

# INTERNATIONAL FINANCE ECONOMICS EC3353B - 001

Department of Economics  
Western University

January 2020

## General Information:

**Instructor:** Shahed Khan  
**Office:** 4050 SSC  
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**E-mail:** mkhan333@uwo.ca  
**Office hours:** TBA  
**Classroom meeting time(s) & location:** M 11:30 – 1:30 pm UCC 37 W 12:30 pm – 1:30 pm UCC 67  
**Course website:** <https://owl.uwo.ca/portal>  
**Undergraduate inquiries:** 519-661-3507 or SSC Room 4075 or [econugrd@uwo.ca](mailto:econugrd@uwo.ca)

## Registration:

You are responsible for ensuring you are registered in the correct courses. If you are not registered in this course, the Department will not release any of your marks until your registration is corrected. You may check your timetable by using the Login on the Student Services website at <https://student.uwo.ca>. If you notice a problem, please contact your home Faculty Academic Counsellor immediately.

## Prerequisite Note:

The formal prerequisite for this course is Economics 2221A/B. In addition, you should be very comfortable with **calculus, algebra, and geometry**. This course will make heavy use of all these tools. You are responsible for ensuring that you have successfully completed all course requisites, and that you have not taken an antirequisite course. Lack of prerequisites may not be used as a basis of appeal. If you are found to be ineligible for a course, you may be removed from it at any time and you will receive no adjustment to your fees. This decision cannot be appealed.

If you find that you do not have the course prerequisites, it is in your best interest to drop the course well before the end of the add/drop period. Your prompt attention to this matter will not only help protect your academic record, but will ensure that spaces become available for students who require the course in question for graduation.

## Course Objectives:

This course is an advanced introduction to the study of international macroeconomics and finance. We will develop theoretical models for analyzing determinants of current account deficits, international capital movements, and exchange rates. We will also examine and evaluate changes

in global capital market integration over time. These models will be used to discuss policy issues such as balance-of-payment crises and the debt crises in developing countries and the Euro area.

### **Course Learning Outcomes:**

By the end of this course, students will be able to:

- Set up and solve 2-period intertemporal models of current account (trade balance) determination in open economies with various market frictions.
- Use these models to analyze the effects of various shocks and government policies on trade imbalances.
- Understand basic models of sovereign borrowing and the causes and consequences of sovereign default.
- Evaluate alternative explanations for sustained current account deficits in developed economies.
- Interpret data on international savings, investment, and interest rates as indicators of the degree of international financial market imperfections.
- Understand the determination of real exchange rate movements.

### **Textbook(s):**

There is no required text for this course, but some material will closely follow the manuscript by **Schmitt-Grohe, Uribe, and Woodford**, “*International Macroeconomics*,” which is available on the course website. You are responsible for all material covered in lectures, as well as journal articles and other readings that I make available online. Please note that the material online will not cover everything that we will discuss in class, so it is important that you maintain a full set of notes on in-class material.

### **Grading:**

Your final grade will depend on your performance on the following assessments: two assignments, which together are worth 20%, a short group presentation worth 10%, class participation worth 5%, a midterm worth 30%, and a cumulative final exam worth 35%.

- Each homework assignment will be due one week after it is posted. Assignments must be handed in to me in class on the due date. Late assignments will not be accepted. You may work together with your classmates on problem sets, but you must each write up your own individual assignments independently. Identical or essentially identical assignments will receive a grade of zero.
- In the last two or three weeks of class, a team of three students will present a research paper from the reading list. Each group will have 25 minutes to discuss the motivation, the research question and results of the paper. There will be a 5-minute discussion after each presentation. Other students are expected to read the papers and participate in the discussion. The papers will be assigned to students on a first-come and first-served basis.

- Students who miss a term test due to medical or compassionate grounds (and can provide the appropriate documentation) will have the weight transferred to the final exam. For a missed exam, you must submit your valid documentation to Academic Counselling **within 2 business days** of the exam date. You must also notify your instructor prior to the test or at least **within 24 hours** after the excused period. There will be NO make-up midterm examination. Students who miss a term test and do not provide acceptable documentation receive a grade of zero.

Midterm Monday March 3, 11:40 - 1:10 pm

Final examination, Set by Registrar

### Reading List:

Alfaro, L., S. K.O., and V. Volosovych (2008), “Why Doesn’t Capital Flow from Rich to Poor Countries? An Empirical Investigation,” *The Review of Economics and Statistics*, 90, 347-368.

Arellano, C. (2008), “Default Risk and Income Fluctuations in Emerging Economies,” *American Economic Review*, 98, 690-712.

Bai, Y. and J. Zhang (2012), “Financial integration and international risk sharing,” *Journal of International Economics*, 86, 17-32.

Baxter, M. and M. Crucini (1993), “Explaining Saving-Investment Correlations,” *American Economic Review*, 83, 416-436.

Baxter, M. and U. Jermann (1997), “The International Diversification Puzzle is Worse than You Think,” *American Economic Review*, 87, 170-180.

Engel, C. (1999), “Accounting for U.S. real exchange rate changes,” *Journal of Political Economy*, 107, 507-538.

Fogli, A. and F. Perri (2015), “Macroeconomic Volatility and External Imbalances,” *Journal of Monetary Economics*, 69, 1-15.

Gourinchas, P.-O. and O. Jeanne (2013), “Capital Flows to Developing Countries: The Allocation Puzzle,” *Review of Economic Studies*, 80 (4), 1484-1515.

Kehoe, T. J. and K. J. Ruhl (2008), “Are Shocks to the Terms of Trade Shocks to Productivity,” *Review of Economic Dynamics*, 11, 804-819.

Mendoza, E., V. Quadrini, and V. Rios-Rull. (2009), “Financial Integration, Financial Development, and Global Imbalances,” *Journal of Political Economy*, 117, 371-416.

Neumeyer, P. and F. Perri (2005), “Business Cycles in Emerging Economies: The Role of Interest Rates,” *Journal of Monetary Economics*, 52, 345-380.

**Please Note**  
**Department Policies for 2019-2020**

Remember that the University expects all students to take responsibility for their own Academic Programs. Students should also check their registration to ensure they are enrolled in the correct courses.

1. Guidelines and policies for the Faculty of Social Science and the Department of Economics are posted online in the current Western Academic Calendar at:  
<http://westerncalendar.uwo.ca>.
2. Students must familiarize themselves with the “Rules of Conduct for Examinations”  
[http://www.uwo.ca/univsec/pdf/academic\\_policies/exam/administration.pdf](http://www.uwo.ca/univsec/pdf/academic_policies/exam/administration.pdf).
3. **Cheating as an academic offence:** Students are responsible for understanding what it means to “cheat”. The Department of Economics treats cheating incidents very seriously and will investigate any suspect behavior. Students found guilty will incur penalties that could include a failing grade or being barred from future registration in other Economics courses or programs. The University may impose further penalties such as a notation on an official academic transcript, suspension or expulsion.
4. **Plagiarism:** Students must write their essays and assignments in their own words. When taking an idea/passage from another author, it must be acknowledged with quotation marks where appropriate and referenced with footnotes or citations. Plagiarism is an academic offence (see Scholastic Discipline for Undergraduate Students in the Western Calendar at [http://westerncalendar.uwo.ca/PolicyPages.cfm?Command=showCategory&PolicyCategoryID=1&SelectedCalendar=Live&ArchiveID=#Page\\_20](http://westerncalendar.uwo.ca/PolicyPages.cfm?Command=showCategory&PolicyCategoryID=1&SelectedCalendar=Live&ArchiveID=#Page_20)).

Western University uses software to check for plagiarism and students may be required to electronically submit their work. Those found guilty will be penalized as noted in point 3.

5. It is a Department of Economics policy that **NO** assignments be dated, stamped or accepted by staff. Students must submit assignments in class or to the instructor during office hours.
6. When appealing a mark, students should refer to the Student Academic Appeals section in the current Western Academic Calendar at:  
[http://westerncalendar.uwo.ca/PolicyPages.cfm?Command=showCategory&PolicyCategoryID=1&SelectedCalendar=Live&ArchiveID=#Page\\_14](http://westerncalendar.uwo.ca/PolicyPages.cfm?Command=showCategory&PolicyCategoryID=1&SelectedCalendar=Live&ArchiveID=#Page_14)  
Please note the relevant deadlines.

The Department will not consider an appeal unless an attempt has been made to settle the matter with the instructor first. Students who remain dissatisfied with the outcome may proceed with a written appeal (e-mails are not acceptable) to the Undergraduate Director in Economics, stating the reasons for their appeal. A checklist is provided at:  
[http://economics.uwo.ca/undergraduate/program\\_counselling/responsibilities\\_policies.html#appeals](http://economics.uwo.ca/undergraduate/program_counselling/responsibilities_policies.html#appeals).

7. Systematic adjustments of a class grade distribution (either up or down) can occur in Economics courses. The fact that grades have been adjusted is **not** grounds for an appeal.
8. Note the following add and drop deadlines:  

Deadline to <u>add</u> a second term half course:	<b>January 14, 2020</b>
Deadline to <u>drop</u> a second term half course:	<b>March 7, 2020</b>
9. Faculty of Social Science policy states that oversleeping or misreading an exam schedule is NOT grounds for a makeup. This rule applies to midterm and final exams in the Department of Economics.

### **Policy on Tests, Final Exams and on Missed Academic Responsibilities**

Students who proceed to write a test or examination must be prepared to accept the mark. Rewriting tests or examinations, or retroactive reweighting of marks, is **not** permitted. Students must book travel arrangements AFTER final exam dates have been posted; travel is not an acceptable excuse for absence from a final exam.

Students who are temporarily unable to meet academic requirements due to extenuating circumstances can follow Western University procedures to request academic consideration through the following routes:

- a) Submit a Self-Reported Absence form if the conditions for submission are met (e.g., only for exams or assessments worth 30% or less of the course mark; not applicable to final exams; maximum 2 self-reported absences per academic year; see [link](#) for full list of conditions and info).

If the conditions for submission of a Self-Reported Absence form are not met, then:

- b) For medical absences, submit a Student Medical Certificate (SMC) signed by a licensed medical or mental health practitioner along with a request for academic consideration to Academic Counselling in the student's home Faculty (see [link](#) for full info) ; or
- c) For non-medical absences (e.g., religious or compassionate), submit appropriate documentation to Academic Counselling in the student's home Faculty (see [link](#) for full info).

It is strongly recommended that students notify their instructors as soon as possible. University policy is that students **must** communicate with their instructors no later than **24 hours** after the end of the period covered by either the self-reported absence or SMC, or immediately upon their return following a documented absence. Failure to follow University policy and procedures may result in denial of academic accommodation and a grade of zero. Students should also set up an appointment to meet with their instructor as soon as possible. If the instructor is not available, send an email message, copying the Undergraduate Coordinator at [econugrd@uwo.ca](mailto:econugrd@uwo.ca).

Note: Academic consideration is not normally intended for long-term, recurring absences, an existing disability, or high levels of stress related to academic performance. In such cases, students should consult their academic counsellor. See [link](#) for full information.

In all cases, if the documentation submitted to request academic consideration is not acceptable, students will receive a grade of zero for the missed test, exam, or assignment.

**For full information about Western University’s policies and procedures for student absences and requests for academic consideration, please visit this [link](#).**

### **Policies Regarding Academic Accommodation**

The Faculty of Social Science’s policies regarding academic accommodation is found at [http://counselling.ssc.uwo.ca/procedures/having\\_problems/index.html](http://counselling.ssc.uwo.ca/procedures/having_problems/index.html).

“Academic Rights and Responsibilities” are also outlined in the Western Calendar at <http://westerncalendar.uwo.ca/PolicyPages.cfm?PolicyCategoryID=1&command=showCategory&SelectedCalendar=Live&ArchiveID=>. Claiming that “you didn’t know what to do” is not an acceptable excuse for not following the stated procedures.

### **Policy Regarding Class Attendance**

If the instructor deems a student’s class attendance as unsatisfactory, that student may be prohibited from writing the final examination. If there is intent to make use of this University policy, the student will be notified in writing.

### **Statement on Mental Health and Support Services**

Students under emotional/mental distress should visit [http://uwo.ca/health/mental\\_wellbeing/](http://uwo.ca/health/mental_wellbeing/) for more information and a complete list of resources on how to obtain help.