ECON 331  Open Economy Macroeconomics

Spring 2014

Syllabus

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Introduction

Open Economy Macroeconomics is the study of large scale economic problems in interdependent economies around the world. It is part of macroeconomics because it focuses on the study of key economy-wide variables such as exchange rates, prices, interest rates, income, wealth, and the current account. It is also more than macroeconomics because it focuses not just on the domestic economy, but explores the interconnections among nations to achieve a deeper understanding of the global economy.

Topics covered in this course will include models of exchange rates, the balance of payments, and the effects of policies and disturbances in the open economy. A number of important policy questions related to such issues as financial crises in emerging markets, the volatility of international capital markets, global trade imbalances, and the single currency in Europe may also be discussed.

Prerequisites

Introductory and intermediate macroeconomics. Algebra and calculus will be used as well.

Readings

*International Economics Theory & Policy* by Krugman, Obstfeld and Melitz (9th edition) is the text adopted for this course. Older versions of the text should work just as well, though the chapter numbers listed below may differ slightly. Additional readings will be assigned during the course.

Course Requirements
There will be eight homework assignments, two written exams, and a group project (details of the project will be given in a separate handout). The weights in determining the final course grade are:

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<thead>
<tr>
<th>Component</th>
<th>Weight</th>
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<tbody>
<tr>
<td>Homework</td>
<td>10%</td>
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<tr>
<td>Exam 1</td>
<td>30%</td>
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<tr>
<td>Exam 2</td>
<td>30%</td>
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<tr>
<td>Project</td>
<td>30%</td>
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Exams will take place in class on the following dates:

- Exam 1: March 6th, 2014 (Thur, class time)
- Exam 2: May 15th, 2014 (Thur, 7-10pm)

Make up exams will not be possible so attendance is required on the stated exam dates.

On time completion of required readings and assignments are expected. Late assignments will be accepted with a penalty of 20% per 24 hour time period (from the specified due date and time of the assignment).

Any student who misses (or expect that he/she will miss) an exam or assignment deadline due to serious medical, family, or job-related emergency must inform me and provide the required documentation either prior to the exam/assignment due date or no later than the end of the class meeting following the exam/assignment due date. Upon verification of the validity of the documentation, a heavier weight will be placed on the other exam in the case of missing an exam. In the case of late assignments, the penalty stated above will be waived. Note that you are only allowed to miss a maximum of one exam regardless of the reason since there are only two scheduled exams for this course.

All assignments should be submitted in class (except for the final project write-up). If for some reason you cannot attend class and wants to hand in the assignment using other means (such as the class lockbox in the econ alcove), you must inform me first. I need to know where and when you’ve left your assignment in order to determine that the assignment has been handed in by the relevant deadline. Failure to do so will result in the usual late penalty.

I will try to be prompt in grading and returning assignments and exams. I will also be as careful as possible in assigning grades. However, if you believe a grading mistake has been made, you may submit a written request for a re-grade of the whole exam/assignment within a week after the exam/assignment has been returned, carefully explaining why you believe the grade assigned is incorrect. Be forewarned, however, that your grade may go up or down as a result of a re-grade.

Course Outline

1. Introduction to Open Economy Macroeconomics
2. Introduction to Exchange Rates and the Foreign Exchange Market
Krugman & Obstfeld Chapter 14

3. A Simple Model of the Exchange Rate
Krugman & Obstfeld Chapter 14 and Chapter 14 Appendix

4. Exchange Rates: The Monetary Approach
Krugman & Obstfeld Chapter 15

5. Relationship Between Money, Prices and Exchange Rates
Krugman & Obstfeld Chapter 16

Krugman & Obstfeld Chapter 13

7. Output and Exchange Rates in the Short Run
Krugman & Obstfeld Chapter 17

8. Fixed Exchange Rates and Foreign Exchange Intervention
Krugman & Obstfeld Chapter 18

9. International Macroeconomic Policy
Krugman & Obstfeld Chapter 19

Special Notes

Please come to class punctually and be prepared to participate in class discussions. Turn off your cell phone during class. The use of laptops is not allowed in class.

All students are expected to adhere to the Wesleyan University Honor Code (http://www.wesleyan.edu/studentaffairs/honorboard/honorcode.html). If you have questions regarding plagiarism and the appropriate way to give credit to sources in any work you submit, please contact me or schedule an appointment with the Olin librarians. You are allowed to work on the homework with your classmates, but you must hand in your own copy of the homework with the answers written out in your own words. No credit will be given for homework with exactly the same answers. I will not tolerate academic dishonesty. Any such behavior will be reported to the VP for Student Affairs and the Student Honor Board.

Finally, it is the policy of Wesleyan University to provide reasonable accommodations to students with documented disabilities. Students, however, are responsible for registering with Disabilities Services, in addition to making requests known to me in a timely manner. If you require accommodations in this class, please make an appointment with me as soon as possible before the first assignment is due, so that appropriate arrangements can be made. The procedures for registering with Disabilities Services can be found at http://www.wesleyan.edu/studentaffairs/disabilities/index.html. No special accommodations will be given to students who claim disability without documentation.