

Exchange Rates and International Capital Markets (Summer semester 2022)

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(This version: April 11, 2022)

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

- In the **summer semester 2022**, lectures and tutorials will take place **on the JGU campus**. However, caution is still advised. **Rules and regulations** prevailing on campus are published on the **JGU Corona homepage**: <https://en.corona.uni-mainz.de/>.

- **Times and places:**

Lectures: Tuesday, 8.15 – 9.45 am, room HS III. **Start: April 19, 2022.**

Tutorials: Wednesday, 10.15 – 11.45 am, room HS III (biweekly).

Note: The tutorial slots of the first weeks will be used for lectures. See the last page of this document for a **detailed schedule**.

- The **lecture presentations and problem sets** (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 JOGU-StiNe** will **automatically** be assigned to the *Exchange Rates and International Capital Markets* course in **LMS/Moodle**.
- Students will have access to the **lecture videos** of the **summer semester 2020**. Note, however, that the final exam will be based on the contents of the summer semester 2022. Thus, we strongly recommend to regularly attend the **lectures and tutorials on campus**.
- All **changes and news** will be disseminated by email via **LMS/Moodle**. Make sure you regularly check your **students email-address at JGU Mainz**.

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 **JOGU-StiNe**, 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.

Contact:

Prof. Dr. Philipp Harms / Marius Orthey M.Sc.
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Preliminary program

(This version: April 8, 2022)

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; CvM 2)
- 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 (**PhH 3**; O/R 1.1)
- 3.2. Determining the world interest rate (**PhH 3**; 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: **April 8, 2022**)

L1	Tuesday	19.04.2022	08.15-09.45	Lecture	HS III	Harms
L2	Wednesday	20.04.2022	10.15-11.45	Lecture	HS III	Harms
L3	Tuesday	26.04.2022	08.15-09.45	Lecture	HS III	Harms
L4	Wednesday	27.04.2022	10.15-11.45	Lecture	HS III	Harms
L5	Tuesday	03.05.2022	08.15-09.45	Lecture	HS III	Harms
T1	Wednesday	04.05.2022	10.15-11.45	Tutorial	HS III	Orthey
L6	Tuesday	10.05.2022	08.15-09.45	Lecture	HS III	Harms
L7	Tuesday	17.05.2022	08.15-09.45	Lecture	HS III	Harms
T2	Wednesday	18.05.2022	10.15-11.45	Tutorial	HS III	Orthey
L8	Tuesday	24.05.2022	08.15-09.45	Lecture	HS III	Harms
L9	Tuesday	31.05.2022	08.15-09.45	Lecture	HS III	Harms
T3	Wednesday	01.06.2022	10.15-11.45	Tutorial	HS III	Orthey
L10	Tuesday	07.06.2022	08.15-09.45	Lecture	HS III	Harms
L11	Tuesday	14.06.2022	08.15-09.45	Lecture	HS III	Harms
T4	Wednesday	15.06.2022	10.15-11.45	Tutorial	HS III	Orthey
L12	Tuesday	21.06.2022	08.15-09.45	Lecture	HS III	Harms
L13	Tuesday	28.06.2022	08.15-09.45	Lecture	HS III	Harms
T5	Wednesday	29.06.2022	10.15-11.45	Tutorial	HS III	Orthey
L14	Tuesday	05.07.2022	08.15-09.45	Lecture	HS III	Harms
L15	Tuesday	12.07.2022	08.15-09.45	Lecture	HS III	Harms
T6	Wednesday	13.07.2022	10.15-11.45	Tutorial	HS III	Orthey
T7	Tuesday	19.07.2022	08.15-09.45	Tutorial	HS III	Orthey