



SAINT LOUIS UNIVERSITY, MADRID CAMPUS
Faculty of Business Administration & Economics

1 Course Information

Course Title: Exchange Rates and the Global Economy
Course Number: ECON4310
Semester: Spring 2018
Prerequisite: ECON3120
Credit Hours: 3
Meeting Day(s): Monday/Wednesday
Meeting Time(s): 09:30-10:45
Room: PRH-16

2 Instructor Information

Name: David Howden
E-mail: david.howden@slu.edu
(please use the prefix “ECON4310” to start the subject line in all e-mails pertaining to this class. For example: “ECON4310 – I will be absent on Monday”)
Office Location: PAH, attic
Office Hours: Monday 15:00-18:30, and Tuesday/Thursday, 14:00-17:30
Contacting me: First, ask questions in class (it helps and others will likely have the same questions). Second, come see me during my office hours as listed above. Third, if neither of these options is possible, please send me an e-mail and alternative arrangements can be decided on.

3 Textbook and Other Instructional Material

Required Reading: Paul R. Krugman and Maurice Obstfeld. *International Economics: Theory and Policy*, 8th edition. Pearson/Addison Wesley.

Suggested Reading: In the library, print copies of *The Economist* magazine and *Financial Times* are available. You are encouraged to read these weekly to stay up-to-date on current topics in international finance. You will likely find that this will be helpful in preparing for the second part of the semester, when you will work on a term paper applying the theory we learn in class.

The following two books are also recommended to give you some historical and

recent perspective on the material learnt in class. You will not be tested on material in these books, though they are easy reading and will reinforce the concepts that you learn in class.

[1] Barry Eichengreen. 2011. *Exorbitant privilege: The rise and fall of the dollar and the future of the international monetary system*. Oxford University Press.

[2] James Rickards. 2011. *Currency wars: The making of the next global crisis*. Portfolio/Penguin.

[3] Barry Eichengreen. 2014. *Hall of Mirrors: The Great Depression, The Great Recession, and the Uses-and Misuses-of History*. Oxford University Press.

Supplements: Supplementary readings will be provided as the semester progresses, or posted to Blackboard.

4 Course Description

This course examined the interactions between national economies through the international financial markets. In other economics courses the focus is generally on a closed economy, thus neglecting the intricacies of the increasingly important global financial markets (this course could also be thought of as “International Finance”, or “Open Market Macroeconomics”, in this regard). On the goods side we will see how country-specific goods’ prices are related through capital flows (i.e., international lending and borrowing). Sovereign debt and its now-more-than-ever related topic of default will be assessed. We will look at the history of the international monetary system, giving special attention to the emergence of the European Monetary Union. We will overview the variety of different exchange rate regimes, as well as their resultant policies such as exchange rate management, currency unions and active stabilization to combat speculative crises. Finally, we will assess the current state of affairs in the world through a mix of both theoretical and empirical methods.

5 Course Outline

This course is divided into two main sections. The first deals as a theoretical foundation for the determination of exchange rates in both the short and long runs. The complex relationship between money, interest rates and exchange rates will be clarified. This primarily theoretical part of the course will provide you with the tools necessary to apply in the second part (and also to use in your term paper that you *should* write in the second part). In particular the second part of the course applies this theoretical foundation to the myriad of exchange rate regimes – primarily flexible rate, fixed rate and currency unions. After giving a brief historical account of some different global exchange rate regimes (i.e., the gold standard and the Bretton Woods regimes) we will turn attention to Europe and its still infant (though quickly maturing) currency union. Part of this focus will be a look at some of the more salient factors at play – both causing and resulting – from the current economic crisis.

6 Learning Objectives

After successfully completing *Exchange Rates and the Global Economy*, students will be able to:

- The role of trade and capital balances on the economy
- The importance of exchange rates in the determination of trade and capital balances
- The determinants of exchange rates
- The relationship between exchange and interest rates
- Reasons why exchange rates fluctuate
- Advantages and disadvantages of different exchange rate regimes
- The functioning of different exchange rate regimes such as: dollarization, optimal currency areas, target zones and currency unions
- The consequences, costs and benefits of financial globalization
- Policies and issues with exchange rate and capital flow management
- The origin, behavior and management of international financial crises

7 Course Requirements

Grading: Letter grades are based on a 100 percent grading scale. The percentage you earn determines your course letter grade (i.e., your “final grade” in this course).

Grading Scale: A mark of x on an examination or assignment will result in a(n):

| | | |
|------------------------|--------------------------|------------------------|
| $90.0 < x < 94.9 = A-$ | $95.0 < x \leq 100 = A$ | |
| $80.0 < x < 82.9 = B-$ | $83.0 < x < 86.9 = B$ | $87.0 < x < 89.9 = B+$ |
| $70.0 < x < 72.9 = C-$ | $73.0 < x < 76.9 = C$ | $77.0 < x < 79.9 = C+$ |
| | $60.0 \leq x < 69.9 = D$ | |
| | $x < 59.9 = F$ | |

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|-------------------------|---------------------------------|-------------|
| Grade Breakdown: | Midterm exams (each worth 20%): | 40% |
| | Final examination: | 25% |
| | Weekly Quizzes: | 20% |
| | <u>Term paper</u> | <u>15%</u> |
| | Total: | 100% |

Midterm Examination: The midterm examinations will be given as closed book, containing questions ranging from multiple choice, short answer and essay questions.

Final Examination: The final examination will be cumulative (i.e., cover *all* material covered during the semester), with special attention given to the final half of the course.

Quizzes: At the end of each Wednesday class we will have a brief 10 minute quiz. The quiz will test subject matter learnt the previous week. In total this accounts for 20% of your final grade, which makes each quiz worth approximately 1% of your final grade. I will drop your lowest two scores. The quizzes are not meant to be tricky or

overly difficult, but to ensure that you are up to date on the course material and allow me to gauge this.

- Term Paper:** A term paper will be assigned during the second half of this class. Students are expected to write a coherent piece on a topic to be determined utilizing the theoretical concept that we discuss in class. More information to come later in the course.
- Late Policy:** Midterm and final examinations must be written on their respective dates. No alternative examinations will be scheduled except in the case of excused medical absences. Cases of excused medical absences must be petitioned for through the Chair of the department. Make-up midterms are subject to approval by the professor, the Chair and the Department of Business and Economics. All changes to the final examination must be approved by the Academic Dean.
- Attendance:** Consistent attendance is strongly encouraged for a thorough understanding of the concepts at hand. Active participation in classroom discussions is an instrumental component of this process. Concepts that are unclear to you personally are likely concerns shared among your peers as well. Economics is not a discipline which can be learned in isolation quickly prior to being graded. A strong correlation between classroom attendance and participation and course comprehension exists, and will reflect not only in this component of the grading scheme, but also in your examination marks as well. Students will be responsible for all announcements, information, problems or course changes that are made during lecture times. Students who wish to refrain from classroom participation may see me, and alternatives may be arranged.
- Please show up to class regularly and promptly. Lateness is not only disruptive, it is inexcusable (unless you have a valid excuse). I make a strong effort to give timely performance in class and expect the same of you.
- Important Dates:** Jan. 21: Last day to drop a class without a grade of W or to add a class.
Last day to choose audit (AU) or pass/no pass (P/NP) options.
Mar. 9: Last day to drop a class and receive a grade of W.
Apr. 4: Registration for fall 2018 semester opens.

8 Academic Accommodations and Learning Resources

In recognition that people learn in a variety of ways and that learning is influenced by multiple factors (e.g., prior experience, study skills, learning disability), resources to support student success are available on campus. Students who think they might benefit from these resources can find out more about:

1. Course-level support (e.g., faculty member, departmental resources, etc.) by asking your course instructor.
2. University-level support (e.g., tutoring/writing services, Disability Services) by visiting the Academic Dean's Office (San Ignacio Hall) or by going to http://spain.slu.edu/academics/learning_resources.html.

3. Students with a documented disability who wish to request academic accommodations **must** contact Disability Services to discuss accommodation requests and eligibility requirements. Once successfully registered, the student also **must** notify the course instructor that they wish to access accommodations in the course. Please contact Disability Services at disabilityservices-madrid@slu.edu or +915 54 58 58, ext. 230 for an appointment. Confidentiality will be observed in all inquiries. Once approved, information about the student's eligibility for academic accommodations will be shared with course instructors via email from Disability Services. For more information about academic accommodations, see "Student Resources" on the SLU-Madrid webpage.

Note: Students who do not have a documented disability but who think they may have one are encouraged to contact Disability Services.

9 Academic Integrity

Academic integrity is honest, truthful and responsible conduct in all academic endeavors. The mission of Saint Louis University is "the pursuit of truth for the greater glory of God and for the service of humanity." Accordingly, all acts of falsehood demean and compromise the corporate endeavors of teaching, research, health care and community service via which SLU embodies its mission. The University strives to prepare students for lives of personal and professional integrity, and therefore regards all breaches of academic integrity as matters of serious concern.

The governing University-level Academic Integrity Policy can be accessed on the Provost's Office website at: http://www.slu.edu/Documents/provost/academic_affairs/University-wide%20Academic%20Integrity%20Policy%20FINAL%20%20%206-26-15.pdf.

Additionally, SLU-Madrid has posted its academic integrity policy online: <http://www.slu.edu/madrid/academics>.

As a member of the University community, you are expected to know and abide by these policies, which detail definitions of violations, processes for reporting violations, sanctions and appeals.

10 Student Outcome Assessment

Saint Louis University-Madrid Campus is committed to excellent and innovative educational practices. In order to maintain quality academic offerings and to conform to relevant accreditation requirements, we regularly assess our teaching, services, and programs for evidence of student learning outcomes achievement. For this purpose we keep on file anonymized representative examples of student work from all courses and programs such as: assignments, papers, exams, portfolios, and results from student surveys, focus groups, and reflective exercises. *Thus, copies of your work for this course, including any exams, assignments and/or submitted papers may be kept on file for institutional research, assessment and accreditation purposes.* If you prefer that Saint Louis University-Madrid Campus does not keep your work on file, you will need to communicate your decision in writing to your professor.

11 Title IX

Saint Louis University and its faculty are committed to supporting our students and seeking an environment that is free of bias, discrimination, and harassment. If you have encountered any form of sexual misconduct (e.g. sexual assault, sexual harassment, stalking, domestic or dating violence), we encourage you to report this to the University. If you speak with a faculty member about an incident of misconduct, that faculty member must notify SLU's Title IX deputy coordinator, Marta Maruri, whose office is located on the ground floor of Padre Rubio Hall, Avenida del Valle, 28 (mmaruri@slu.edu; 915-54-5858 ext. 213) and share the basic fact of your experience with her. The Title IX deputy coordinator will then be available to assist you in understanding all of your options and in connecting you with all possible resources on and off campus.

If you wish to speak with a confidential source, you may contact the counselors at the SLU-Madrid's Counseling Services on the third floor of San Ignacio Hall (counselingcenter-madrid@slu.edu; 915-54-5858 ext. 230) or Sinews Multipletherapy Institute, the off-campus provider of counseling services for SLU-Madrid (www.sinews.es; 91-700-1979) To view SLU-Madrid's sexual misconduct policy and for resources, please visit the following web address:
www.slu.edu/Documents/Madrid/campus-life/SLUMadridSexualMisconductPolicy.pdf

12 Reading Schedule

Please complete all the following readings prior to each class. We may progress slower or faster than the following outline, hence, all dates are subject to minor changes. Examination dates are finalized. Supplementary readings may be assigned prior to each class to aid in the following class' discussion.

Part I: Exchange Rates and Open-Economy Macroeconomics

Week 1:

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|---------|----|-----------|--------------|
| January | 10 | Wednesday | Introduction |
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Week 2:

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| January | 15 | Monday | Chap. 12 National Income Accounting |
| January | 17 | Wednesday | Chap. 12 National Income Accounting Rates |

Week 3:

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| January | 22 | Monday | Chap. 13 The Asset Approach to Exchange Rates |
| January | 24 | Wednesday | Chap. 13 The Asset Approach to Exchange Rates |

Week 4:

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| January | 29 | Monday | Chap. 14 Money, Interest Rates and Exchange Rates |
| January | 31 | Wednesday | Chap. 14 Money, Interest Rates and Exchange Rates |

Week 5:

February 5 Monday Catch up and review for midterm
February 7 Wednesday Midterm Examination 1 (in class)

Week 6:

February 12 Monday Chap. 15 The Exchange Rate in the Long Run
February 14 Wednesday Chap. 15 The Exchange Rate in the Long Run

Week 7:

February 19 Monday Chap. 16 The Exchange Rate in the Short Run
February 21 Wednesday Chap. 16 The Exchange Rate in the Short Run

Week 8:

February 26 Monday Chap. 16 The Exchange Rate in the Short Run
February 28 Wednesday Chap. 16 The Exchange Rate in the Short Run

Week 9:

March 5 Monday Chap. 17 Fixed Exchange Rates
March 7 Wednesday Chap. 17 Fixed Exchange Rates

Week 10:

March 12 Monday Chap. 17 Fixed Exchange Rates
March 14 Wednesday Midterm Examination 2 (in class)

Part II: International Macroeconomic Policy

Week 11:

March 19 Monday Chap. 18 The International Monetary System, 1870-1973
March 21 Wednesday Chap. 18 The International Monetary System, 1870-1973

Week 12:

March 26 Monday No class
March 28 Wednesday No class

Week 13:

April 2 Monday Chap. 18 The International Monetary System, 1870-1973
April 4 Wednesday Chap. 18 The International Monetary System, 1870-1973

Week 14:

April 9 Monday Chap. 19 Floating Exchange Rates
April 11 Wednesday Chap. 19 Floating Exchange Rates

Week 15:

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| April | 16 | Monday | Chap. 19 Floating Exchange Rates |
| April | 18 | Wednesday | Chap. 20 Optimal Currency Areas |

Week 16:

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| April | 23 | Monday | Chap. 20 Optimal Currency Areas |
| April | 25 | Wednesday | Chap. 20 Optimal Currency Areas |

Week 17:

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| April | 30 | Monday | Wrap-up and review Term paper due (in class) |
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| May | 4 | Friday | Final Examination (09:00 – 11:30) |
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**** End of semester ****