

THE UNIVERSITY OF ILLINOIS AT CHICAGO
ECON 515: INTERNATIONAL MONETARY THEORY AND POLICY
SPRING 2002

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Office Hours:

Tue & Thu, 11:00-12:00

and by appointment

Required Texts:

F.L. and L.A.Rivera-Batiz, *International Finance and Open Economy Macroeconomics*, 2nd ed., Prentice Hall, 1994.

P.DeGrauwe, *The Economics of Monetary Integration*, 3rd ed., Oxford, 1997.

Other Recommended Texts:

R.Dornbusch, *Open Economy Macroeconomics*, Basic Books, 1980. (Intermediate to advanced level, a classic but somewhat out of date).

C.P.Hallwood and R.MacDonald, *International Money and Finance*, 2nd edition, Blackwell, 1994. (Intermediate level, good coverage of topics in international finance).

B.T.McCallum, *International Monetary Economics*, Oxford, 1996. (Intermediate level, careful treatment of expectations.)

M.Obstfeld and K.Rogoff, *Foundations of International Macroeconomics*, MIT Press, 1996. (Advanced level, comprehensive coverage, emphasis on intertemporal maximization).

Overview:

This is the second course of the graduate sequence in International Economics. The purpose of this course is to provide a broad survey of the topics in International Macroeconomic Theory and Policy. I will assume that you have mastered the models in Econ 511, 512, and 514, and that you are familiar with the basic concepts of calculus, probability, and statistics.

Part I is a basic introduction to the main concepts and measurement issues. Part II extends the traditional Keynesian approach to the open economy, while Part III presents the monetarist alternative. Part IV introduces the synthesis known as the Mundell-Fleming model, and Part V treats some of the more modern aspects of the neoclassical approach and the links between openness and economic growth. The theory and practice of monetary integration is discussed in Part VI, and Part VII (if time permits) will deal with various other topics.

Evaluation:

Your grade will be based on a midterm (50%) and a final (50%) examination. In addition, there will be at least two practice problem sets.

Tentative Course Outline:**I. INTRODUCTION**

1. The Balance of Payments
2. The Foreign Exchange Market
3. National Income Accounting in the Open Economy

II. THE TRADITIONAL (KEYNESIAN) APPROACH

4. Small Open Economy
5. Large Open Economy
6. IS-LM with no Capital Mobility

III. THE MONETARY APPROACH

7. Sterilization and Implications
8. Purchasing Power Parity
9. Balance of Payments and Exchange Rate Determination
10. Interest Rate Parities

IV. THE MUNDELL-FLEMING MODEL AND EXTENSIONS

11. The Importance of Capital Mobility
12. Fixed and Floating Exchange Rates
13. International Interdependence and Co-ordination
14. Aggregate Demand - Aggregate Supply

V. NEOCLASSICAL MODELING

15. Intertemporal Trade and the Current Account
16. The Importance of Investment
17. A Two-Country Model
18. Globalization and Economic Growth

VI. MONETARY INTEGRATION

19. Fixed vs Floating Exchange Rates
20. Optimum Currency Areas
21. Monetary Unions in Practice

VII. OTHER TOPICS

19. Historical Review: Gold Standard, Bretton Woods, Floating, etc.
20. Exchange-Rate Crises (EMS, Mexico, South-East Asia, etc.)