

Exchange Rates and International Capital Markets (Summer semester 2021)

Contents/Organization/Program/References/Recommended Schedule

(This version: **March 30, 2021**)

Contents

The course starts with a detailed (and facts-oriented) introduction to balance-of-payments accounting. It continues by presenting the basic model of intertemporal trade, which relates movements of the current account to savings and investment decisions. We will then extend the model to analyze the effects of budget deficits and the determinants and consequences of financial market imperfections. The second part of the course starts by introducing various concepts of the exchange rate (bilateral vs. effective, nominal vs. real, spot vs. forward). It then highlights the role of expectations for fluctuations of the nominal exchange rate, presents the concept of purchasing power parity and analyzes fundamental determinants of the real exchange rate. The last part of the course considers the effects of real and monetary shocks in open economies, the scope for economic policy, and the role of the exchange rate regime.

Organization

Basics:

- Due to the current **Corona pandemic**, this course will take place in **online mode**.
- All students registered for the course will have access to **lecture and tutorial notes** as well as **lecture and tutorial videos**. The final exam will be based on the contents covered by this material.
- In addition, we will offer **question & answer (Q&A) meetings** during the semester.
- Finally, students can sign up for the **“ERICM intense”** track. If they do, they will form groups and regularly work on small assignments, which we will discuss on a regular basis. While participation in these groups is voluntary, it is strongly recommended.
- The final exam will be organized as a **take-home exam**.

Specifics:

- The **lecture and tutorial presentations** (in pdf format) can be downloaded from the **LMS/Moodle platform** at JGU Mainz (<https://lms.uni-mainz.de/moodle>). Those students **who have registered for the course in JOGUSStiNe** will automatically be assigned to the Exchange Rates and International Capital Markets course in **LMS/Moodle**.
- The **lecture and tutorial videos** will walk you through the presentations and solutions to the problem sets. You will be able to see the presentations, listen to our comments, and watch us write notes into those presentations. You can find the link through which you can access those videos in our course on the LMS/Moodle platform.

All these materials will be uploaded into our course on the LMS/Moodle platform at the start of the semester. The **schedule** (see the last page of this document) suggests which weeks should be devoted to the study of different chapters and problem sets. We strongly recommend to follow this schedule.

- All **changes and news** will be disseminated by email via **LMS/Moodle**. 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! Of course, comments and questions may be in English). 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 via 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 on a regular basis (albeit virtually). The **prospective dates** of the Q&A meetings are given in the **schedule** (see the last page of this document). You can participate in those meetings via the link given in course on the LMS/Moodle platform.

“ERICM Intense”

- After our first meeting on MS Teams (April 13, 2021), students can sign up for the “**ERICM intense**” track. Those who do, will form **groups** (with group size depending on participation) who will regularly present solutions to small (data-related or theoretical) **assignments**. These presentations are planned to take some 20 minutes per group.

- The **prospective dates** of the **group presentations** are given in the **schedule** (see the last page of this document). The assignments will be made available to the groups at least one week before the respective meeting.
- Group presentations will *not* be relevant for the **final grade**. However, we strongly recommend that students seize this opportunity to delve into the material and to interact with us and the rest of the group.

Audience:

Students enrolled in the **B. Sc. in Management and Economics (Wirtschaftswissenschaften)** or with economics as a minor subject (“**Beifach**”), as well as guest students (e.g. in the context of the **Erasmus program**).

How to proceed:

- Register for the course in **JOGUSTiNe**, which is a prerequisite to be assigned to the **Exchange Rates and International Capital Markets course in LMS/Moodle**.
- Make sure you regularly check your **JGU students email address** to which relevant information will be sent.
- Join our team (ERICM – Prof. Harms – MIEPP – SuSe 2021) in **Microsoft Teams**. Note: All JGU students have access to Microsoft Teams via their students account. The code for our team will be sent out to students who registered for the course in Jogustine. Please check your **students email-address at JGU Mainz**.

Contact:

Prof. Dr. Philipp Harms / Marius Orthey, LsHarms@uni-mainz.de

Preliminary program and references

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Note: The transparencies used in this course as well as further information are available in **LMS/Moodle**. Recommended readings are given in brackets.

1. Introduction

2. The Balance of Payments

- 2.1. The balance of payments (**PhH 2**, K/O 12, CvM2)
- 2.2. Savings, investment, and the current account (**PhH 2**, K/O 12)

3. Intertemporal Trade and the Current Account

- 3.1. The current account of a small open economy (**PhH3**, O/R 1.1)
- 3.2. Determining the world interest rate (**PhH3**, O/R 1.3)

4. Intertemporal Trade: Extensions

- 4.1. Government spending, budget deficits, and the current account (**PhH 4.3**, O/R 1.1.6, 1.2.4, 3.1)
- 4.2. Country risk: determinants and consequences (**PhH 6**, O/R 6)

5. The Exchange Rate

- 5.1. Basic concepts and definitions (**PhH 8**, CvM 18-19)
- 5.2. Uncovered interest rate parity and the role of expectations for the exchange rate (**PhH 8**, CvM 21, 24, 26)
- 5.3. The real exchange rate, the law of one price, purchasing power parity, and beyond. (**PhH 7**, CvM 20)

6. Monetary and fiscal policy in open economies

- 6.1. The “Keynesian cross” revisited
- 6.2. The Mundell-Fleming model (**PhH 9**, CvM 25)
- 6.3. The role of the exchange rate regime (**PhH 9**)
- 6.4. Monetary and fiscal policies in open economies (**PhH 9**, CvM 31)

References

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

Copeland, Laurence (2014): *Exchange Rates and International Finance*, 6th edition, Prentice Hall.

Krugman, Paul R., Maurice Obstfeld, and Marc J. Melitz (2014): *International Economics – Theory and Policy*, 10th edition, Pearson. **(K/O)**
(Previous editions are also fine for our purposes.)

Obstfeld, Maurice and Kenneth Rogoff (1996): *Foundations of International Macroeconomics*, MIT Press. **(O/R)**

Schmidt-Grohe, Stephanie, Michael Woodford, and Martin Uribe (2016): *International Macroeconomics*: <http://www.columbia.edu/~mu2166/UIM/>

Van Marrewijk, Charles (2012): *International Economics – Theory, Application and Policy*, 2nd edition Oxford University Press. **(CvM)**

Schedule

(Possibly subject to changes. This version: **March 30, 2021**)

Week starting on	Lecture chapter to be studied	Problem set to be studied	Dates Q&A	Topics Q&A	Dates of student presentations	Topics student presentations
12.04.2021	01 Intro / 02-BoP		13.04.2021	Introduction & Instructions		
19.04.2021		1			20.04.2021	Kick-Off
26.04.2021	03-Intertemp-Trade					
03.05.2021		2	04.05.2021	02-BoP		
10.05.2021		3			11.05.2021	02-BoP
17.05.2021	04-Extensions	4				
24.05.2021					25.05.2021	03-Intertemp. Trade
31.05.2021	05-Exchange Rates	5	01.06.2021	03-Intertemp Trade/04-Extensions		
07.06.2021					08.06.2021	04-Extensions
14.06.2021		6				
21.06.2021	06-Stabilization					
28.06.2021		7			29.06.2021	05-Exchange Rates
05.07.2021			06.07.2021	05-Exchange Rates / 06-Stabilization		
12.07.2021		mock exam			13.07.2021	06-Stabilization

Note: Q&A meetings as well as student presentations will usually take place on the *Tuesday mornings* indicated by the above schedule (between 10.15 and 11.45 am).