

Exchange Rates and International Capital Markets (Summer semester 2024)

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(This version: **April 12, 2024**)

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 country risk. 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

- Times and places:

Lectures: Tuesday, 2.15 – 3.45 pm, room HS V. **Start: April 16, 2024.**

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

Important note: The tutorial slots of the first weeks will be used for lectures, and there will be a special time slot on April 24, 2024. See the last page of this document for a **detailed schedule**.

Note that, on **April 16, 2024**, the lecture will start at 2.15 pm in **room HS VII**, and on **April 17, 2024**, it will start at 10.15 am in **room HS III**.

- 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**.

- Students will have access to **lecture and tutorial videos** of the **summer semester 2020**. Note, however, that the final exam will be based on the contents of the summer semester 2024. 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 **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.

Contact:

Prof. Dr. Philipp Harms / Albi Lika, LsHarms@uni-mainz.de

Preliminary program and references

(This version: **April 12, 2024**)

Note: The transparencies used in this course as well as further information are available in **LMS/Moodle**. Recommended readings are given in brackets. See the *Literature* section for a translation of the acronyms.

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 (**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)

Literature

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 (2018): *International Economics – Theory and Policy*, 11th 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 (2022): *International Macroeconomics – A Modern Approach*. Princeton (Princeton University Press).
Slides available at <http://www.columbia.edu/~mu2166/UIM/>

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

Exchange Rates and International Capital Markets, Summer Semester 2024

Schedule (This version: [April 12, 2024](#))

| | | | | | | |
|-----|----------------------|-----------------------|------------------------|--------------------|--------|-------|
| L1 | Tuesday | 16.04.2024 | 14.15-15.45 | Lecture | HS VII | Harms |
| L2 | Wednesday | 17.04.2024 | 10.15-11.45 | Lecture | HS III | Harms |
| L3 | Tuesday | 23.04.2024 | 14.15-15.45 | Lecture | HS V | Harms |
| | Wednesday | 24.04.2024 | 10.15-11.45 | Lecture | | |
| L4 | Wednesday | 24.04.2024 | 18.15-19.45 | Lecture | HS II | Harms |
| L5 | Tuesday | 30.04.2024 | 14.15-15.45 | Lecture | HS V | Harms |
| | Wednesday | 01.05.2024 | | Public Holiday | | |
| T1 | Tuesday | 07.05.2024 | 14.15-15.45 | Tutorial | HS V | Lika |
| T2 | Wednesday | 08.05.2024 | 10.15-11.45 | Tutorial | HS V | Lika |
| L6 | Tuesday | 14.05.2024 | 14.15-15.45 | Lecture | HS V | Harms |
| L7 | Tuesday | 21.05.2024 | 14.15-15.45 | Lecture | HS V | Harms |
| T3 | Wednesday | 22.05.2024 | 10.15-11.45 | Tutorial | HS V | Lika |
| L8 | Tuesday | 28.05.2024 | 14.15-15.45 | Lecture | HS V | Harms |
| L9 | Tuesday | 04.06.2024 | 14.15-15.45 | Lecture | HS V | Harms |
| T4 | Wednesday | 05.06.2024 | 10.15-11.45 | Tutorial | HS V | Lika |
| L10 | Tuesday | 11.06.2024 | 14.15-15.45 | Lecture | HS V | Harms |
| L11 | Tuesday | 18.06.2024 | 14.15-15.45 | Lecture | HS V | Harms |
| T5 | Wednesday | 19.06.2024 | 10.15-11.45 | Tutorial | HS V | Lika |
| L12 | Tuesday | 25.06.2024 | 14.15-15.45 | Lecture | HS V | Harms |
| L13 | Tuesday | 02.07.2024 | 14.15-15.45 | Lecture | HS V | Harms |
| T6 | Wednesday | 03.07.2024 | 10.15-11.45 | Tutorial | HS V | Lika |
| L14 | Tuesday | 09.07.2024 | 14.15-15.45 | Lecture | HS V | Harms |
| T7 | Wednesday | 10.07.2024 | 10.15-11.45 | Tutorial | HS V | Lika |
| L15 | Tuesday | 16.07.2024 | 14.15-15.45 | Lecture | HS V | Harms |
| T8 | Wednesday | 17.07.2024 | 10.15-11.45 | Tutorial | HS V | Lika |