

Summer 2004  
Executive MPA Program  
School of International and Public Affairs  
Columbia University  
Tuesday, 6:30-9:30 p.m.

Professor Carlos Seiglie  
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400 IAB

### **U6035: OPEN ECONOMY MACROECONOMIC ANALYSIS**

This course will provide an introduction to open-economy macroeconomics. The primary objective of the course is to provide the basic tools needed to analyze the foreign exchange market, interest rates, inflation and business cycles in an interdependent world and the effectiveness and limitations of fiscal and monetary policy in an open economy. Your final grade for the course will be based on performance on a midterm exam (counting 35%), final exam (35%) and a series of problem sets (30%).

It is extremely valuable for students to read the Wall Street Journal, The Economist or the Financial Times to keep abreast of changes in the international environment. Also some very useful web-sites include:

[www.wto.org/](http://www.wto.org/). Web site of the World Trade Organization.

[www.worldbank.org/](http://www.worldbank.org/) Web site of the World Bank.

[wallstreeter.com/bankfrm.htm](http://wallstreeter.com/bankfrm.htm). Provides links to more than 100 central banks.

<http://fx.sauder.ubc.ca/>: Provides list of currencies and information on each country's exchange rate regime. Also provides current and historical daily exchange rates.

[europa.eu.int/](http://europa.eu.int/) Web site of the European Union

[www.ecb.int/](http://www.ecb.int/) Web site of the European Central Bank.

[www.imf.org/external/about.htm](http://www.imf.org/external/about.htm). Web site of the IMF with discussion of the history of the international monetary system and the IMF's role.

[www.bea.doc.gov](http://www.bea.doc.gov). Web site of the Bureau of Economic Analysis.

[www.oanda.com/](http://www.oanda.com/) Provides current rates and forecasts of world's major currencies.

[www.jpmorgan.com/MarketDataInd/EMBI/embi.html](http://www.jpmorgan.com/MarketDataInd/EMBI/embi.html). Data on JP Morgan's emerging-markets bond index.

[www.dowjones.com/indexes/home.html](http://www.dowjones.com/indexes/home.html). Information on Dow Jones Global Indices and downloadable daily data from 1992.

[www.fxoptions.net/](http://www.fxoptions.net/) Contains calculator for pricing foreign exchange derivatives.

<http://www.stern.nyu.edu/globalmacro/>. Professor Nouriel Roubini's website on crises in emerging markets and international finance.

## COURSE OUTLINE AND READINGS.

The textbook for the course is **World Trade and Payments** (9th edition, Addison Wesley, 2002) by R. Caves, J. Frankel and R. Jones (CFJ).

Additional readings will be available on *Courseworks*. Note (\*) indicates required.

Problem sets are due at the beginning of the class following the week they are assigned and must be handed in on time. Class participation and discussion of the topics covered in the course is encouraged.

<u>Approx. Lecture</u>	<u>Approx Date</u>	<u>Topic</u>
	<b>Week of:</b>	
1	May 17	<b>National Income and Balance of Payments Accounts</b>  Readings: CFJ, Chapter 15 <a href="http://www.bos.frb.org/economic/special/balofpay.pdf">http://www.bos.frb.org/economic/special/balofpay.pdf</a>
1	May 17	<b>Trade Balance and Exchange Rates</b>  Readings: CFJ, Chapter 16 and Supplement p. S-44.* Exchange rate markets in the US: see <a href="http://www.ny.frb.org/education/addpub/usfxm/">http://www.ny.frb.org/education/addpub/usfxm/</a> * Classification of Exchange Rate Regimes: see <a href="http://www.imf.org/external/pubs/ft/wp/2002/wp02155.pdf">http://www.imf.org/external/pubs/ft/wp/2002/wp02155.pdf</a>
2	May 31	<b>The Keynesian Model</b>  Readings: CFJ, Chapters 17 and 18.*
3	June 7	<b>Monetary Approach to the Balance of Payment</b>  Readings: CFJ, Chapter 19 and Supplement pp. S-45-48.* Reading on PPP: <a href="http://research.stlouisfed.org/publications/review/96/01/9601mp.pdf">http://research.stlouisfed.org/publications/review/96/01/9601mp.pdf</a> <b>The Impact of Non-Traded Goods</b> Reading: CFJ, Chapter 20.*
4	June 14	<b>Some Aspects of the Financial Markets</b>  Readings: CFJ, Chapter 21 * Basics of Foreign Exchange <a href="http://research.stlouisfed.org/publications/review/84/03/Foreign_Mar1984.pdf">http://research.stlouisfed.org/publications/review/84/03/Foreign_Mar1984.pdf</a> *

- 4                      June 14                      **Fiscal and Monetary Policy with Capital Mobility and Fixed Exchange Rates: The Mundell-Fleming model**
- Readings: CFJ, Chapter 22. \*  
Understanding Open Market Operations:  
<http://www.ny.frb.org/education/addpub/omo.html>
- Midterm Week of June 22
- 5                      June 28                      **Fiscal and Monetary Policy with Capital Mobility and Flexible Exchange Rates: The Mundell-Fleming model**
- Readings: CFJ, Chapter 23.\*  
Guillermo Calvo, Leo Leiderman and Carmen Reinhart, “Inflows of Capital to Developing Countries in the 1990s,” J. of Econ. Perspectives, Spring 1996, 123-139.
- 5                      July 5                      **Crises**
- Readings: CFJ, Chapter 24.\*  
Kaminsky, Graciela L. and Carmen M. Reinhart  
“The Twin Crises: The Causes of Banking and Balance of Payments Problems,” *American Economic Review* 89, June, 1999: 473-500.  
See Nouriel Roubini’s website for Asian Crises
- 6                      July 5                      **Interdependence and Policy Coordination**
- Readings: CFJ, Chapters 25 and pp. S-48-51.\*
- 7                      July 12                      **Aggregate Supply and Inflation**
- Readings: CFJ, Chapter 26 and p. S-51.\*
- 8                      July 12                      **Determination of Exchange Rates: Expectations and Risk**
- Readings: CFJ, Chapters 27-28 and pp. S-52-59.\*