

JW Econ 472 International Macro Economics



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How Do Global Financial Markets & Policies Interact to Affect the Domestic Economy?

We develop a framework to analyze international transmission of monetary/fiscal policies across countries to gauge the effects on GDP, interest, prices, trade, capital flows, and employment

Prof. Theo Eicher
Office Hours: Zoom by appt.
Office: Savery Hall 355
Web: Tinyurl.com/UWecon472

What Is International Macro?

International Macroeconomics focusses on the effects of monetary and fiscal policy in an open economy that is deeply integrated into global markets. The objective of the class is to provide students with a deep understanding of the different analytical frameworks that can be applied to analyze the economic impact of domestic and international economic policies.

To achieve this goal, we cover topics such as policy implications and

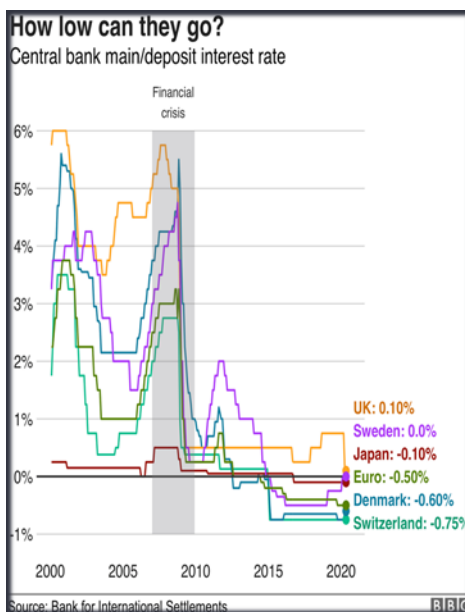
economic spillovers from trade deficits, currency manipulations, and currency crises.

In a globally integrated economy, it is crucial to understand the factors that influence the value of a national currency, and the reasons why prices for the same product may differ across countries.

These questions are closely related to nations' monetary and fiscal policies and their effects across international markets.

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

A key learning objective of the class is to develop economists' analytical communication skills through in-class discussions of policy effects based on model implications.



Goals & Learning Objectives

In This Class You Learn to

- 1) analyze fiscal & monetary policies and their global implications
- 2) function like an economist, verbally analyzing real-world policy puzzles using macroeconomic models.
- 3) assess country data, evaluate crisis origins on the basis of economic models, and project policy solutions
- 4) analyze macroeconomic news events on a daily basis, understand real-time drivers and event backgrounds on the basis of models

How Students Succeed in Econ 472?

The key to success in this class is “learning economics by doing economics.” This means actively verbalizing and thinking economics to develop and communicate economic intuition. To this end, the class is designed to provide students with opportunities to puzzle through different policy questions and real-world problems.

Analytical Discussion

One of the key component of this class is learning to think and communicate like an economist. There will be many opportunities for student to actively engage in interactive policy discussions.

Tent Cards

Some students prefer not to participate in class discussions. I distribute tent cards, please bring yours to each class. If you don't display your card, I assume you do not want to participate in the discussion. Analytical Discussion is part of your grade.

Passing

Discussion participation is valuable. The focus is not on correct answers but on the way you attempt to answer questions correctly. If you struggle, you can “PASS” to deflect a question without consequences.

Electronic Gadgets in Class

If you do not engage in 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 standard, and I aim to clearly communicate what students can expect from this course. Erich Fromm has an excellent description of the type of learning I favor: He describes students' "having" mode (passive learning) and "being" mode (active learning). For more info, , please check out this [link](#).

Admin

Student Background and Prerequisites:

This course is designed for economics majors with an interest in international economics. *A clear grasp of all basic macroeconomic concepts covered in intermediate macro is fundamental.* If you have any questions about your level of preparation, ask the instructor.

Accommodation:

If you have special needs, requests or requirements, please see the instructor immediately. Washington state law requires that the UW develop a policy

for accommodation of student absences or significant hardship due to reasons of faith or conscience, or for organized religious activities. The UW's policy, including more information about how to request an accommodation, is available at <https://registrar.washington.edu/staffandfaculty/religious-accommodations-policy>. Please note that accommodations must be requested within the first two weeks of this course using the Religious Accommodations Request form this [link](#).

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 academic dishonesty 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 academic dishonesty are noted on the student's permanent academic record.

Professor

**Theo S. Eicher**

Email: teclass@uw.edu, (I'll try to answer emails within 24 hours).

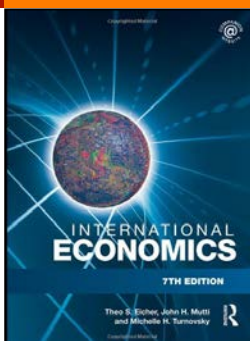
- **Office Hours:** email instructor, all individually arranged via zoom.
- **Grading Questions** require preparation, see [link](#).
- **Recommendations** require preparation, see [link](#).
- **If you miss a class:** [click here](#)

Readings/Preparation

Lecture Notes: Textbook readings are [online](#). These are based on Eicher, Turnovsky, Mutti "International Economics," 7th Edition, Routledge Press ["EMT"] (not required).

Daily Readings:

- I) Convera "Daily FX Update" blog
- II) WSJ subscription is required for many case studies. A WSJ cheap student offer is [here](#).

**Homework Assignments**

All assignments are indicated in the outline below. If you could not prepare, simply do not put up your tent card.

Class Blog: ([link](#)) Irregular postings. FYI only. Some home works directly links to the blog.

Grading

Grades can be viewed here ([link](#)). Grades consist of

- A) Midterms, B) Analytical Discussion Contributions (below), C) Final Project Presentation

Grade Options: 2 options exist (canvas displays 1):

- **Option 1: 60% A), 30% B), 10% C)**
- **Option 2: 90% A), 10% C)**

- **Past exams** can be found [here](#). Past exams are good practice but may reflect materials covered only in pass quarters, not this one.
- **Class Announcements:** Via UW email listserv, pls make sure your UW email forwards to your favorite email.

Netiquette

Internet Etiquette ([link](#)). Just like every business letter, all electronic communication in this class must include:

Proper Identification:

- I) subject line
- II) salutation
- III) body
- IV) your name in the closing line

Proper Interpersonal Etiquette: Do not write anything in an email that you would not say to a person in discussion or conversation.

Correct and Proper English:

- I) complete sentences
- II) proper spelling,
- III) no chat acronyms such as *IMHO*.

Email Contact: I use only your UW email to communicate.

Analytical Discussion

No matter what your major or your future career path may be, speaking confidently in front of a group of peers about substantive, real-world issues is a crucial skill. This is one learning objective of this class. Please note

It is absolutely normal to feel nervous at first. As compared to the real world, however, the classroom is a good place to take chances to hone your improvisational speaking skills. Use the PASS feature or contact the instructor early if you struggle.

At times, students suggest they should receive a perfect analytical discussion grade because they “*attended every class and never used a computer/phone during class time.*” This is a misunderstanding. The analytical discussion grade for this class does not measure if you are present or if you participated, it measures

- a) **your preparedness to communicate the content** of (i) reading/news, (ii) past models, (iii) case studies;
- b) **your ability to engage and verbalize solution attempts** to policy puzzles presented in class;
- c) **the quality not the quantity** of your contributions.

It is not how many times you raised your hand but the quality of your contribution that matters. Quality contributions display your command of the analytical tools learned and the ability to apply them to real-world questions.

Imagine yourself in a corporate boardroom. You meet your bosses, the CEO, CFO, or COO of the company. The CEO turns to the Chief Economist (you) and asks: “*you have read this morning’s Wall Street Journal, what does today’s employment report suggest?*” Here are possible 9 answers roughly correlating with a 0%-100% analytical discussion grades.

1. I don’t know
 2. good
 3. employment is up
 4. employment is up, the economy is good
 5. employment rose by 150,000, that is a strong jobs report
 6. employment rose by 150,000, that is a strong jobs report, which may induce the FED to increase interest rates
 7. employment rose by 150,000, that is a strong jobs report, this may exert pressure on wages. This may lead the FED to increase interest rates
 8. employment rose by 150,000, that is a strong jobs report, this may exert pressure on wages, which may translate into higher prices. Higher prices, in turn, may lead the FED to increase interest rates to prevent high inflation
 9. employment rose by 150,000, that is a strong jobs report, this may exert pressure on wages, which may translate into higher prices, which in turn may lead the FED to increase interest rates. Higher interest rates may slow economic growth
- The best analytical discussion grades (90%-100%) go to students who prepare for class by doing the reading, and who have made the connection how case studies relate to the reading and to the models. These students recall how last week’s class connects to this week’s class and to this week’s reading. Successful students engage in attempts to apply class theory to policy and they attempt to apply acquired knowledge to case studies.
 - Satisfactory analytical discussion grades (70%-90%) go to students who participate verbally, and give short answers but limited answers. These students mostly follow the class nonverbally, but are willing to try to apply their knowledge to some degree when asked.
 - Weak analytical discussion grades (<70) go to students who struggle to verbalize their thoughts and perhaps don’t even don’t try. These students struggle to find time to prepare for class and have a hard time connecting learned material to the case studies, or connect how case studies to readings.

Discussion grades are announced several times throughout the quarter to give you an idea of where you stand please act immediately if you realize the grade you received does not square with your expectations.

How To Improve Your Analytical Discussion?

A) Fully integrate the lessons from Eric Fromm about being a prepared student (see [link](#)).

B) If you struggle to organize your thoughts verbally, or if you encounter difficulties formulating answers, plan to prepare ***before each class written answers to expected questions and practice these answers by speaking them out loud***. This can be done for case studies, reviews, WSJ, and for all concepts/models you read about. You will quickly find there is a pattern to the questions asked in each class. Each class starts with very similar questions. Each model starts with very similar questions. Each case study starts with very similar questions.

C) Be clear ***before you come to class*** what the objective of the reading was and how it connects to the case studies. Be able to explain each figure that represents the day's model. Write out each figure's explanation so it comes to you easily and read the explanation until you are comfortable. Then find a roommate who knows nothing about econ and tell the roommate the topic/graph and give your summary without looking at your answers.

D) Form a study group that ***uses only English language*** and go through discussing the reading and the case studies before each class. Each student in the group should take turns commenting about review, model summary, and case study. If you are a foreign student, it is much easier to explain material in your native language - force yourself to prepare only in English.

If you follow A)-D) and still have problems, I urge you to contact me, I will be happy to tailor strategies to your needs.

	Strong work ⁱ	Needs development	Unsatisfactory
Listening	Actively and respectfully listens to peers and instructor	Sometimes displays lack of interest in comments of others	Projects lack of interest or disrespect for others
Preparation	Arrives fully prepared with all assignments completed, and notes on reading, observations, questions	Sometimes arrives unprepared or with only superficial preparation	Exhibits little evidence of having read or thought about assigned material
Quality of contributions	Comments are relevant and reflect understanding of: assigned text(s); previous remarks of other students; and insights about assigned material	Comments sometimes irrelevant, betray lack of preparation, or indicate lack of attention to previous remarks of other students	Comments reflect little understanding of either the assignment or previous remarks in seminar
Impact on seminar	Comments frequently help move seminar conversation forward	Comments sometimes advance the conversation, but sometimes do little to move it forward	Comments do not advance the conversation or are actively harmful to it
Frequency of participation	Actively participates at appropriate times	Sometimes participates but at other times is "tuned out"	Seldom participates and is generally not engaged

ⁱ Class participation deserving of an A grade will be strong in most categories; Participation that is strong in some categories but needs development in others will receive a B; a grade of C reflects a need for development in most categories; D work is typically unsatisfactory in several categories; and F work, unsatisfactory in nearly all.

8/15/08

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Presentation Guidelines

The presentation is designed to apply the central model of the class, the *Mundell Fleming Model* to the real world. The presentation covers a real world currency crisis. After you signed up for a country/group, check the exchange rate for the year and see if you can identify the crisis. If you cannot, contact me.

If you do not attend class and/or make no effort to be assigned to a group, and/or do not get in contact with your assigned group at least two weeks before the presentation, you forfeit your opportunity to partake in a presentation and receive a zero grade for your presentation.

Each country/crisis is covered by *two* groups. One group covers *pre-crisis* events; the other group covers *post-crisis* events. Some countries have had several crises during the year. In this case, coordination between groups is important. Each group presents for 10 minutes.

- Presentations **must show each step** of the 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). You may also use World Bank data. No other data source is allowed without instructor permission. **Zero points are awarded for graphs that are reproductions found on the internet.**
- GDP, Investment, Consumption, Reserves are usually reported quarterly, but prices, interest rates, exchange rates are available monthly if not daily. Use the highest data frequency available (monthly, quarterly, annual).
- You must download all data necessary for a Mundell Fleming analysis, if you run into issues, see the UW library reference librarian for help.
- **Deflate all economic values** (in case you have forgotten how to do this, here is a [link](#)) to obtain real values necessary for the Mundell Fleming model. Only real values will be accepted.
- **Each graph must contain a vertical line with the crisis date. Lose 10% of available points if crisis indicators are missing.**
- All graphs must have axes that are readable in the last row of the class. **IF the last row in class cannot read the numbers on the x or y axis of ALL graphs, the group loses 10% of available points**

Structure of the Presentation

1. **DATA.** (5 minutes)
 - a) Deliver a succinct account of the country's economic conditions/data.
 - b) Then explain economic/political/geopolitical events that created the data.
2. **Analysis.** (5 minutes)
 - c) Use the Mundell Fleming model to explain the data (how did the country get into/out of the crisis).
 - d) Then show the policy options in the Mundell Fleming diagram that the country had to avoid the crisis (for pre-crisis groups) or to emerge from the crisis (for post crisis groups).

GROUP DISCUSSION is a key learning component of the presentation assignment. You must work together to synthesize ideas and graphs, so that a unified picture emerges for the class to observe, while parts a)-d) remain clearly distinguishable.

Detailed Class Outline

- **This daily schedule is subject to change. Do not print the schedule/readings weeks in advance.**
- You are required to check the syllabus *24h before each class*
- Questions at the end of lecture notes' chapters are for your information, they are not homework.
- I suggest sketching answers to case study questions to prepare for class discussions. If the case study does not have questions, write out 3 connections between the case study and the class reading.
- If a link is broken, please contact me for extra credit (if you are the first) at te@uw.edu
- **The Guest Lecture date may change, which may then affect subsequent dates/exams.**

Date	Topic	Readings/Assignments (Many are <u>Web Links</u>)
Wed, 1/4	Introduction <ul style="list-style-type: none"> • Understanding the Syllabus and the Course 	<ul style="list-style-type: none"> ➤ EMT Lecture Notes Ch 0 Introduction ➤ For each class you must read before class <ul style="list-style-type: none"> ▪ Convera "Daily FX Update" ➤ Need to review IS-LM?
Mo, 1/9	Essential Terminology <ul style="list-style-type: none"> • Balance of Payments • Exchange rate, • FX Markets & Regimes 	<ul style="list-style-type: none"> ➤ EMT Lecture Notes Ch 12 ➤ The ICE Dollar Index ➤ Real (Effective) Exchange Rates • Case Study: Japan's Central Bank Buys Yen
Wed, 1/11	Effect of Exchange Rates on the Economies <ul style="list-style-type: none"> • Exchange rate, Markets, Regimes, Marshal Learner Condition, J-Curve 	<ul style="list-style-type: none"> ➤ EMT Lecture Notes Ch 12b ➤ Reread Ch12 parts on E regimes. • Case Study 1: White House USD confusion? • Case Study 2: Tariff's & Currency Manipulation • Case Study 3: Japans 2022 J-Curve
Mon, 1/16	MLK Day	
Wed, 1/18	History of Exchange Rate Regimes <ul style="list-style-type: none"> ➤ Gold Standard (Pros/Cons) ➤ Bretton Woods 	<ul style="list-style-type: none"> ➤ EMT Lecture Notes Ch 21 • Case Study 1: Nixon Ends Bretton Woods (YouTube)Δ • Case Study 2: Keynes & The Gold Standard (YouTube)
Analytical Discussion Grade #1 Published (dropped if lower than the average of all remaining analytical discussion grades)		
Mon, 1/23	The Simplest Small Open Economy Model (SOE) <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 ➤ China's Financial Account (skim only) • Case Study 1: Trump & Biden's "Currency Manipulation" • Case Study 2: Are there Countries w/fixed FA? (Part I) • Case Study 3: Are there Countries w/fixed FA? (Part II) • Case Study 4: Japanese Piggy Bank • Case Study 5: Trump's Trade Deficit

Wed, 1/25	<p>Part I) The Large Open Economy (LOE)</p> <ul style="list-style-type: none"> Assumptions/Implications Comparison of Multipliers Policy Implications <p>Part II) Flexible Exchange Rates</p>	<ul style="list-style-type: none"> ➤ EMT Lecture Notes Ch 15a ➤ EMT Ch 15a [Section On Flexible Exchange Rates] • Case Study 1: Global Effects of The War in Ukraine
Mon, 1/30	<p>Paradise Lost</p> <ul style="list-style-type: none"> Causes of Financial Crises Solutions to Financial Crises: <ul style="list-style-type: none"> Expenditure Switching Expenditure Reducing 	<ul style="list-style-type: none"> ➤ EMT Lecture Notes Ch 15b • Case Study 1: Is your iPod unpatriotic? (YouTube) • Case Study 3: Argentina Fires The IMF • Case Study 4: IMF & Riots Come To Sri Lanka <p>Voluntary Reading</p> <ul style="list-style-type: none"> • Connection between IMF and Riots <p>Analytical Discussion Grade #2 Published</p>
Wed, 2/1	<p>Guest Lecture Monique Newiak <i>Resident Representative of the International Monetary Fund in Sierra Leone</i></p>	<ul style="list-style-type: none"> ➤ TBA ➤ Lecture is exam relevant
Mon, 2/6	<p>Who Needs Policy? The “Monetary Approach to the Balance of Payments”</p> <ul style="list-style-type: none"> The Long Run Non-Sterilization 	<ul style="list-style-type: none"> ➤ EMT Lecture Notes Ch 15c • Case Study 1: China’s Sterilization • Case Study 2: Bulgaria’s “Stabilization” • Case Study 3: Effects of Bulgaria’s Currency Board • Case Study 4: Why Zimbabwe Wants a Currency Board
Wed, 2/8	Midterm I (1h 50 min)	
Mon, 2/13	<p>Int’l Capital Markets</p> <ul style="list-style-type: none"> Overview “Billion Dollar Day” (video) 	<ul style="list-style-type: none"> ➤ EMT Lecture Notes Ch 16 • Case Study 1: Dollar Dandruff • SIGN UP FOR GROUP PRESENTATIONS <p>ANALYTICAL DISCUSSION GRADE 3 Posted After Class</p>
Wed, 2/15	<p>Modeling International Capital Markets</p> <ul style="list-style-type: none"> Modeling Interest Parity & the Financial Account External Balance: $BP = 0$ IS/LM/BP, Risk 	<ul style="list-style-type: none"> ➤ EMT Lecture Notes Ch 17 (Draw Risk in [Y, i] Space) ➤ EU Carry Trade (read WSJ links!) • Case Study 1: Creative Carry Trades • Case Study 2: The Size of Japanese Carry Trade • Case Study 3: BREXIT: A New Type of Contagion • Case Study 4: China’s OnShore-OffShore Yuan <p>Voluntary Reading</p> <ul style="list-style-type: none"> • More on On/Offshore yuan CNY vs CNH, & CNY vs CNH
Mon, 2/20	Presidents’ Day	

Wed 2/22	Mundell Fleming Model: Fixed Exchange Rates <ul style="list-style-type: none"> Fiscal/Monetary Policy 	<ul style="list-style-type: none"> ➤ EMT Lecture Notes Ch 18 • Case Study 1: Mundell, Italy and a \$4Bil Fine • Case Study 2: Is Greece Is Struck With The Euro? (20 min Podcast) • Case Study 3: EU Changes Debt Rules.
Mon, 2/27	Mundell Fleming Model: Flexible Exchange Rates <ul style="list-style-type: none"> Goods Market, Financial Market, External Balance RISK 	<ul style="list-style-type: none"> ➤ EMT Lecture Notes Ch 19a ➤ Das Kapital (only the first 2 pages required) • Case Study 1: Make America's Deficits Great Again • Case Study 2: UK Fiscal Budget, the GBP, & RISK • Case Study 3: The Trilemma
Wed, 3/1	Mundell Fleming Model: Large Open Economy	<ul style="list-style-type: none"> ➤ EMT Lecture Notes Ch 19b • Case Study 1: The US Wants China to Fix the Yuan • Case Study 1: Currency Wars • Case Study 2: Why Fear Currency Wars?
Mon, 3/6	➤ Midterm II (1h 50 min)	
Wed, 3/8	Mundell Fleming Model: Real World Applications <ul style="list-style-type: none"> Presentations Sri Lanka 2022 & UK 2022 	<ul style="list-style-type: none"> ➤ Review Presentation Guidelines & (link), (link), (link) ➤ Sample Presentation (no commentary) <p>A copy of the presentation must be submitted before class in pdf format to Canvas</p>
Wed, 3/8	Mundell Fleming Model: Real World Applications <ul style="list-style-type: none"> Presentations Turkey 2021/2 & Ghana 2022 	<ul style="list-style-type: none"> ➤ Review Presentation Guidelines & (link), (link), (link) ➤ Sample Presentation (no commentary) <p>A copy of the presentations must be submitted before class in pdf format to Canvas</p> <p>Analytical Discussion Grade #4 Published</p>