

Course 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 for 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 and Taylor. *Essentials of International Economics.* Worth, 3rd edition. The ISBN for the book is 1-4641-5338-8. 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**

**Exams and Quizzes:** There will be a midterm and a final exam. Moreover, approximately once every three weeks there will also be three shorter quizzes. The midterm and final exams will be cumulative, whereas the quizzes will only cover the material covered since the last test.

As per Quinlan School of Business policy, there will be **no make-up dates** for exams and quizzes. 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—will an exception be granted.

**Class Participation:** I strongly believe that the best courses are the ones with substantial student input. Thus, you are expected to come to class fully prepared and willing to participate in class discussions. Although the class format is mostly lecture-based, class participation is greatly valued and encouraged, and will make the difference between a good grade and a superior one. Moreover, please feel free to ask questions if my explanations are not clear or if I am covering the material too quickly.

**Practice Exercises:** I will suggest a list of exercises that should help you prepare for the exams and quizzes. The exercises will not be graded but will I will post the answers on Sakai.

• **Grade Distribution:**

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Weight</th>
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<tbody>
<tr>
<td>Quizzes</td>
<td>15% each</td>
</tr>
<tr>
<td>Midterm exam</td>
<td>25%</td>
</tr>
<tr>
<td>Final exam</td>
<td>25%</td>
</tr>
<tr>
<td>Class participation</td>
<td>5%</td>
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• **Attendance and Classroom Conduct**

Class attendance and participation are fundamental components of learning, therefore punctual attendance at all classes, for the full class meeting period, is expected of Quinlan students.
In the event unavoidable emergencies or conflicts prevent you from attending class, you must notify the instructor and program director by e-mail prior to missing the class, and request options for covering missed material. Most of the subjects in a course are sequential. Therefore, it is important to understand the material covered in the missed class before the next class.

Students are expected to behave in a professional manner, one that does not distract others. Please turn off cell phone ringers while in class and office hours. Laptops and tables (with muted volume) should only be used for note-taking during class time.

**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 must be reported to the chairperson of the department involved. For further information about expectations for academic integrity and sanctions for violations, 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](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 13 and notes)

The Ricardian Model (chapter 2)
The Heckscher-Ohlin Model (chapter 4)
Increasing Returns to Scale and Monopolistic Competition (chapter 6)
Instruments of Trade Policy and Barriers to Trade (chapter 7)
The World Trade Organization (notes)

Exchange Rates and the Foreign Exchange Market (chapter 10)
Exchange Rate Determination: The Monetary Approach in the Long Run (chapter 11)
Exchange Rate Determination: The Asset Approach in the Short Run (chapter 12)
The Euro (chapter 16 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 14)

- 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:

<table>
<thead>
<tr>
<th>Date</th>
<th>Activity</th>
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<tbody>
<tr>
<td>Tue August 28</td>
<td>First day of classes, syllabus distributed</td>
</tr>
<tr>
<td>Thu September 13</td>
<td>Quiz 1</td>
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<tr>
<td>Thu October 4</td>
<td>Quiz 2</td>
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<tr>
<td>Tue October 9</td>
<td>Fall break – no class</td>
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<tr>
<td>Thu October 25</td>
<td>Midterm Exam</td>
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<tr>
<td>Thu November 15</td>
<td>Quiz 3</td>
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<tr>
<td>Thu November 22</td>
<td>Thanksgiving Day – no class</td>
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<tr>
<td>Thu December 6</td>
<td>Last day of class. Review/catch-up session</td>
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<tr>
<td>Fri December 14</td>
<td>Final Exam, 1:00–3:00 pm</td>
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