

Master in International Economics and Public Policy

International Monetary Economics (Winter semester 2020/2021)

Contents/Organization/Program/References

(This version: **November 1, 2020**)

Contents

The goal of this course is to endow students with a solid knowledge of international monetary economics. Upon completion, participants should understand the determinants of exchange rates and their influence on economic activity, the role of central banks and the effects of monetary policy, the key properties of the international financial system, and the origins and evolution of currency crises. To achieve this goal, the course will start with a brief overview of exchange rate concepts, review the role of money in the economy as well as basic models of exchange rate determination, and introduce the institutions involved in monetary policy as well as their operating procedures. In the second part of the course, we will describe the effects of monetary policy in open economies, starting with traditional Keynesian models and then introducing participants to modern macroeconomic models with microeconomic foundations and a dynamic structure. The third part will use these insights to discuss the implications of different exchange rate regimes and the determinants and evolution of balance of payments crises. While the course puts a strong focus on theoretical models, it will also engage students in confronting theoretical insights with descriptive evidence and econometric tests.

Organization

Due to the current **Corona pandemic**, face-to-face interaction at JGU Mainz will be reduced to an absolute minimum during the winter semester 2020/21. **As a consequence, the International Monetary Economics-course will take place in online mode** until restrictions on classroom teaching are lifted.

We will be using the following material and use the following channels to communicate:

- A set of **lecture presentations** as well as a **program with reading list (in pdf format)**, which can be downloaded from **ILIAS** (International Monetary

Economics, WiSe20/21): <http://ilias.uni-mainz.de>. (During the course, I will write **comments** into these presentations and upload the annotated versions later on.) The **ILIAS course password** is “IntME_20”.

- **Videos**, which I will use to walk you through my presentations. You will be able to see the presentations, listen to my comments, and watch me write notes into those presentations. You can find the link through which you can access those videos in **ILIAS**.
- **Videos and lecture presentations** will be uploaded *gradually*.
- All **changes and news** will be disseminated via ILIAS. Make sure you regularly check your **students email-address at JGU Mainz**.
- While watching the **videos**, make use of the possibility to comment on them and to **ask questions**. You have to click on the „**Diskussion**“ button and to register into the system, using your JGU username and password (Sorry about the whole thing being in German!). Once you have inserted a comment, don't forget to press the „Enter/Return“ key. Of course, you can also send us your questions and comments by email (LsHarms@uni-mainz.de).
- We will collect these questions and answer them in the context of **Q&A meetings** using **MS Teams**. This will allow us to see each other at least occasionally (albeit virtually). There will be **four Q&A meetings** during the semester, and they will take place in some of the time slots originally reserved for the tutorial (Monday, 12.15 – 1.45 pm). We are planning to send out **invitations to the Q&A meetings** some days before the respective date.
- For the **tutorials**, a similar mix of presentations and videos will be used. See Mark Ruszel's introductory statements in **ILIAS** for detailed instructions.

This is what you have to do if you are planning to attend the course:

- Register for the course in **JOGUSTiNe**.
- Make sure you regularly check your **JGU students email address** to which relevant information will be sent.
- Use the information given above and the **course password** sent to you via JOGUSTiNe to register for the course in **ILIAS**.

This is a difficult situation. But let's make the best of it!

Audience:

The course is an elective module in the specialization part (**International Economics**) and in the free part of the **M. Sc. in International Economics and Public Policy**. It can also be attended as an elective module by students of the **M. Sc. in Management and Accounting and Finance**. Having completed my course on **International Macroeconomics** is helpful, but not mandatory.

Contact:

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Program:

(Preliminary. This version: November 1, 2020)

1. Introduction

2. Money and Exchange Rates: The Basics

- 2.1. What is money?
- 2.2. Explaining money demand
- 2.3. Understanding the mechanics of money supply
- 2.4. Price rigidities and monetary non-neutrality
- 2.5. Summary and Outlook

Literature: PhH VII.1-3, VIII.1-4

3. Exchange Rate Economics

- 3.1. Motivation
- 3.2. Exchange rate basics: a review
- 3.3. The monetary model revisited
- 3.4. Explaining exchange-rate overshooting: the Dornbusch model
- 3.5. Portfolio balance models and the rationale of foreign exchange interventions
- 3.6. Summary and Outlook

Literature: PhH VIII.4-6

4. Keynesian Models of the Open Economy

- 4.1. Motivation
- 4.2. For the back of the envelope: the Mundell-Fleming model
- 4.3. Keynesian macroeconomics with solid microeconomic foundations: the New Open Economy Macroeconomics (NOEM)
- 4.4. Summary and Outlook

Literature: PhH IX.1-3

5. Exchange Rate Policies, Currency Crises, and the International Monetary System

5.1. Motivation

5.2. To fix or not to fix the exchange rate?

5.3. Models of currency crises

5.4. Understanding the international monetary system

5.5. Summary and Outlook

Literature: PhH X.1-4

References:

The course will heavily draw on the following textbook:

Harms, Philipp (2016): *International Macroeconomics, 2nd edition*, Tübingen (Mohr Siebeck). (PhH)

(The university library has purchased an e-version of this book, which is accessible to all JGU students. Make sure that you are logged into the JGU network when you access this book.)

Occasionally, I will also refer to the following texts:

Gali, Jordi (2015): *Monetary Policy, Inflation, and the Business Cycle: An Introduction to the New Keynesian Framework and its Applications, 2nd edition*, Princeton (Princeton University Press).

Walsh, Carl E. (2017): *Monetary Theory and Policy, 4th edition*, Cambridge MA (MIT Press).

(Earlier versions of these books can also be used.)

The list of references is likely to lengthen as the course proceeds.