

Macroeconomic Policy and International Financial Regulation

(preliminary, 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

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Updated information will be posted on the course website,
http://www.ssc.wisc.edu/~mchinn/web854_s13.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, 2013* (forthcoming, February). You will also be expected to read news articles related to current events, in either Reuters, Bloomberg, *New York Times* or the *Economist*. In addition, I will refer to the following weblog for current macroeconomic commentary: <http://www.econbrowser.com> .

LEC.	DATES	TEXT	WEB	TOPICS
1	1/23	15	WEO	Intro; Balance of payments accounting
2-3	1/28-30	16.1	BIS	Foreign exchange market
4	2/4	16.2		Elasticities, devaluation effects
5	2/6	17.1-2		National savings identity
6	2/11	17.3-4	KEY, KEY2	Keynesian model; multipliers
7	2/13	17.5-6, 18.1	CEA	Large country effects; transmission of effects
8	2/18	18.2		Expenditure switching/reduction
9-10	2/20-25	18.3	ISLM	IS-LM
11	2/27	26.1	ADAS	Aggregate Demand/Aggregate Supply
12-13	3/4-6	22.1	ISLMTB	Fiscal & monetary policy in open economies
14	3/11			Midterm 1
15-16	3/13-18	22.2-3	MF1	Mundell-Fleming, fixed exchange rates
17-18	3/20-4/1	23.1-4, 25.1-3	MF2, MF3	Mundell-Fleming, floating exchange rates
			OECD, ACI	
19-20	4/3-8		CCLM, Br	Banks in IS-LM
21	4/10	19.2-3,27.1	PPP, PP,	PPP, IRP
			IRP,Ch	
22-23	4/15-17	27.2,4-6, 28	XR,Hu	Monetary models of exchange rates
24	4/22	27.3	Bub.	bubbles
25	4/24			Midterm 2
26	4/29	23.3-4	Fr	Emerging market financial crises
27-28	5/1-6			Euro area crisis
29	5/8			Rebalancing

Web Required Readings

- WEO: IMF, *World Economic Outlook update* (January 2013).
 BIS: BIS, *Triennial Central Bank Survey: Report on global foreign exchange market activity in 2010* (Basel, December 2010).
 KEY: Notes on the Keynesian Model
 KEY2: Notes on Two Country Keynesian Model
 CEA: Council of Economic Advisers, *Economic Report of the President, 2012*, Chapter 1.
 ISLM: Notes on IS-LM
 ADAS: Notes on AD/AS
 PP: 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.
- PPP: Notes on PPP
- ISLMTB: Notes on IS-LM-TB
- MF1: Notes on IS-LM-BP under Fixed Exchange Rates
- MF2: Notes on IS-LM-BP under Flexible Exchange Rates
- MF3: Notes on IS-LM-BP under Flexible Exchange Rates with Expected Depreciation
- OECD: Hervé, K. et al., 2010, "The OECD's New Global Model", *OECD Economics Department Working Papers*, No. 768 (Paris: OECD, September).
- CCLM: Notes on CC-LM
- Br: Deciphering the Liquidity and Credit Crunch, 2007-2008," *Journal of Economic Perspectives* 23(1) (Winter 2009).
- IRP: Notes on IRP
- Ch: M. Chinn, 2006, "The Rehabilitation of Interest Rate Parity in the Floating Rate Era: Longer Horizons, Alternative Expectations, and Emerging Markets," *JIMF*.
- XR: Notes on the Monetary Model of Exchange Rates
- Hu: M. Hutchison, 2003, "Is official foreign exchange intervention effective," *FRBSF Economic Letter* 2003-20 (July 18).
- Bub: Notes on Bubbles
- Fr: 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.