

**International Finance and Monetary Policy U6018**  
**Executive MPA Program / Columbia University**

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Fall 2004  
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Saturdays, 9:00 - 11:00

**Required Textbooks:**

1. The World Economy: Trade and Finance, Sixth Edition, by Beth V. Yarbrough and Robert M. Yarbrough, Harcourt College Publishers, 2003.
2. The Chastening: Inside the Crisis that Rocked the Global Financial System and Humbled the IMF, by Paul Blustein, Public Affairs, 2001.

The Yarbrough and Yarbrough book is the main text for the course, supplemented by the listed articles. The Chastening is an entertaining and well-written account of certain currency crises of the late 1990s. It will not be specifically discussed in class but you should be reading it throughout the semester, and you should be finished by the time of the presentation on November 13<sup>th</sup>. If you read at an even pace, this means about 2 chapters a week.

**Course Description:** This course will discuss international finance and the international monetary system. We will develop analytical tools helpful in understanding foreign exchange markets, the banking system, and the consequences of monetary policy under different exchange rate regimes. By the end of the course, the student should be able to use the tools developed to analyze current policy issues such as international exchange rate and financial crises. I recommend that students regularly read the financial press such as The Economist or The Financial Times to keep abreast of and analyze current issues in the context of the course.

**Grading:** Grades will be based on a mid-term exam (35%), a final exam (35%), class participation (10%), and a group project (20%). The final will **not** be cumulative.

**Group Project:** Students will divide into groups of about 4 or 5 students. Each group will analyze a recent currency/financial crisis in a country of the group's choice. Information from any source can be used, but you will probably find the theory presented in class and the discussion in The Chastening to be useful. The output of the project will consist of two parts. First, a presentation will be done in class on November 13<sup>th</sup>. Second, a written account of the presentation will be handed in on the same day.

September 11

Introduction and Review of IS Curve in Closed and Open Economies

Y&Y Chapter 14

September 18

Currency Markets

Y&Y Chapter 12

September 25

Review of Balance of Payments Accounts

Y&Y Chapter 13

October 2

Money, the Banking System, and Banking Crises

Y&Y Chapters 15.1, 15.2, 15.3

Caprio and Honohan "Restoring Banking Stability: Beyond Supervised Capital Requirements." Journal of Economic

Perspectives, Volume 13, number 4, Fall 1999, pp. 43-64.

Summers. "International Financial Crises: Causes, Prevention, and Cures." American Economic Review. Volume 90, May 2000. pp. 1-16.

#### October 9

Interaction Among the Markets for Foreign Exchange, Money, and Goods and Services

Y&Y Chapter 15.4, 15.5, 15.6, 15.7

Mishkin "Global Financial Instability: Framework, Events, Issues." Journal of Economic Perspectives, Volume 13, number 4, Fall 1999, pp. 3-20.

Review again Summers article from previous class.

#### October 16

Monetary Policy Under Fixed Exchange Rates

Y&Y Chapter 16

Edwards "How Effective are Capital Controls?" Journal of Economic Perspectives, Volume 13, number 4, Fall 1999, pp. 65-84.

#### October 23

Monetary Policy Under Flexible Exchange Rates

Y&Y Chapter 17

Rogoff "International Institutions for Reducing Global Economic Instability." Journal of Economic Perspectives, Volume 13, number 4, Fall 1999, pp. 21-42.

**October 30: No Class Held. Work on take-home Mid-Term Exam and your Project Presentation.**

#### November 13

**Project Presentation + Hand in Mid-Term Exam.**

#### November 21

Long-Run Equilibrium Exchange Rates: PPP, The Monetary Approach, and the Real Exchange Rate

Y&Y Chapter 18

#### December 4

International Monetary Regimes: The Gold Standard and Bretton Woods

Y&Y Chapter 20.1 – 20.6

Fischer "On the Need for an International Lender of Last Resort." Journal of Economic Perspectives, Volume 13, number 4, Fall 1999, pp. 85-104.

#### December 11

The Fixed Versus Flexible Debate, the EU, and Review

Y&Y Chapter 20.7, 20.8

Wyplotz "EMU: How and Why it Might Happen." Journal of Economic Perspectives, Volume 11, number 4, Fall 1997, pp. 3-22.

**December 18 : In-Class Final Exam**