

UW Econ 472

International Macro Economics



1 Subject Goals

Information on learning objectives, prerequisites, and what to expect

2

3 Logistics

Assignments and grading, teaching staff, and policies

3

4 Schedule

Detailed information on topics, dates and readings

4

How Do International Markets Affect the Domestic Economy?

Can we develop a framework to analyze how global economic events impact our economic well-being?

Prof. Theo Eicher
OH: Wed 10:00-10:30
Office: Savery Hall 355
Web: tinyurl.com/econ472
Quarter: Fall 2013

International Macroeconomics covers a mix of theory and applications. The objective of the course is to provide students with a deep understanding of analytical frameworks that can be applied to analyze current economic events.

Theories presented in this course illuminate the determinants of the price of foreign currency, international arbitrage, and the effects of monetary and fiscal policy in an open economy.

Policy issues covered include the significance of the US trade deficit, determinants of the value of the dollar, origins of financial crises, currency crises, and the economic policy linkages between countries.

In a global economy, it is crucial to understand why the dollar rises and falls and why prices for the same product can differ at times dramatically across countries. These questions are inextricably linked to nations' monetary and

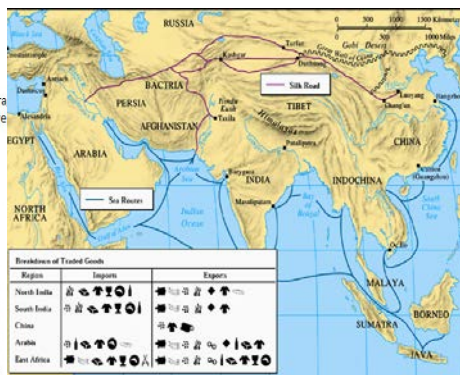
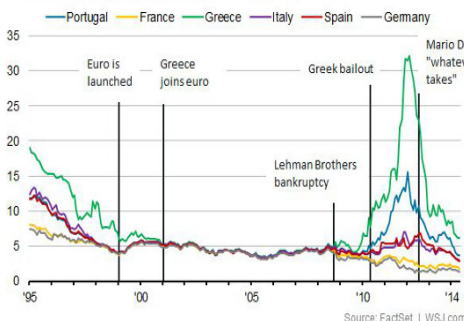
fiscal policies and their spillovers across international markets.

Recent economic crises seemed to have been 'timed' and 'coordinated' as countries' fortunes seemed to have risen and fallen in sync. To investigate, we examine the anatomies of crises and study the factors that determine international crisis contagion.

In-Class, verbal analysis is a key learning objective of this course to develop analytical skills.

Anatomy of Euro Zone Yields

Yields on 10-year government bonds, percentage points.



Goals & Learning Objectives

This class will help you

- 1) analyze fiscal and monetary policies and understand the determinants of exchange rate movements
- 2) assess country data, evaluate crisis origins, and real-time events in currency and capital markets
- 3) function like an economist by conveying economic concepts verbally in groups and through interactions with the instructor to dissect real world problems.

Student Background and Prerequisites:

This course is designed for economics majors with interest in international economics.

A clear grasp of all basic macroeconomic concepts is fundamental. If you have any questions about your level of preparation, ask the instructor.

If you have special needs, requests or requirements, please see the instructor immediately

Econ Dep't Policy on Academic Conduct:

Unless stated otherwise, your work is your work *only*. NOT GROUP WORK. Without exception, each case of suspected cheating is reported to the UW Office of Community Standards & Student Conduct. If cheating is confirmed, the penalty is a zero grade for the course and possible expulsion from UW. Investigations of suspected cheating are noted on the student's permanent academic record. See also tinyurl.com/EconIntegrity

How Do Students Succeed in Econ 472?

Learning Economics by Doing Economics

Actively talking and thinking economics is fundamental to developing economic intuition. This class is designed to constantly puzzle through different policy questions and real world problems. Your participation in this critical analysis is a key component of the learning objective (and of your grade).

Passing

Class *participation* is valuable; this does *not* mean only correct answers are expected! If you struggle with a question, simply reply "PASS" to deflect the question without consequence.

Tent Cards

Some students prefer not to participate in discussion. I distribute tent cards with your

name, and you are required to bring your tent card to each class. If you do not display your tent card, I will assume you do not want to participate in the discussion. Analytical Discussion is part of your grade.

Electronic Gadgets in Class

If you do not engage in the class discussions, you deprive yourself of the opportunity to actively think through questions at hand. I ask you to leave all electronics in your backpack.

Teaching Philosophy:

My teaching philosophy may not be altogether standard. I would like to make every effort to communicate what to expect prior to the beginning of the course. Erich Fromm has an excellent description of the type of learning I favor: He describes a "*having*" mode (passive learning) and a "*being*" mode (prepared learning) for students, see tinyurl.com/UWFromm

Teaching Staff

**Theo S. Eicher**

Castor Professor in Economics
Savery Hall 330;
teclass@uw.edu. I try to
respond to emails with 24
hours.

Office Hours can be scheduled [here](#). It is best to
reserve a time slots. If a class conflicts with my office
hours, please contact me directly.

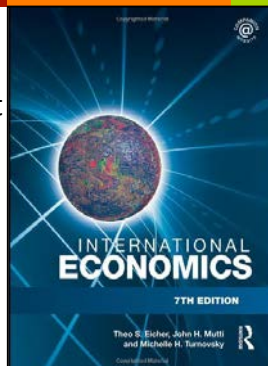
Grading Questions require preparation, see [link](#).

Recommendations require preparation, see [link](#).

Readings

Lecture Notes are [online](#). These notes are based
on Eicher, Turnovsky, & Mutti "*International
Economics*" 7th Edition, Routledge Press, 2009 (not
required, e-rental at tinyurl.com/UWText).

Daily Reading: Wall Street Journal "*Market Watch
Currencies*" column, see [link](#). The column and
many other readings are a *Wall Street Journal*
product; hence a subscription is required for the
course. Sign up at wsj.com/studentoffer

**Additional Assignments:**

readings, radio reports, and
audio-visual documentaries are
posted on the class schedule
below.

Class blog (irregular):

tinyurl.com/blog472

Syllabus:

<https://depts.washington.edu/teclass/LectureNotes>

Grading

Grades can be viewed on gradebook . They are
composed of

- **60% Quiz/Midterms**
(10% per quiz, the remainder is allocated
equally among the midterms).
- **30% Analytical Discussion Contributions** (see
below)
- **10% Group Presentation** (see below)

Past exams can be found at tinyurl.com/UWexams.

Past exams are good practice but not all past classes
covered identical material.

**The first analytical discussion grade will be dropped,
if it does not improve your average.**

Netiquette

Internet Etiquette ([link](#)) is required. All electronic
communication must include:

a) Proper Identification, I) a subject line
identifying the topic of the email, II) a salutation,
III) a body, and IV) your full name in the closing
line - just like any other business letter.

b) Correct and Proper English. Complete sentences
and spelling, no "emoticons" such as ;-), or chat
acronyms such as btw, g2g, imho.

c) Proper Interpersonal Etiquette. Do not write
anything in an email that you would not say exactly
the same way to someone standing in front of you.

Detailed Outline

The schedule is subject to change! You should not print out readings weeks in advance – they may change. You are required to check the syllabus *before each class, before you do your homework*. Also, the lecture note content, assignments, and case studies may change from time to time.

Date	Topic	Readings/Assignments (Many are <u>Web Links</u>)
Mon, Mar 30	<p>Introduction</p> <ul style="list-style-type: none"> Understanding the Syllabus and the Course 	<ul style="list-style-type: none"> EMT Lecture Notes Ch 0 Introduction Review of 2008 Crisis/Policy Response (Slides) Winners and Losers of Quantitative Easing For each class you must print, read, bring WSJ Market Watch Currencies column - the very last column listed the day before the class date. You must also bring your Table Tent name card to each class or I will assume you do not want to partake in analytical discussion.
Wed, Apr 01	<p>Essential Terminology</p> <ul style="list-style-type: none"> Balance of Payments Exchange rate, Markets, Regimes 	<ul style="list-style-type: none"> EMT Lecture Notes Ch 12 Why Do We Need Real (Effective) Exchange Rates? The ICE Dollar Index Case Study 1: Who is in charge of US Interest Rates? Background video on US/Chinese Debt (voluntary) Case Study 2: (The Real Effective Yuan) (voluntary) Real Effective FX data sources (FYI) Class Slides (posted after the class)
Mon, Apr 06	<p>Effect of Exchange Rate on the Economy</p> <ul style="list-style-type: none"> Marshall Learner Condition J-Curve 	<ul style="list-style-type: none"> EMT Lecture Notes Ch 13 Marshall Learner Condition (Video) IN THE NEWS: Did China's Central Bank Take Your Job? (Radio) IN THE NEWS: Japanese J-Curve Case Study 1: Japan and the J-Curve Case Study 2: Crisis and the J-Curve (voluntary)
Wed, Apr 08	<p>History of Exchange Rate Regimes</p> <ul style="list-style-type: none"> Gold Standard (Pros and Cons) Hume's <i>Species Flow Mechanism</i> Bretton Woods 	<ul style="list-style-type: none"> EMT Lecture Notes Ch 21 IN THE NEWS: Gold at 2 Month High IN THE NEWS: Cross Of Gold Case Study 1: Nixon Ends Bretton Woods (YouTube) Case Study 2: Effects of UK ending the Gold Standard (YouTube) Fed Chair explains Gold Standard (voluntary) Khan Academy explains "Fiscal Discipline" (voluntary) Analytical Discussion Grade #1 Published

Mon, Apr 13	<p><i>The Simplest Small Open Economy Model</i></p> <ul style="list-style-type: none"> Assumptions/Implications Empirical Evidence Fiscal / Monetary Policy Implications 	<ul style="list-style-type: none"> EMT Lecture Notes Ch 14 IN THE NEWS: QE in Europe Case Study 1: Japanese Piggy Bank Case Study 2: Getting Tough Won't Work (voluntary) Class Slides (posted after class)
Wed, Apr 15	Midterm I (1h 50 min)	
Mon, Apr 20	<p><i>I) The Large Open Economy</i></p> <ul style="list-style-type: none"> Assumptions/Implications Comparison of Multipliers Policy Implications <p><i>II) Flexible exchange rates</i></p>	<ul style="list-style-type: none"> EMT Lecture Notes Ch 15a IN THE NEWS: China's Effect on Asia Case Study 1: When China Sneezes... Case Study 2: Neo-Mercantilism Case Study 3: East Grows, West Consumes EMT Ch 15a [Section On Flexible Exchange Rates]
Wed, Apr 22	<p><i>Paradise Lost</i></p> <ul style="list-style-type: none"> The long run equilibrium <p>Expenditure Switching & Expenditure & Reducing</p>	<ul style="list-style-type: none"> EMT Lecture Notes Ch 15b IN THE NEWS: The Price of Austerity IN THE NEWS: Is your iPod unpatriotic? (YouTube) IN THE NEWS: Trade Wars and Buy American (YouTube) Case Study 1: The New New Thing: Fiscal Devaluation Case Study 2: Consequences of cutting the wrong segment of "G" to reduce trade deficits Case Study 3: Creative Policies to Cut Trade Deficits, Argentina-Style Case Study 4: Tough Love – make sure to read Simon Johnson's article! (voluntary)
Mon, Apr 27	<p><i>Who Needs Policy? The Monetary Approach to the Balance of Payments</i></p> <ul style="list-style-type: none"> Non Sterilization 	<ul style="list-style-type: none"> EMT Lecture Notes Ch 15c IN THE NEWS: Mechanics of China's Sterilization Part I Mechanics of China's Sterilization Part II Case Study 1: Bulgaria Stabilization Case Study 2: Bulgarian Prefer Their Currency Board Over The Euro Case Study 3: Sterilization in Europe
Wed, Apr 29	<p><i>International Capital Markets</i></p> <ul style="list-style-type: none"> Overview "Billion Dollar Day" (video) Presentation groups 	<ul style="list-style-type: none"> EMT Lecture Notes Ch 16 Case Study 1: Does Technical Analysis Work? Class Slides (available after class)

Mon, May 04	<p>Modeling International Capital Markets</p> <ul style="list-style-type: none"> • Interest Parity & Capital Account • External Balance (BP = 0) • External Balance & IS/LM 	<ul style="list-style-type: none"> • EMT Lecture Notes Ch 17 • IN THE NEWS: Risky Carry Trade • Carry Trade (also read the WSJ link) • Case Study 1: BP=0 & Risk: Egyptian Pound Gets Pounded • Case Study 2: BP=0 & Contagion: Slovenia Faces Contagion from Cyprus • Case Study 3: CIP & Capital Controls: China's FA Restrictions • Case Study 4: Thawing Dollars (voluntary) • Case Study 5: Mother of all Carry Trades (voluntary) • Analytical Discussion Grade #2 Published
Wed, May 06	Midterm II (1h 50 min)	
Mon, May 11	<p>Mundell Fleming Model: Fixed Exchange Rates</p> <ul style="list-style-type: none"> • Goods/ Financial Markets, External & Internal Balances • Fiscal/Monetary Policy 	<ul style="list-style-type: none"> • EMT Lecture Notes Ch 18 • IN THE NEWS: Italy's Deficit • Why Greece Is Struck With The Euro? • Case Study 1: The Eurozone's Fiscal Commission • Case Study 2: Spain and the EU (link 1) and the sequel 4 years later (link 2) • Case Study 3: China's Policy Options (voluntary) • Case Study 4: Cross of Euros (voluntary)
Wed, May 13	<p>Mundell Fleming Model: Flexible Exchange Rates</p> <ul style="list-style-type: none"> • Goods Market, Financial Market, External & Internal Balance • Fiscal and Monetary Policy 	<ul style="list-style-type: none"> • EMT Lecture Notes Ch 19a • Case Study 1: Das Kapital • Case Study 2: The Trilemma • Case Study 3: Bernanke: Why QE3 (voluntary background reading to learn more about the unwinding of QE3)
Mon, May 18	<p>Mundell Fleming Model: Large Open Economy</p>	<ul style="list-style-type: none"> • EMT Lecture Notes Ch 19b • In the News: Currency Wars • Case Study 1: Currency Wars • Case Study 2: Why Fear Currency Wars? • Case Study 3: War Games • Case Study 4: China Enters The Currency War • Case Study 5: Why is it false to accuse Japan of starting a currency war? (voluntary)

Wed, May 20	Price Flexibility	<ul style="list-style-type: none"> • EMT Lecture Notes Ch 20 • Food For Thought • Case Study 1: Bunfight • Case Study 2: Law of One Price Stir Fried In the US • Case Study 3: To PPP or not to PPP (voluntary)
Mon, May 25	Memorial Day	
Wed, May 27	Mundell Fleming Model: Real World Applications <ul style="list-style-type: none"> • Presentations Kazakhstan 2014 & Egypt 2012 	<ul style="list-style-type: none"> • Review Basic Presentation Guidelines & (link), (link), (link) • Sample Presentation (no commentary) • A copy of the presentations must be submitted before class in pdf format to teclass@uw.edu (Google docs links are not accepted)
Mon, Jun 01	Mundell Fleming Model: Real World Applications <ul style="list-style-type: none"> • Presentations Russia 2014 & Argentina 2014 	<ul style="list-style-type: none"> • Review Basic Presentation Guidelines & (link), (link), (link) • Sample Presentation (no commentary) • A copy of the presentations must be submitted before class in pdf format to teclass@uw.edu (Google docs links are not accepted) • Analytical Discussion Grade #3 Published
Wed, Jun 03	Midterm III (1h 50 min)	

Analytical Discussion Guidelines

At times students suggest they should receive an excellent grade for their “participation” because they “attended every class and never used a computer/phone during class time” (an actual quote). This kind of “participation” is not what **Analytical Discussion** measures.

Your analytical discussion grade measures your contribution to the class discussions to analyze policy by applying data and models. It measures

- a) how prepared you were in (i) WSJ daily news, (ii) review, (iii) methodology (theory and policy) and (iv) applications (case studies).
- b) how engaged you were providing solution attempts and ideas to the puzzles presented in class.

It does not measure “if you came to class” or “if you raised your hand”. Frequently raising the of the hand with limited thought-out answers in order to create an impression that you are “active” does not qualify as analytical discussion.

I) The best analytical discussion grade (80%-100%) go to students who prepare for class by doing the WSJ reading, the lecture reading, and case studies reading/questions. Students who can recall how last weeks class connects to this week’s class. These students engage in attempting to apply the class theory to policy and they attempt to apply their acquired knowledge to case studies.

II) Satisfactory analytical discussion grades (50%-70%) go to students who participate verbally somewhat, but follow nonverbally and are willing to at least try to apply their knowledge to some degree when asked.

III) Weak analytical discussion (0%-40%) goes to students who struggle to

2. verbalize their thoughts
3. convey their thoughts
4. prepare for class
5. integrate material learned in the class and connect it to case studies.

At times students wonder how they can improve their analytical discussion grades.

A) You want to fully integrate the lessons from Eric Fromm (see tinyurl.com/UWFromm)

B) If you are struggling with organizing your thoughts sufficiently, or with formulating verbal answers, prepare for class by fully writing out answers and practice speaking them out aloud before class. This can be done for case studies, reviews, or for the key concepts you have read about for class. If you do this, I guarantee that you will be able to participate well

C) If you have additional problems, even after having fully addressed A) and B), please come see me in office hours.

Presentation Guidelines

The presentation is designed to apply the Mundell Fleming Model to the real world. The task is to cover a financial crisis, where "financial crises" are defined as currency crises (not banking, inflation of global financial crises).

Each country is covered by *two* groups. One group covers the *pre crisis* events; the other group covers *post crisis* events. Some countries have had several crises. In this case coordination between the groups is important.

Each group presents for 25 minutes to leave room for questions.

Presentations **must show each step** of country's economic crisis using the Mundell Fleming model.

Execution of the Mundell Fleming analysis **requires** data from the **IMF's International Financial Statistics (IFS)**. No other data source is allowed. GDP, Investment, Consumption, Reserves are usually reported quarterly, but prices, interest rates, exchange rates are available monthly if not daily. If sufficiently detailed data is not available from the IMF, contact the instructor for permission to use alternative data.

To obtain the data, you must go into IFS via the UW library and electronically download all data necessary for a Mundell Fleming analysis. Use the highest data frequency available (monthly, quarterly, annual). Graph the data - no tables with 1001 cells are allowed! Make absolutely sure the axes on our graphs are readable in the last row. **Deflate all economic values** (in case you have forgotten how to do this, here is a [link](#)) so you obtain the **real** values necessary for the Mundell Fleming model. Only real values will be accepted. Recently the IMF has also allowed public data electronic downloads that do not require UW Library login via this simple site: [Link](#).

Structure of the Presentation

1. **DATA.** Deliver a succinct account/outline of the key economic conditions / IFS data for the pre or post crisis (depending on your assignment). This data must include all variables necessary for the Mundell Fleming model (5 min).
2. **ANALYSIS.** Analyze the economic performance using the Mundell Fleming Model (10 min) **after** you presented the data.
3. **POLICY.** Outline which policy measures were (or were not) taken, how the data changed in response to policies, utilizing the Mundell Fleming Model (5 min).
4. **FORECAST.** Present a forecast for the country, including policy recommendations, as visualized by the Mundell Fleming model (5 min).
5. **GROUP DISCUSSION** is a key learning component of the assignment. You must work together to synthesize ideas and graphs, so that one unified picture emerges for the class, while parts 1-5 remain clearly distinguishable.