



ECON 324-101: International Monetary Relations, Spring 2014
Tuesdays and Thursdays 10:00-11:15 am, Corboy Law Center 521

Class Information

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Office Hours: Tue 11:30 am-12:30 pm
Wed 4:00-5:45 pm
and by appointment

Catalog Description

An examination of the operation of the international monetary system and an analysis of the determination of currency flows between countries, with topics of balance of payments statements, currency flows between countries, determination of exchange rates, and international liquidity problems.

Course Overview

Economists traditionally divide the general field of International Economics into two subfields: International Finance and International Trade. In this course we will ignore this division. Thus, in the first part we will analyze the main reasons for why countries trade and the impact of trade on production, prices and welfare. Additional topics include the use of quotas, tariffs and other barriers to trade, trade liberalization reforms and regional trade blocs, and the globalization debate. The second part will deal with the main issues of international finance, including the structure of the balance of payments accounts, exchange rate determination and exchange rate regimes, currency crises, global imbalances, and currency unions such as the European Monetary Union.

Course Objectives and Learning Outcomes

After taking this course, the students will be able to:

- Identify the main reasons for why trade generates economy-wide welfare gains to the

countries that open, while at the same time understand the distributional effects of trade liberalization and participate in the globalization debate.

- Develop a simple model to analyze how exchange rates are determined in the long and short run and to understand how countries conduct and implement macroeconomic policy when operating in the international economy.

Required Materials

Textbook: Feenstra, Robert C. and Taylor, Alan M. *International Economics*. Worth, 2nd edition. The ISBN for the book is 978-1429231183. The textbook is available at the Water Tower Campus University Bookstore and can also be purchased online.

Additional readings: Handouts, class notes and articles from journals and magazines will be posted on the class website in Sakai. In some instances, they might also be distributed in class. The class website will be the most important tool to communicate announcements, materials and anything related to this class. You will be responsible for all material posted on the webpage. Please check it at least once a week.

COURSE REQUIREMENTS AND GRADING CRITERIA

- **Homework Assignments.** Practice is probably the best way to master the concepts of Economics. To make sure you get your fair amount of practice, there will be five homework assignments, all of them worth the same amount of points.

Students must form groups of 4 members to work on the problem sets and each group must submit one single paper. This is a strict requirement. Of course, everyone in the group is expected to participate in the completion of the problem set.

You will usually have two weeks to complete each problem set. Note that at first two weeks may sound like a lot of time, but problem sets tend to be time consuming. Therefore, I advise you to start working on assignments well in advance of the due date. Problem sets can be word processed, but if you prefer to submit them hand written, you must make sure that they are neat and clearly legible. I will deduct points at my discretion if the problem sets are too messy.

Note: Letting other members of your group do all the work defeats the original purpose of allowing for group collaboration and is a terrible way to prepare for exams. I advise you to work on all the problems in the assignment on your own and then discuss your answers with the ones of your group members to come up with a final version. If your group decides to split the work, you must make sure that you thoroughly understand all the exercises in the problem set, not only the ones assigned to you.

No late assignments are accepted. Only documented special circumstances (such as illness or death in the family) will exempt you from this rule. If you know in advance that you will not be able to hand in an assignment on time, you must tell me before the assignment is due and hand it in early. Assignments are due at the beginning of class. Please do not submit any assignments via e-mail.

- **Examinations.** There will be one Midterm Exam and a Final Exam. The Midterm Exam will be held on **Thursday February 27** in class. The Final Exam has been scheduled for **Tuesday April 29, 1.00 pm**. This exam will be cumulative given the nature of the class. Please check LOCUS for changes in the date or location of the exam.

- **Make-up Examinations.** As per Quinlan School of Business, there will be **no make-up dates** for exams. Only under very extreme circumstances (such as an illness verified by a signed physician's note, death in the family, subpoenas, jury duty, military service, bereavement, or religious observance) an exception will be granted. Note that travel plans that conflict with an exam, unless for a college-sanctioned event, do not constitute a valid reason for rescheduling.

Please let me know as soon as possible if you are unable to take an exam on the assigned date, since last-minute requests might not be honored due to time constraints. Also, if you need special accommodations to take the exam, let me know as soon as possible so that the pertinent arrangements can be made.

- **Feedback.** Providing detailed feedback for large-size classes is challenging. Consequently, I will grade problem sets using an A/B/C scale, denoting satisfactory, average and unsatisfactory performances, respectively. I will also write down short comments explaining your grade. However, given the large volume of problem sets to be graded, it is very likely that these comments are not as detailed as you might want them to be. To overcome this issue, I will post detailed answer keys for the problem sets that will allow you to understand your grade and how to improve your future performance. Please check these answer keys thoroughly, even if you got an A mark. If you still have questions, please do not hesitate to ask me questions, so that no doubt is left unanswered.

For the Midterm Examination, on the day I return the exams I will explain the most common mistakes and how to correct them. Just as in the case of the problem sets, I will also post an answer key for the Midterm. Please do not hesitate to ask me questions if you think things have not been completely clarified.

- **Grade Distribution.** The homework assignments will count for 25% of the grade. The Midterm Exam will count for 35% of the final grade, and the Final Exam will count for the remaining 40% of the grade.

- **Grade Changes.** You can ask for a grade correction if you feel your work has been wrongfully graded. Any change of grade must be requested in writing with a clear explanation of why any modification should be made. Such a request will only be accepted within one week of your receipt of the graded material.

- **Class Participation.** The class format will be mainly lecture based. However, class participation is greatly valued and encouraged. It is important that students try to participate in class, by expressing their points of view or by giving comments. This will enrich the content of the class discussion, and at the same time it will make the class more entertaining.

QUINLAN SCHOOL OF BUSINESS POLICIES

- **In-class etiquette.** No cell phones, wireless devices or web-surfing is allowed during class time. This is a strict rule, which also applies during office hours. Please make sure to turn off your equipment before the start of the class.
- **Academic Integrity.** All members of the Quinlan School shall refrain from academic dishonesty and misconduct in all forms, including plagiarism, cheating, misrepresentation, fabrication, and falsehood. Plagiarism or cheating on the part of the student in individual or group academic work or in examination behavior will result minimally in the instructor assigning the grade of “F” for the assignment or examination. In addition, all instances of academic dishonesty will be reported to the chairperson of the department involved.

For further information about expectations for academic integrity and sanctions for violations, please consult the complete Quinlan School of Business Honor Code and Statement of Academic Integrity on the Quinlan website:

<http://www.luc.edu/media/lucedu/quinlanschoolofbusiness/pdfs/Honor-Code-Quinlan-July2012.pdf>

COURSE OUTLINE

Note that the outline below is tentative and subject to change depending on class discussion and interest. We will aim to cover one topic per class, but in some instances a topic will require more than one session to finish.

Each topic will be complemented by readings from magazines and journals. In order to keep the readings in line with current events, they will be posted online at the start of the week of the corresponding class session.

Introduction (chapter 1)

The Balance of Payments Accounting (chapter 16 and notes)

The Ricardian Model (chapter 2)

The Heckscher-Ohlin Model (chapter 4 and 7.1)

Increasing Returns to Scale and Monopolistic Competition (chapter 6)

Instruments of Trade Policy and Barriers to Trade (chapter 8 and 10.1-10.5)

The World Trade Organization (notes)

International Trade Patterns during the Great Recession (notes)

Exchange Rates and the Foreign Exchange Market (chapter 13)
 Exchange Rate Determination: The Monetary Approach in the Long Run (chapter 14)
 Exchange Rate Determination: The Asset Approach in the Short Run (chapter 15)
 Exchange Rate Crises: How Pegs Work and How They Break (chapter 20)
 The Euro (chapter 21 and notes)
 Pick-and-choose topics (due to time constraints not all topics will be covered):
 Exchange Rates Application: Dollarization in Ecuador (notes)
 Output, Exchange Rates and Macroeconomic Policies in the Short Run (chapter 18)

CALENDAR

Below is a calendar with the important dates for the course. I reserve the right to change some of these dates, according to how the course evolves:

Date	Activity
Tue January 14	First day of classes, syllabus distributed.
Thu January 23	Problem Set 1 distributed.
Tue February 4	Problem Set 1 due. Problem Set 2 distributed.
Tue February 18	Problem Set 2 due. Problem Set 3 distributed.
Thu February 27	Midterm Exam.
Tue-Thu March 4-6	Spring break – no class.
Tue March 18	Problem Set 3 due.
Tue March 25	Problem Set 4 distributed.
Tue April 8	Problem Set 4 due. Problem Set 5 distributed.
Tue April 22	Problem Set 5 due.
Thu April 24	Last day of class. Review/catch-up session.
Tue April 29	Final Exam, 1:00 pm