

UW Econ 472

# International Macro Economics



## Subject Goals 2

Information on learning objectives, prerequisites, and what to expect

## Logistics 3

Assignments and grading, teaching staff, and policies

## Schedule 4

Detailed information on topics, dates and readings

## 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: Mo 12:00-12:30

Office: Savery Hall 355

Web: [tinyurl.com/econ472](http://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

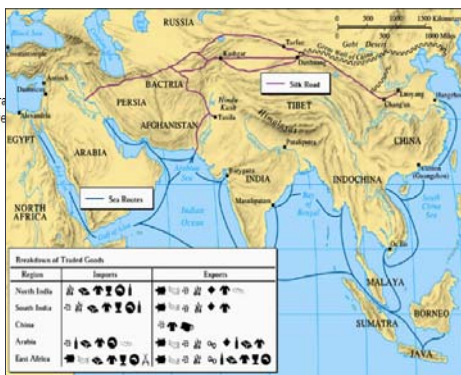
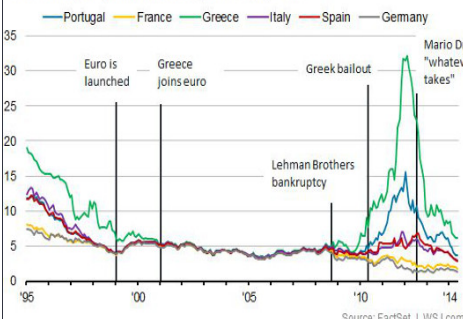
fiscal policies and their spillovers across international markets.

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](http://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](http://tinyurl.com/UWFromm)

## Teaching Staff

**Theo S. Eicher**

Castor Professor in Economics  
Savery Hall 330;  
[teclass@uw.edu](mailto:teclass@uw.edu). I respond to  
emails after office hours.

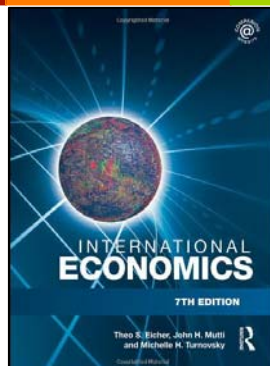
**Office Hours** are a good time to visit if you have  
question. You can even schedule specific time slots at  
if you want to discuss class related issues, see [link](#).

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

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

## Readings

- **Lecture Notes (posted online)** are based on  
Eicher, Turnovsky, & Mutti "International  
Economics" 7<sup>th</sup> Edition, Routledge Press, 2009  
(not required, e-rental at [tinyurl.com/UWText](http://tinyurl.com/UWText)).
- **Daily Reading:** Wall Street Journal "Market  
Watch Currencies" column, see [link](#). Login to  
the column and to other readings may require  
a WSJ subscription, which can be obtained at  
[wsj.com/studentoffer](http://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](http://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** ([link](#))
- **10% Group Presentation**

**Past exams** can be found at [tinyurl.com/UWexams](http://tinyurl.com/UWexams).

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

## 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, Jan 05	<p><b>Introduction</b></p> <ul style="list-style-type: none"> <li>Understanding the Syllabus and the Course</li> </ul>	<ul style="list-style-type: none"> <li><a href="#">EMT Lecture Notes Ch 0 Introduction</a></li> <li><a href="#">Review of 2008 Crisis/Policy Response (Slides)</a></li> <li><a href="#">Winners and Losers of Quantitative Easing</a></li> <li>For each class you must</li> <li>Print, read, bring <b>WSJ Market Watch Currencies</b> column - the very last column listed <i>the day before the class date</i>.</li> <li>Bring your Table Tent Name Card</li> </ul>
Wed, Jan 07	<p><b>Essential Terminology</b></p> <ul style="list-style-type: none"> <li>Balance of Payments</li> <li>Exchange rate, Markets, Regimes</li> </ul>	<ul style="list-style-type: none"> <li><a href="#">EMT Lecture Notes Ch 12</a></li> <li><a href="#">Why Do We Need Real (Effective) Exchange Rates?</a></li> <li><a href="#">The ICE Dollar Index</a></li> <li><u>Case Study 1: (Who is in charge of US Interest Rates?)</u></li> <li><u>Background video on US/Chinese Debt (voluntary)</u></li> <li><u>Case Study 2: (The Real Effective Yuan) (voluntary)</u></li> <li><u>FYI: Real Effective FX data sources</u></li> <li><u>Class Slides</u> (posted after the class)</li> </ul>
Mon, Jan 12	<p><b>Effect of Exchange Rate on the Economy</b></p> <ul style="list-style-type: none"> <li>Marshall Learner Condition</li> <li>J-Curve</li> </ul>	<ul style="list-style-type: none"> <li><a href="#">EMT Lecture Notes Ch 13</a></li> <li><a href="#">Marshall Learner Condition (Video)</a></li> <li><a href="#">Did China's Central Bank Take Your Job? (Radio)</a></li> <li><a href="#">IN THE NEWS: Japanese J-Curve</a></li> <li><u>Case Study 1: (Japan and the J-Curve)</u></li> <li><u>Case Study 2: (Crisis and the J-Curve) (voluntary)</u></li> </ul>
Wed, Jan 14	<p><b>History of Exchange Rate Regimes</b></p> <ul style="list-style-type: none"> <li>Gold Standard (Pros and Cons)</li> <li>Hume's <i>Species Flow Mechanism</i></li> <li>Bretton Woods</li> </ul>	<ul style="list-style-type: none"> <li><a href="#">EMT Lecture Notes Ch 21</a></li> <li><a href="#">Cross Of Gold</a></li> <li><u>Case Study 1: (Nixon Ends Bretton Woods) (YouTube)</u></li> <li><u>Case Study 2: (Effects of UK ending the Gold Standard) (YouTube)</u></li> <li><u>Fed Chair explains Gold Standard (voluntary)</u></li> <li><u>Khan Academy-Style Explanation of "Fiscal Discipline" (voluntary)</u></li> <li><b>Analytical Discussion Grade #1 Published</b></li> </ul>

Mon, Jan 19	<b>MLK</b>	
Wed, Jan 21	<b>Midterm I (1h 50 min)</b>	
Mon, Jan 26	<p><b><i>The Simplest Small Open Economy Model</i></b></p> <ul style="list-style-type: none"> <li>Assumptions/Implications</li> <li>Empirical Evidence</li> <li>Fiscal / Monetary Policy Implications</li> </ul>	<ul style="list-style-type: none"> <li><a href="#">EMT Lecture Notes Ch 14</a></li> <li><a href="#">IN THE NEWS: The Yen and the Japanese Trade Deficit</a></li> <li><a href="#">Case Study 1: (Japanese Piggy Bank)</a></li> <li><a href="#">Case Study 2: (Getting Tough Won't Work) - Voluntary</a></li> <li><a href="#">Class Slides (posted after class)</a></li> </ul>
Wed, Jan 28	<p><b><i>I) The Large Open Economy</i></b></p> <ul style="list-style-type: none"> <li>Assumptions/Implications</li> <li>Comparison of Multipliers</li> <li>Policy Implications</li> </ul> <p><b><i>II) Flexible exchange rates</i></b></p>	<ul style="list-style-type: none"> <li><a href="#">EMT Lecture Notes Ch 15a</a></li> <li><a href="#">IN THE NEWS: China's Effect on Asia</a></li> <li><a href="#">Case Study 1: (When China Sneezes)</a></li> <li><a href="#">Case Study 2: (Mercantilism)</a></li> <li><a href="#">Case Study 3: East Grows, West Consumes</a></li> <li><a href="#">EMT Ch 14 p. 422-426</a></li> </ul>
Mon, Feb 02	<p><b><i>Paradise Lost</i></b></p> <ul style="list-style-type: none"> <li>The long run equilibrium</li> </ul> <p>Expenditure Switching &amp; Expenditure &amp; Reducing</p>	<ul style="list-style-type: none"> <li><a href="#">EMT Lecture Notes Ch 15b</a></li> <li><a href="#">IN THE NEWS: The Price of Austerity</a></li> <li><a href="#">Is your iPod unpatriotic? (YouTube)</a></li> <li><a href="#">Trade Wars and Buy American (YouTube)</a></li> <li><a href="#">Case Study 1: (The New New Thing: Fiscal Devaluation)</a></li> <li><a href="#">Case Study 2: (Consequences of cutting the wrong segment of "G" to reduce trade deficits)</a></li> <li><a href="#">Case Study 3: (Creative Policies to Cut Trade Deficits, Argentina-Style)</a></li> <li><a href="#">Case Study 4: (Tough Love – make sure to read Simon Johnson's article!) - Voluntary</a></li> </ul>
Wed, Feb 04	<p><b><i>Who Needs Policy? The Monetary Approach to the Balance of Payments</i></b></p> <ul style="list-style-type: none"> <li>Non Sterilization</li> </ul>	<ul style="list-style-type: none"> <li><a href="#">EMT Lecture Notes Ch 15c</a></li> <li><a href="#">IN THE NEWS: Mechanics of China's Sterilization Part I</a></li> <li><a href="#">Mechanics of China's Sterilization Part II</a></li> <li><a href="#">Case Study 1: Bulgaria Stabilization</a></li> <li><a href="#">Case Study 2: Bulgarian Prefer Their Currency Board Over The Euro</a></li> <li><a href="#">Case Study 3: (Sterilization in Europe)</a></li> </ul>

Mon, Feb 09	<p><b>International Capital Markets</b></p> <ul style="list-style-type: none"> <li>• Overview</li> <li>• “Billion Dollar Day” (video)</li> <li>• Presentation groups formed</li> </ul>	<ul style="list-style-type: none"> <li>• <a href="#">EMT Lecture Notes Ch 16</a></li> <li>• <a href="#">Case Study 1: (Does Technical Analysis Work?)</a></li> <li>• <a href="#">Class Slides</a> (available after class)</li> </ul>
Wed, Feb 11	<p><b>Modeling International Capital Markets</b></p> <ul style="list-style-type: none"> <li>• Interest Parity &amp; Capital Account</li> <li>• External Balance (BP = 0)</li> <li>• External Balance &amp; IS/LM</li> </ul>	<ul style="list-style-type: none"> <li>• <a href="#">EMT Lecture Notes Ch 17</a></li> <li>• <a href="#">IN THE NEWS: Risky Carry Trade</a></li> <li>• <a href="#">Carry Trade</a> (also read the WSJ link)</li> <li>• <a href="#">Case Study 1: (BP=0 &amp; Risk: Egyptian Pound Gets Pounded)</a></li> <li>• <a href="#">Case Study 2: (BP=0 &amp; Contagion: Slovenia Faces Contagion from Cyprus)</a></li> <li>• <a href="#">Case Study 3: (CIP &amp; Capital Controls: China’s FA Restrictions)</a></li> <li>• <a href="#">Case Study 4 (Thawing Dollars) - Voluntary</a></li> <li>• <a href="#">Case Study 5: (Mother of all Carry Trades) - Voluntary</a></li> <li>• <b>Analytical Discussion Grade #2 Published</b></li> </ul>
Mon, Feb 16	Pres Day	
Wed, Feb 18	<b>Midterm II (1h 50 min)</b>	
Mon, Feb 23	<p><b>Mundell Fleming Model: Fixed Exchange Rates</b></p> <ul style="list-style-type: none"> <li>• Goods/ Financial Markets, External &amp; Internal Balances</li> <li>• Fiscal/Monetary Policy</li> </ul>	<ul style="list-style-type: none"> <li>• <a href="#">EMT Lecture Notes Ch 18</a></li> <li>• <a href="#">IN THE NEWS: Italy’s Deficit</a></li> <li>• <a href="#">Why Greece Is Struck With The Euro?</a></li> <li>• <a href="#">Case Study 1: The Eurozone’s Fiscal Commission</a></li> <li>• <a href="#">Case Study 2: Spain and the EU (link 1)</a> and the sequel 4 years later (<a href="#">link 2</a>)</li> <li>• <a href="#">Case Study 3: (China’s Policy Options) - Voluntary</a></li> <li>• <a href="#">Cross of Euros - voluntary</a></li> </ul>
Wed, Feb 25	<p><b>Mundell Fleming Model: Flexible Exchange Rates</b></p> <ul style="list-style-type: none"> <li>• Goods Market, Financial Market, External &amp; Internal Balance</li> <li>• Fiscal and Monetary Policy</li> </ul>	<ul style="list-style-type: none"> <li>• <a href="#">EMT Lecture Notes Ch 19a</a></li> <li>• Case Study 1: (Das Kapital)</li> <li>• <a href="#">Case Study 2: (Bernanke: Why QE3) – Voluntary background reading to learn more about the unwinding of QE3</a></li> <li>• <a href="#">Case Study 3: (The Trilemma)</a></li> </ul>
Mon, Mar 02	<p><b>Mundell Fleming Model:</b></p>	<ul style="list-style-type: none"> <li>• <a href="#">EMT Lecture Notes Ch 19b</a></li> </ul>

	<p><b>Large Open Economy</b> Currency Wars</p> <ul style="list-style-type: none"> <li>• <b>Price Flexibility</b></li> </ul>	<ul style="list-style-type: none"> <li>• <a href="#">Currency Wars</a></li> <li>• <a href="#">Case Study 1: Currency Wars</a></li> <li>• <a href="#">Case Study 2: Why Fear Currency Wars?</a></li> <li>• <a href="#">Case Study 3: (War Games) Are Currency Wars Like Stadium Seating?</a></li> <li>• <a href="#">Case Study 4: (China Enters Currency War)</a></li> <li>• <a href="#">Case Study 5: (Why is it false to accuse Japan of starting a currency war?)</a> voluntary</li> <li>• <a href="#">EMT Lecture Notes Ch 20</a></li> </ul>
Wed, Mar 04	<p><b>Mundell Fleming Model: Real World Applications</b></p> <ul style="list-style-type: none"> <li>• Presentations Kazakhstan/Egypt</li> </ul>	<ul style="list-style-type: none"> <li>• <a href="#">Review Basic Presentation Guidelines</a></li> <li>• <a href="#">Sample Presentation (no commentary)</a></li> <li>• A copy of the presentations must be submitted <b>before</b> class in <b>pdf</b> format to <b>teclass@uw.edu</b> (Google docs links are not accepted)</li> </ul>
Mon, Mar 09	<p><b>Mundell Fleming Model: Real World Applications</b></p> <ul style="list-style-type: none"> <li>• Presentations Russia 201/ Argentina 2014</li> </ul>	<ul style="list-style-type: none"> <li>• <a href="#">Review Basic Presentation Guidelines</a></li> <li>• <a href="#">Sample Presentation (no commentary)</a></li> <li>• A copy of the presentations must be submitted <b>before</b> class in <b>pdf</b> format to <b>teclass@uw.edu</b> (Google docs links are not accepted)</li> <li>• <b>Analytical Discussion Grade #3 Published</b></li> </ul>
Wed, Mar 11	<b>Midterm III (1h 50 min)</b>	

## Presentation Guidelines

1. 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).
2. 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.
3. Each group presents for 25 minutes to leave room for questions.
4. Presentations **must show each step** of country's economic crisis using the Mundell Fleming model.
5. 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.
6. 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.