OPEN ECONOMY MACROECONOMIC ANALYSIS

SYLLABUS

This course examines key issues in open economy macroeconomics, including the foreign exchange market, international monetary arrangements, the balance of payments and current account imbalances, national income accounting, external debt, the effectiveness of monetary and fiscal policies in open economies, the determinants of exchange rate changes, balance of payments crises, and the economics of monetary integration. The course is policy-oriented, analyzing case studies and issues relating to the U.S. budget and current account deficits, the value of the dollar, the Japanese economy, Chinese trade and the value of the yuan, capital flows and financial crises in emerging markets, the operation of the European Monetary System and the European Central Bank, contagion and the international transmission of economic disturbances, and other related topics.

Course requirements include: 6 problem sets (40%), midterm exam (30%) and final exam (30%).

The basic textbook for the course is:


The book will be updated in the lectures and supplemented with recent articles by academics and policymakers.

The following topics are covered:

May 18  Globalization, Exchange Rates, and International Competitiveness
May 25  Central Banks and Monetary Arrangements in Open Economies
June 1  Capital Flows and International Financial Markets
June 8  The Balance of Payments and National Income Accounts: Measuring Trade, Investment, Income and Indebtedness
June 15 Midterm Exam
June 22  Macroeconomic Analysis Under Flexible Exchange Rates
June 29  Documentary: The Commanding Heights: The Battle for the World Economy
July 6  Fixed Exchange Rates and Balance of Payments Crises in Emerging Markets
July 13  Macroeconomics and Long-Run Economic Growth
July 20  Final Exam
## READING LIST

1. **Globalization, Exchange Rates and International Competitiveness**

   **Topics**
   Indexes of openness in the goods and assets markets, the foreign exchange market currency markets in the U.S. and the world, multilateral exchange rates, measuring international competitiveness, nominal and real exchange rates, purchasing power parity.

   **Readings**
   Rivera-Batiz and Rivera-Batiz, Introduction and Chapters 1, 3 and 10 (257-263).


2. **Central Banks and Monetary Arrangements in Open Economics**

   **Topics**
   Central banks and exchange rate regimes, central bank mission and governance, the money supply process in the open economy, and the European Central Bank, the Bretton Woods and post-Bretton Woods international monetary systems.

   **Readings**
   Rivera-Batiz and Rivera-Batiz, chapters 2 and 14, pp. 372-82.


Topics
Interest rates in world capital markets, covered interest parity condition, political risk, the effects of the liberalization of capital flows, asset price bubbles, sudden stops, financial crises in emerging markets.

Readings
Rivera-Batiz and Rivera-Batiz, Chapter 4.


4. The Balance of Payments and National Income Accounts: Measuring Trade, Investment, Income and Indebtedness

Topics
Balance of payments concepts, balance of trade, the current account balance, the official reserve settlements account, the U.S. international investment position, savings, investment and the current account balance, and the U.S. twin deficits.

Readings
Rivera-Batiz and Rivera-Batiz, *International Finance and Open Economy Macroeconomics*, chapters 9, 10 and 11


5. Macroeconomic Analysis Under Flexible Exchange Rates

Topics: The Mundell-Fleming model, the real exchange rate and Dutch disease, the effects of monetary and fiscal policies under floating exchange rates, exchange rate volatility, effectiveness of foreign exchange market intervention, and the value of the dollar.

Readings: Rivera-Batiz and Rivera-Batiz, International Finance and Open Economy Macroeconomics, chapter 13 and 15.


6. Fixed Exchange Rates and Balance of Payments Crises in Emerging Markets


Readings: Rivera-Batiz and Rivera-Batiz, International Finance and Open Economy Macroeconomics, chapters 12, 14 and 20.


7. **Macroeconomics and Long-Run Economic Growth**

**Topics**
Determinants of long-run economic growth, demographics, education and technological change, the new economy, public sector governance and policy, finance and banking, macroeconomic stability.

**Readings**

