

Macroeconomic Policy and International Financial Regulation (subject to revision)

1. INTRODUCTION

This course surveys international macroeconomics, with special reference to international monetary policy and international financial market architecture. Topics include the structure of international financial markets; the role of central banks; exchange-rate systems; the determination of balance of payments and exchange rates; macroeconomics of open economies; policy analysis for open economies; policy coordination; the International Monetary Fund; and financial crises.

The aim of this course is to provide an analytical background for those who plan to go into government service, international organizations and agencies, businesses involved in the global economy, nongovernmental organizations with international foci, and consulting firms analyzing international policy issues.

Only those who are comfortable with algebraic and graphical analysis should enroll in this course. It requires sustained immersion in relevant economic theory, and does not present a primarily descriptive or historical approach.

2. OFFICE HOURS

Instructor:
M 1-3 (107 Observatory Hill Office Bldg., 263-1802)
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Updated information will be posted on the course website,
http://www.ssc.wisc.edu/~mchinn/web854_s09.html.

3. SCHEDULE AND READINGS

The textbook is Caves, Frankel and Jones, *World Trade and Payments*, 10th Edition (Addison-Wesley Longman, 2006) available at the University Bookstore. Additional required readings will be assigned during the semester from the Web, including portions of the *Economic Report of the President, 2009* (forthcoming, January). You will also be expected to refer to the following weblog for current macroeconomic commentary: <http://www.econbrowser.com> .

LEC.	DATES	TEXT	WEB	TOPICS
1	1/21	15	1,2	Intro; Balance of payments accounting
2	1/26	16.1	3	Foreign exchange market
3	1/28	16.2	4	Elasticities, devaluation effects
4	2/2	17.1-2		National savings identity
5	2/4	17.3-4		Keynesian model; multipliers
6	2/9	17.5-6		Large country effects
7	2/11	18.1		Transmission of effects
8	2/16	18.2		Expenditure switching/reduction
9	2/18	18.3		Monetary factors
10	2/23	19.1		Monetary approach to balance of payments
11	2/25	19.2-3	5	Purchasing power parity
12-14	3/2-9	22.1		Fiscal & monetary policy in open economies
13	3/4			Midterm 1
15-16	3/11-23	22.2-3		Mundell-Fleming, fixed exchange rates
17-18	3/25-30	23.1-4, 25.1-3	6	Mundell-Fleming, floating exchange rates
19	4/1		7	Causes of the financial crisis
20	4/6			Complications in the M-F model
21	4/8	27.1	8	Interest rate parity
22-23	4/13-15	27.2,4-6, 28	9	Monetary models of exchange rates
24	4/20	27.3		bubbles
25	4/22			Midterm 2
26	4/27	23.3-4	10	Policy discussion: The impossible trinity
27-28	4/29-5/4			Policy discussion: Financial crisis
29	5/6			Policy discussion: Global recession

Web Required Readings

1. IMF, *World Economic Outlook, 2008* (October), Chapters 1, 4, November update
2. Council of Economic Advisers, *Economic Report of the President, 2009*.
3. G. Galati and A. Heath, 2007, "What drives the growth in FX activity? Interpreting the 2007 triennial survey," *Quarterly Review* (Basle: BIS, December).
4. M. Chinn, 2004, "Incomes, Exchange rates and the U.S. trade deficit, once again," *International Finance* 7(3): 451-469.
5. M. Pakko and P. Pollard, 2003, "Burgernomics: a big Mac guide to purchasing power parity," *Federal Reserve*

Bank of St. Louis Review 85(6): 9-28.

6. T. Dalsgaard, C. André and P. Richardson, 2001, "Standard shocks in the OECD Interlink model," *Economics Department Working Paper* No. 306 (Paris: OECD, September).
7. M. Brunnermeier, forthcoming, "Deciphering the Liquidity and Credit Crunch of 2007-08," *Journal of Economic Perspectives*.
8. M. Chinn, 2006, "The Rehabilitation of Interest Rate Parity in the Floating Rate Era: Longer Horizons, Alternative Expectations, and Emerging Markets," *JIMF*.
9. M. Hutchison, 2003, "Is official foreign exchange intervention effective," *FRBSF Economic Letter* 2003-20 (July 18).
10. J. Frankel, 2003, "Experience of and lessons from exchange rate regimes in emerging economies," mimeo (Cambridge: Harvard University, September).

4. GRADING

Letter grading is determined as follows:

- 10% Problem sets
- 50% Two midterm exams (25% each)
- 40% Term paper

There will be no make-up midterm exams. Missed midterm exams will increase accordingly the weight assigned to the other midterm and the term paper. Assignments will be handed into me in lecture on the indicated date. Late assignments will not be accepted for credit. Although the problem sets do not constitute a large portion of the grade, I strongly encourage you to do the assignments in a timely and serious fashion. The problem sets provide valuable information regarding your grasp of the concepts.

5. THE TERM PAPER

A 15 page term paper will be due at the end of the semester. The paper will be structured as a memo written for a policymaker. You will have latitude in terms of the choice of topic. However, I will be able to give you more guidance on certain topics than others. Additional details regarding this assignment, along with suggested readings, will be provided later in the term.