics or preliminary statistical analysis). Students having difficulty selecting a research question or finding data appropriate to their topic are encouraged to talk to me. Students will make an effort to demonstrate how monetary phenomena are influenced by historical and political context. At the end of the semester each student will give a 5 to 10 minute presentation to the class on their research proposal. Presentations should involve appropriate and engaging slides (PowerPoint is fine, extra credit will be offered to students who attempt to create a **Beamer** presentation in **LaTeX**). Papers must be a maximum of eight pages in length, with 1.5 inch spacing, 12-point font (Times New Roman font type or the equivalent) and one-inch margin all the way around. Papers must be completed and submitted in Microsoft Word (or equivalent).

### Book Review (200 Points)

Students must write a short (4 page maximum, 1.5 spaced, Times New Roman font) academic book review of Eatwell and Taylor (2000), due at the end of the semester. We will have limited time to discuss Eatwell and Taylor (2000) in class, which means you have essentially the entire semester to read the book on your own and write the review. Several examples of academic book reviews will be posted on Blackboard. Each review should feature a short summary of the book along with any relevant criticism or praise, an assessment of the book's contribution to the field of international monetary economics, and an appropriate critical evaluation of any policy proposals contained in the book.

### Grading Policy

Final grades will be calculated out of a total of 1300 points, distributed as follows:

Table 1: Grading Policy

Assignment	Points	Percentage
Discussion Papers	500 Points	≈ 38.5%
Take Home Exams	300 Points	≈ 23.1%
Research Proposal and Presentation	300 Points	≈ 23.1%
Book Review	200 Points	≈ 15.3%
<b>Total</b>	<b>1300 Points</b>	<b>100%</b>

Unless you have an excuse from the Provost **I do not accept late work.**

## Grading Scale

A standard grading scale will be used:

A: 93.5% and up. A-: 90%-93.4%. B+: 87.5% - 89.9%. B: 83.5% - 87.4%.

B-: 80%-83.4%. C+: 77.5% -79.9%. C: 73.5% - 77.4%. C-: 70% - 73.4%.

D+: 67.5%-69.9%. D: 63.5%-67.4%. D-: 60%-63.4%. F: Below 60%.

## University Policies

### Honor Code

The Belmont community values personal integrity and academic honesty as the foundation of university life and the cornerstone of a premiere educational experience. Our community believes trust among its members is essential for both scholarship and effective interactions and operations of the University. As members of the Belmont community, students, faculty, staff, and administrators are all responsible for ensuring that their experiences will be free of behaviors, which compromise this value. In order to uphold academic integrity, the University has adopted an Honor System. Students and faculty will work together to establish the optimal conditions for honorable academic work. Following is the Student Honor Pledge that guides academic behavior:

*"In affirmation of the Belmont University Honor Pledge, I will not give or receive aid during examinations; I will not give or receive false or impermissible aid in course work, in the preparation of reports, or in any other type of work that is to be used by the instructor as the basis of my grade; I will not engage in any form of academic fraud in the fulfillment of my requirements for graduation whether curricular or co-curricular. Furthermore, I will uphold my responsibility to see to it that others abide by the spirit and letter of this Honor Pledge."*

### Accommodation of Disabilities

In compliance with Section 504 of the Rehabilitation Act and the Americans with Disabilities Act, Belmont University will provide reasonable accommodation of all medically documented disabilities. If you have a disability and would like the university to provide reasonable accommodations of the disability during this course, please notify the Office of the Dean of Students located in the Beaman Student Life Center (615-460-6407) as soon as possible.

### Course Evaluations

Belmont University provides all students with the opportunity to evaluate their courses. Toward the end of each semester, students will be made aware that the online course evaluations are open. Students are expected to participate in course evaluations when they are made available.

## Course Schedule

The tentative course outline will be as follows. I reserve the right to diverge from this outline based on the pace of the course. In what follows I will use "G" to refer to Gandolfo (2002) and "E" to refer to Epstein (2005). All other assigned readings will be referenced by the appropriate author/year citation. Any assigned readings not in the textbook(s) will be posted on Blackboard under the "Readings" tab.

### **Week 01, 08/23 - 08/27:** Introduction, Balance of Payments Accounting

- W: Introduction, Syllabus, Five Facts About International Monetary Economics
- F: Balance of Payments Accounting, G Ch. 5.

### **Week 02, 08/30 - 09/03:** Balance of Payments Accounting

- M: G Ch. 5., cont.
- W: G Ch. 6.
- F: Gray and Gray. 1998. "International Payments in a Flow-of-Funds Format." *Journal of Post Keynesian Economics*.

### **Week 03, 09/06 - 09/10:** The Foreign Exchange Market, Introduction to Exchange Rate Regimes

- M: **Labor Day, NO CLASS**
- W: G Ch. 2., Ch. 3.
- F: Eichengreen, B. 2004. "Global Imbalances and the Lessons of Bretton Woods." *NBER Working Paper* 10497.

### **Week 04, 09/13 - 09/17:** Interest Rate Parity Conditions, More on Historical Exchange Rate Regimes

- M: G Ch. 4.
- W: G Ch. 4., cont.
- Eichengreen, B. 2008. "The Gold Standard." in *Globalizing Capital*. Princeton: Princeton University Press.

### **Week 05, 09/20 - 09/24:** Theoretical Approaches to the Balance of Payments

- M: G Ch. 7. The Elasticity Approach
- W: G Ch. 7. The Elasticity Approach
- F: G Ch. 8. The Multiplier Approach

### **Week 06, 09/27 - 10/01:** The Mundell-Fleming Model: Theory and Policy

- M: G Ch. 10.
- W: G Ch. 10., cont. Ch.11
- F: G Ch. 11., cont.  
Schaeffer, P., and Willardsen, K. "A Note on the Tinbergen Rule."

### **Week 07, 10/04 - 10/08:** The Mundell-Fleming Model: Further Considerations

- M: Mundell, R. 1961. "A Theory of Optimum Currency Areas." *American Economic Review*, 51(4): 657-665.  
Calvo, G., and Mishkin, F. 2003. "The Mirage of Exchange Rate Regimes for Emerging Market Countries." *Journal of Economic Perspectives*, 17(4): 99-118.
- W: Rey, H. 2016. "International Channels of Transmission of Monetary Policy and the Mundellian Trilemma." *NBER Working Paper* 21852. **EXAM 1 POSTED.**
- F: Schulmeister, S. 2000. "Globalization Without Global Money: The Double Role of the Dollar as National Currency and World Currency." *Journal of Post Keynesian Economics*, 22(3): 365-395.

**Week 08, 10/11 - 10/15:** The Monetary Approach to the Balance of Payments, Purchasing Power Parity

- M: G., Ch. 12.
- W: G., Ch. 12, cont.
- F: Taylor, A., and Taylor, M. 2004. "The Purchasing Power Parity Debate." *Journal of Economic Perspectives*, 18(4): 135-158. **EXAM 1 DUE.**

**Week 09, 10/18 - 10/22:** Open-Economy Considerations in Models of Economic Growth

- M: **Fall Break, NO CLASS.**
- W: Thirlwall, A. 1979. "The Balance of Payments Constraint as an Explanation of International Growth Rate Differences."  
Blecker, R. 2021. "Thirlwall's Law is *not* a Tautology, but *some* Empirical Tests of it Nearly Are." *Review of Keynesian Economics*, 9(2): 175-203.
- F: Cuddington et al. 2002. "Prebisch-Singer Redux."  
Frenkel, R., and Taylor, L. 2006. "Real Exchange Rate, Monetary Policy and Employment: Economic Development in a Garden of Forking Paths."

**Week 10, 10/25 - 10/29:** Capital Flows, Distributive Conflict, and Currency Crises

- M: Lucas, R. 1990. "Why Doesn't Capital Flow from Rich to Poor Countries?" *American Economic Review*, 80(2): 92-96.  
Alfaro, R., et al. 2008. "Why Doesn't Capital Flow From Poor to Rich Countries? An Empirical Investigation." *Review of Economics and Statistics*, 90(2): 347-368.
- W: Jayadev, A. 2007. "Capital Account Openness and the Labour Share of Income." *Cambridge Journal of Economics*, 31: 423-443.  
Furceri, D., and Loungani, P. 2015. "Capital Account Liberalization and Inequality." *IMF Working Paper*. **EXAM 2 POSTED.**
- F: Diaz-Alejandro, C. 1985. "Good-Bye Financial Repression, Hello Financial Crash." *Journal of Development Economics*, 19: 1-24.  
Kaminsky, G. 2006. "Currency Crises: Are They All the Same?" *Journal of International Money and Finance*, 25: 503-527.

**Week 11, 11/01 - 11/05:** Financial Liberalization and the United States Economy

- M: E, Ch. 1., E. Ch. 4.
- W: TBD.
- F: Crotty, J. 2008. "If Financial Market Competition is so Intense, Why are Financial Firm Profits so High? Reflections on the Current 'Golden Age' of Finance." *Competition & Change*, 12(2): 167-183. **EXAM 2 DUE.**

**Week 12, 11/08 - 11/12:** Financial Liberalization and the World Economy

- M: E, Ch. 7.
- W: E., Ch. 9.
- F: **Luke at a Conference, NO CLASS MEETING (discussion prompt on Blackboard)**

**Week 13, 11/15 - 11/19:** Policy Issues

- M: E., Ch. 17.
- W: Eatwell, J., and Taylor, L. 1999. "Towards an Effective Regulation of International Capital Markets." (Also see Ch. 1, Ch.5, Ch.6 of Eatwell and Taylor (2000)).
- F: Zucman, G. 2013. "The Missing Wealth of Nations: Are Europe and the U.S. Net Debtors or Net Creditors?" *Quarterly Journal of Economics*.  
Wright, T., and Zucman, G. 2018. "The Exorbitant Tax Privilege." *NBER Working Paper* 24983.

**Week 14, 11/22 - 11/26:**

- M: Luke at a Conference, NO CLASS MEETING (discussion prompt on Blackboard)
- W: Thanksgiving Break, NO CLASS
- F: Thanksgiving Break, NO CLASS

**Week 15, 11/29 - 12/03:** Research Proposal Presentations

- M: Presentations
- W: Presentations
- F: Presentations, **Research Proposal Paper Due on Blackboard.**

**Week 16, 12/06 - 12/10:** Conclusion

- M: Finish any remaining presentations, wrap-up. **BOOK REVIEW DUE.**
- W: Academic Preparation Day. **FINAL EXAM POSTED.**
- F: Finals begin. All outstanding work including the final exam is due on Blackboard by the end of the university assigned final exam period.