B.E. International Program

Faculty of Economics, Thammasat University

Course Outline

EE 452 International Monetary Economics

Semester: 2/2011 (January 9 – May 20, 2012)

Instructor: Assistant Professor Archanun Kohpaiboon

archanun@econ.tu.ac.th

Room 438 Pracharn Office

Room 240 Rangsit Office

Office Hours: 12.00-13.30 on Thursday or by e-mail appointment

Lecture time: 8.00-9.30 (Tuesday and Thursday)

Room: 203, Faculty of Economics

Pre-requisite: EE 312

Introduction

The course aims to lay down basic concepts of international monetary economics with expectation that students can understand events in international financial economics happening worldwide. It begins with the analysis of balance of payment and its components (current account, transfer payment, capital accounts). The interconnection between balance of payments and other parts of economy is also included. It is followed by foreign exchange market, capital markets, and exchange rate system. Application of each topic is usually discussed. This would make students be able to apply the concepts learned in the classroom

Assessment

1. Mid-term Exam	30 Marks (28 February 2012: 8.00-9.30)
2. Final Exam	60 Marks (6 May 2012: 9.00-12.00)
3. Class Participation	10 Marks

Remarks:

- Second semester begins — Jan. 9, 2012
- Period of withdrawal without “W” — Jan. 9-23, 2012
- Mid-Term Examination — Feb. 27 – March 3, 2012
- Last day of withdrawal with “W” — March 21, 2012
- Last day of class — Apr. 29, 2012
- Final Examination — May 4 - 20, 2012

The following formula is used in calculating the total score to be marked

$$\text{Total} = 10 + Max\left[Mid + Final, Final * 1.5\right]$$

For example,

	Mid	Final	Class	Mid+Final+Cls	Final*1.5+Cls
Mr. A	20	35	10	***65***	62.5
Mr. B	5	40	8	53	***68***

Mark Guideline

A = ≥ 82	B+ = $[75,82)$	B = $[68,75)$	C+= $[60,67)$
C = $[53,60)$	D+ = $[46,53)$	D= $[39,46)$	F= < 39

References:

1. Montiel, P.J. (2009), *International Macroeconomics*, Wiley-Blackwell, Sussex (**Main**).
2. Södersten, B. and G. Reed (1994) *International Economics* (3rd Edition), MacMillan Press, London(**Supplement**).
3. Feenstra, R.C. and A.M. Taylor (2008), *International Economics*, Worth Publishers, New York.(**Supplement**)
4. Caves, R.E., J.A. Frankel, and R.W. Jones (2007) *World Trade and Payments: An Introduction,* (10eds.) Pearson International Edition, Massachusetts (**Supplement**)

Course Details

1. Balance of Payment

Discuss the basic concept of balance of payment and its key components including balance of trade, current account and capital accounts. The link between balance of payment and international reserves is discussed. Discussion in this section is associated with actual balance of payment data of several countries.

2.1 Balance of Payment and its Components

2.2 Implication of Balance of Payment Imbalances

2.3 Trade and Current Account Balance

2.4 Capital Account

2.5 National Income and Product Accounts (NIPA)

2.6 Contemporary issues on BOP

References: Montiel (2009)- Chp 2; Sodesten and Reed (1994)- Chps 23 25 and 26; Warr (1999) Athukorala and Warr (2002); Jongwanich (2007)- Chp 3; and Corden (2011)

2. Foreign Exchange Market

Discussion in this section begins basic features of demand for and supply of foreign exchange (derived demand). Marshall-Lerner Condition and the degree of market stability are then discussed. This section ends with the motivation of capital movement across countries

2.1 Nominal Exchange Rate and Nominal Effective Exchange Rate Index

2.2 Demand and Supply in the Foreign Exchange Market

2.2.1 Goods and Services

- Real exchange rate and real effective exchange rate index
- Purchasing Power Parity (PPP) and its economic implication
- Factors influencing the demand and supply
- Marshall-Leaner Condition

2.2.2 Financial Assets

- Uncovered Interest Parity (UIP)
- Stock theory of international capital mobility

2.2.3 Central Banks

- Foreign Exchange Regime

References: Montiel (2009)- Chp 3; Sodesten and Reed (1994)- Chp 24; Jongwanich (2007)- Chp 2 & Appendix 8; Calvo and Reinhart (2002)

3. Currency Forward Market, Hedging Behavior and Speculation

This section aims to shift the interest to another transactions in the foreign exchange market, forward transaction where agents decide to buy/sell currency today for future transaction. Since transactions in forward market is largely dominated by currency hedging against unexpected changes in exchange rate, decision to hedge is discussed. Instruments against the unexpected changes like forward contract, call/put options are discussed. The last subsection in this topic touches on speculation.

4.1 Forward market and determinants of forward rate

4.2 Structure of forward market

4.3 Hedging Behavior of firms

4.4 Evidence of firms in currency hedging

4.5 Currency Speculation and Exchange Rate Misalignment

References: Kohpaiboon (2012)

5. Macroeconomic Model (To be further extended)

General equilibrium macroeconomic model is discussed in this section in order to provide comprehensive picture how macroeconomic variables (output, inflation, interest rate, prices, exchange rate) are interrelated.

5.1 Macroeconomic framework setting

5.2 Fixed Exchange Rate Regime with perfect capital mobility

5.3 Quasi-fixed Exchange Rate Regime with imperfect capital mobility

5.4 Flexible Exchange Rate

5.5 Exchange Rate Dynamics

References: Montiel (2009)-Chp 4-13

References

ASEAN Economic Bulletin (2010), *The Global Financial Crisis and Asian Economies: Impacts and Trade Policy Responses,* Volume 27 (1) edited by P. Athukorala and A Chongvilaivan.

Athukorala, P. (2001), *Crisis and Recovery in Malaysia: The Role of Capital Controls*, Edward Elgar, Cheltenham.

Athukorala, P. and P. Warr (2002), 'Vulnerability to a Currency Crisis: Lessons from the Asian Experience', *World Economy,* 25(1), p.33-57.

Bhagwati, J. (1995) ' The Capital Myth: The Difference between Trade in Widgets and Dollars', Foreign Affairs, 77 (3), 7-12.

Calvo, G. and C. Reinhart (2002), 'Fears of Floating', *Quarterly Journal of Economics,* May,: 379-408.

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Fischer, S. (2001), 'Exchange Rate Regimes: Is the Bipolar View Correct?', *Journal of Economic Perspective*, **15** (2), 3–24.

Ghosh, A.R., A. Gulde, and H. Wolf (2002), *Exchange Rate Regimes: Choices and Consequences*, Massachusetts, MIT Press.

James, W., D. Park, S. Jha, J. Jongwanich, A. Terada-Hagiwara and L. Sumulong (2008), 'The US Financial Crisis, Global Financial Turmoil, and Developing Asia: Is the Era of High Growth at an End?', *ADB Economics Working Paper Series*, No. 139, December, Asian Development Bank (ADB), Manila.

Jongwanich, J. (2007), *Capital Mobility, Exchange Rate Regimes, and Currency Crisis: Theory and Evidence from Thailand,* Nova Science, New York.

Jongwanich, J. (2008), 'Real Exchange Rate Overvaluation and Currency Crisis: Evidence from Thailand', *Applied Economics,* 40(1): 373-82.

Kohpaiboon, A. (2012), 'Hedging Behaviors of Thai Firms', Ongoing Research for M. Viwatchai Scholarship funded by 50 Years Bank of Thailand Foundation.

Kose, M.A., E. Prasad, K. Rogoff, and S. Wei (2006), 'Financial Globalization: A Reappraisal', *IMF Working Paper WP06/189,* Washington.

Södersten, B. and G. Reed (1994) *International Economics* (3rd Edition), MacMillan Press, London.

Warr, P. (1999), 'What Happened to Thailand', *World Economy*, 22 (5), 631-50.

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