1. Course Objective:

This course is a graduate level introduction to international finance theory and applications and is designed to introduce students to both theoretical and empirical analysis of global financial markets and open economy macroeconomics. The lectures are organized in two sections: a) exchange rates and open economy macroeconomics, where we will study the macroeconomic accounting system, balance of payments, foreign exchange market and the open economy macro theory, and b) the global capital market, performance and policy issues where we will apply the theoretical foundations from the first part to the current issues in international finance.

2. Course Structure:

The course is designed around lectures, assigned readings, and class discussions. The students are expected to come to each class after having read the assigned readings, and to participate in classroom discussions. The final grade will be based on your performance from: a) one midterm exam (October 13) (25%) and a comprehensive final exam (35%); b) a research paper (30%); c) homework assignments and class participation (10%). As a part of class participation, each student is required to present a review of at least one of the articles in the reading list in one of the assigned sessions, and serve as a discussant on another student’s research paper.

3. Term Paper

On a topic related to the course you will write an 8,000-10,000 word research paper that is due in class on April 17, or earlier. The research paper is on a topic of your choice with a well-focused question. You must make a clear argument and defend your claims rigorously and systematically with theoretical and empirical evidence. Here you have two options: a) You can use this as an opportunity to work further on your dissertation (as long as it is on international finance), b) You can choose a topic that is of interest to you and may possibly help you develop your dissertation ideas. The topic for the paper must be approved in advance. The research paper is divided into several stages, including a one-page proposal (due September 8), and the final paper (due November 22), and:

- Research presentation. Present your research paper’s argument, evidence, and implications in a 20-minute “conference-style” talk. Respond to questions.
- Serve as discussant/commentator on another student’s research paper and presentation and write 2-3 pages of critical but constructive comments, focusing on substantive arguments and evidence. Present these comments orally for 5 minutes after the subject’s research presentation (counts towards your class participation).

4. Academic Ethics:

Cheating on assignments and exams, or plagiarizing (misrepresenting as one’s own anything done by another) is penalized by the University of Oklahoma. A student found in such a situation will be given an F in the class and will be brought to University of Oklahoma Honor Council for further penalties. For further information, refer to http://www.ou.edu/honorcouncil/index.html
5. Major References


*For refreshing your undergraduate international finance class and for general reference:


6. Grading Scale

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<thead>
<tr>
<th>Grade</th>
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<tbody>
<tr>
<td>A</td>
<td>90-100</td>
<td>D</td>
<td>60-69</td>
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<tr>
<td>B</td>
<td>80-89</td>
<td>F</td>
<td>&lt; 60</td>
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<tr>
<td>C</td>
<td>70-79</td>
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I reserve the right to adjust this schedule of grade equivalents in the student’s favor.
7. Course Outline and Reading Assignments:

The following is a tentative list of topics and required (and optional *) readings. Additional readings may be assigned from time to time.

I. Exchange Rates and Open-Economy Macroeconomics

A. Background

1. National Income Accounting and the Balance of Payments

   Melvin, Ch. 2; Krugman and Obstfeld, Ch. 12


   *IFS Introduction (reference for later use)

2. The Exchange Rate Market:

   Melvin, Ch. 1; Krugman and Obstfeld, Ch. 13


Assignment 1

B. Open Economy Macroeconomics

3. a. Introduction and Overview


   Dornbusch (1980), Chs. 1-2

   Obstfeld and Rogoff, Preface and Introduction.


b. Balance of Payments Adjustment

   Dornbusch (1980), Ch. 7 (sections 2-3)

c. Non Traded Goods

   Dornbusch (1980), Ch. 6

4. Devaluation, Elasticity and Absorption Approach, and Contractionary effects

   Dornbusch (1980), Ch. 4 (sections 1-2)

   Agenor and Montiel, Ch. 8, section 1 (based on Lizondo and Montiel, 1989).


*Diaz Alejandro, C. (1964), Exchange Rate Devaluation in a Semi-industrialized Country, *Ch. 2


Assignment 2

5. Internal and External Balance

a. Two/Three Gap Models


6. a. Capital Mobility and Stabilization Policy under Fixed Exchange Rates

Dornbusch, Ch. 10


Gartner, *Macroeconomics under Flexible Exchange Rates*, Ch.1
b. The International Monetary System, 1870-1973


Midterm Exam October 13

7. Flexible Exchange Rates, Stabilization Policy and Purchasing Power Parity

Dornbusch, Ch. 11, section 1


8. Interest Rate Parity, Expectations and Exchange Rate Dynamics

Dornbusch, Ch. 11, section 2 (or, Dornbusch, R. (1976), Expectations and Exchange Rate Dynamics, Journal of Political Economy 84: 1161-76.)


9. Analytical Issues in Stabilization and Structural Adjustment Programs (Round-table discussion)

a. Shock Therapy vs. Sequencing Debate: Washington Consensus Revisited

Montiel, Ch.13-14


b. Effects of Financial Liberalization (Round-table discussion)

Montiel, Ch.12


II. The Global Capital Market: Performance and Policy Problems

10. Determinants of International Capital Flows (*Student Presentations*)

Agenor and Montiel Ch. 15


Assignment 3

11. Capital Market Integration and Financial Crisis (Round-table discussion)

a. Theory (1st, 2nd and 3rd Generation)

Background readings: *Krugman, P. Currency Crises.*

Agenor and Montiel Ch. 16


b. Empirical Evidence
Agenor and Montiel Ch. 16.4


**Assignment 4**

C. Contagion


Regional, NBER WP6806.


12. The Inter-Temporal Approach to Current Account

Obstfeld and Rogoff, Chapter 1-2.

**Final Exam Tuesday, December 14 10:30 am - 12:30 pm**