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ITF 220 – Economics of International Financial Policy
Crosslisted as: Econ 1550, FAS

The required text is World Trade and Payments, by R.Caves, J.Frankel, and R.Jones (9th edition, Addison Wesley, 2002). Additional readings are available in a packet.

Topic	Chapter in <u>WT & P</u>	Lecture number and date	(approx.)	
ELASTICITIES & THE TRADE BALANCE				
Balance of payments accounting	15	1	Sep.11	
Supply and demand for foreign exchange	16.1,	2	Sep.16	
Export and import elasticities				
Empirical effects of devaluation on the trade balance	16.2	3	Sep.18	
THE KEYNESIAN MODEL				
National saving identity; fiscal multiplier in an open economy.	17.1-17.2	4	Sep. 23	Prob- lem set 1 due
Export multiplier; & the transfer problem.	17.3 } 17.4	5	Sep. 25	Problem set 2 due
Large-country repercussions & Transmission of disturbances.	17.5-17.6 18.1	6	Sep. 30	due
Expenditure-reducing policies vs. -switching policies	18.2	7	Oct. 2	Problem set 3 due
Monetary factors	18.3	8	Oct. 7	due
MONETARY APPROACH TO THE BALANCE OF PAYMENTS				
Reserve flows & the gold standard	19.1 } Appendix A	9	Oct. 9	
				[Columbus Day Holiday
				Oct. 13]
Purchasing Power Parity	19.2-19.3	10	Oct. 14	

<u>Topic</u>	<u>Chapter in WT & P</u>	<u>Approx. lecture number and date</u>			
GLOBALIZATION OF FINANCIAL MARKETS					
Int. banking and the spot exchange market	21.1-21.3	11	Oct. 16	Prob- lem set 4 <u>due</u>	
Forward exchange market	21.4 & 28.1	12	Oct. 21		
and international borrowing	Ch. 21 Appendix	13	Oct. 23		
FISCAL AND MONETARY POLICY UNDER INTERNATIONAL CAPITAL MOBILITY					
Mundell-Fleming -- with exchange rate fixed	22.1-22.3	14	Oct. 28		
Mechanisms of adjustment; applications	22.4-22.7; 24.1	15	Oct. 30		
		16	Nov. 4		
<u>Midterm</u>					
Mundell-Fleming model -- with the exchange rate floating; examples	23.1-23.2	17	Nov. 6		
<i>Veteran's Day Holiday</i>			<i>Nov. 11</i>		
Perfect capital mobility & Impossible Trinity	23.3-23.4	18	Nov. 13		
Crises in emerging markets	24.2-24.5, 24.7-24.9	19	Nov. 18		
INTERDEPENDENCE AND COORDINATION					
Effects of fiscal expansion in a large country	25.1				
Estimates of transmission	25.2	20	Nov. 20		
International policy coordination	25.3				
SUPPLY AND INFLATION					
Aggregate Supply and wages	26.1	21	Nov. 25	Prob- lem Set 5 <u>due</u>	
<i>Thanksgiving Break</i>			<i>Nov. 27 - Dec. 1</i>		
Inflation and anchors for money	26.3-26.4				
Exchange rate regimes and OCAs	26.5-26.6	22	Dec. 2		
EXPECTATIONS AND THE DETERMINATION OF THE EXCHANGE RATE					
Interest parity conditions	27.1	}	23	Dec. 4	Prob- lem set 6 <u>due</u>
The monetarist model	27.2				
Overshooting	27.4-27.6	24	Dec. 9		
Speculative bubbles & intervention	27.3, 28	25	Dec. 11		

Final exam Wednesday, Dec. 17, 2003; afternoon

Readings

The required textbook reading is the second half of World Trade and Payments, R.Caves, J.Frankel, and R.Jones, 9th ed. (Addison-Wesley), 2002.

Most of the following additional readings will be available in a packet from the CMO.

The Trade Balance and the Exchange Rate

Balance of payments accounts and devaluation (L1-L3)

Paul Krugman, "Introduction," in International Adjustment and Financing: The Lessons of 1985-1991, Fred Bergsten, ed., Institute for International Economics, Washington, DC, 1991: 3-12.**

"Economics Focus: The Dollar and the Deficit," *Economist*, Sep.14, 2002, p.74. {course website} *

"Asian Currencies: Fear of Floating," *The Economist*, July 12, 2003, p. 65-66. {course website} **

The US trade deficit viewed as a transfer problem in a two-country world (L4-L8)

Paul Krugman "Adjustment in the World Economy," *Group of Thirty Occasional Papers* 24, 1987, pp.1-40. Reprinted in *Currencies and Crises*, 1992, pp. 3-25. *

Fiscal Policy

"Budget deficits: Dicing with debt," *The Economist*, Aug. 23, 2003, p.11 . {course website} **

The Monetary Approach to the Balance of Payments

The gold standard (L9)

Richard Cooper, "The Gold Standard: Historical Facts and Future Prospects," *Brookings Papers on Economic Activity*, I, 1982. Abridged in B.Eichengreen, The Gold Standard in Theory and History (Methuen: NY), 1995, pp.251-271.

Purchasing power parity (L10)

"Through a Glass, Drunkenly," *The Economist*, May 8, 1999. {course website}

"Big MacCurrencies," *The Economist*, Apr 21, 2001 {course website}

Michael Pakko and Patricia Pollard, "For Here or To Go? Purchasing Power Parity and the Big Mac," Federal Reserve Bank of St. Louis *Review*, Jan/Feb. 1996, p.3-21. **

Rudiger Dornbusch, "Purchasing Power Parity." In J.Eatwell, M.Milgate, and P. Newman, eds., *The New Palgrave*, vol. 3 (New York: Macmillan), 1987. Or in Dornbusch, Exchange Rates and Inflation, Chapter 5.

The Globalization of Financial Markets

The growth of the forex market and other modern financial markets (L11-12)

"Finance: Trick or Treat?" *The Economist*, Oct. 23, 1999, p. 91-92. {course website}

"Future Perfect," *The Economist*, Nov. 27, 1999, p. 81-82. {course website}

K. Alec Chrystal, "A Guide to Foreign Exchange Markets," *Federal Reserve Bank of St. Louis Review*, March 1984, p. 5-18.

Liberalization of capital flows & crises in emerging markets in the 1990s (L13 & L17)

Guillermo Calvo, Leo Leiderman and Carmen Reinhart, "Inflows of Capital to Developing Countries in the 1990s," *J. of Ec. Perspectives*, 10, no. 2, Spring 1996, 123-139. **

Barry Eichengreen and Michael Mussa, "Capital Account Liberalization and the IMF," *Finance and Development*, December 1998, Vol. 35, No. 4. *

"Russian Economy: Surplus to Requirements," *Economist*, July 8, 2000, p. 79. {course website}

Andres Velasco, "Argentina's Bankruptcy Foretold," *Time, Latin American edition*, July 23, 2001 *

Proposals to reinstate capital controls

Dani Rodrik, "'Who Needs Capital-Account Convertibility?'" in Stanley Fischer et al., Should the IMF Pursue Capital-Account Convertibility? *Essays in International Finance* No. 207, International Finance Section, Princeton University, May 1998. *

J.Frankel, "Proposals Regarding Restrictions on Capital Flows," *African Finance Journal* vol.1, part 1, 1999.

Sebastian Edwards, "Capital Controls Are Not the Reason for Chile's Success," *Wall Street Journal*, April 3, 1998. *

Paul Krugman, An open letter to Prime Minister Mahathir (9/1/98). *

*For all the readings you could want on crises in emerging markets and other current issues in international finance, see the website of Nouriel Roubini: <http://www.stern.nyu.edu/globalmacro/>. In particular, see the section: *The Debate on International Capital Flows*.*

The Exchange Rate System

International Macroeconomic Policy Coordination (L20)

Thomas Willett, 1999, "Developments in the Political Economy of Policy Coordination," Open Economies Review 10, 221-253. *

J. Frankel, "Recent Exchange Rate Experience and Proposals for Reform," American Economic Review 86, no.2, May 1996, 153-158. **

Exchange rate regimes: Fixed vs. Flexible (L22)

"Economics Focus: The Euro, Trade and Growth," Economist, July 12, 2003, p. 70. {course website} *

Ghosh, Atish, Anne-Marie Gulde, and Holger Wolf, 2000, "Currency Boards: More than a Quick Fix?" Economic Policy, vol. 31, October, 270-335.

Frankel, Jeffrey, "No Single Exchange Rate Regime is Right for All Countries or at All Times," Essays in International Finance No. 215, Princeton University Press: Princeton, August 1999. **

Determination of Exchange Rates (L24-25)

"Schools Brief: Why Currencies Overshoot," The Economist, Dec. 1, 1990, p.89-90. *
or "Rudiger Dornbusch," The Economist, Aug. 10, 2002, p. 72 {course website}

Schools Brief: "Monopoly Power Over Money," and "Meddling in the Currency Market," The Economist, Nov. 20, 1999, p.95-96. * {course website}

Mark Taylor, "The Economics of Exchange Rates," Journal of Economic Literature, March 1995, 33, no.1. *

Ken Froot and Richard Thaler, "Anomalies: Foreign Exchange," Journal of Economic Perspectives 4, no.3, Summer 1990, 179-192.

(L numbers correspond to scheduled lectures.)

*** *asterisk denotes recommended readings***

**** *double asterisk denotes most highly recommended***