B.E. International Program
Faculty of Economics, Thammasat University

Course Outline

EE452 International Monetary Economics

Pre-requisite:	EE312 Macroeconomic Theory
Semester:	1/2013 (13 August – 30 November 2013)
Instructor:	Assoc. Prof. Dr. Euamporn Phijaisanit Room 432 Faculty of Economics, Tha Prachan Campus Tel. 02 613 2451, Fax. 02 224 9428 *euamporn@econ.tu.ac.th*
Office Hours:	Tha Prachan: Wednesday, Friday 11.00- 13.00 hrs or by e-mail appointment
Time & Venue:	Wednesday, Friday 8.00 – 9.30 hrs, Faculty of Economics, Tha Prachan

Assessment:

Midterm Exam	30%
Final Exam	50%
Homework/Classwork/Short papers	20%

Important Dates:

Class begins	Wednesday, 13 August 2013
Midterm Exam	Wednesday, 2 October 2013 (please confirm with the BE Office for the logistics)
Class ends	Wednesday, 29 November 2013
Final exam	to be announced (please confirm with the BE Office)

Course Description:
This course provides fundamental basis for understanding international financial economics and its application to the real world analysis. Major topics covered include the balance of payments and its adjustment mechanism; foreign exchange markets; exchange rate determinations, aggregate demand and aggregate supply, price levels and output and exchange rates in the short-run and the long-run; international capital flows; evolution of international monetary system; international monetary problems and financial crises

encountered by developing countries, Thailand and the rest of the world. In addition, other special topics such as the roles of Bank of Thailand, current financial crises and macroeconomic issues will also be discussed.

Main Text:
Pugel, T. A. (2012) *International Economics.* 5th Edition, New York: McGraw-Hill

Alternative Texts*:
Daniels, J. P. and D. D. Van Hoose (2014) *International Monetary and Financial Economics.* New Jersey: Pearson Education
Feenstra, R. and A. Taylor (2008) *International Economics.* 1st Edition, New York: Worth Publishers
***Additional readings will be assigned during the course.

Useful Sources of Information:
The Economist, The Financial Times, Bloomberg Newsweek, Businessweek, Time, Harvard Business Review, www.bot.or.th; www.fpo.go.th; www.rd.go.th; www.imf.org; www.worldbank.org; www.wto.org

Topics

1. Payments among Nations
- 1.1 Overview of International Finance
- 1.2 Balance of Payments
- 1.3 Accounting Principles
- 1.4 Components of the Balance of Payments
- 1.4 Current Account Balance
- 1.5 Current Account Balance and Capital and Financial Account Balance
- 1.6 Overall Balance
- 1.7 International Investment Position

Main Texts: Pugel Ch 16
Alternative Texts: Daniels & Van Hoose Ch 1, 7; Feenstra & Taylor Ch.16

2. Foreign Exchange Market
- 2.1 Fundamentals and Basis of Foreign Exchange Market
- 2.2 Exchange Rate Systems
- 2.3 Arbitrage and Spot Exchange Market
- 2.4 Exchange Rate Risk
- 2.5 Fundamentals of Forward Foreign Exchange
  - Hedging
  - Speculation
- 2.6 International Financial Investment
- 2.7 International Investment with Cover
  - Covered Interest Arbitrage
  - Covered Interest Parity

2.8 International Investment without Cover)
- Expected Uncovered Interest Differential (EUD)
- Uncovered Interest Parity (International Fisher Effect)

2.9 Empirical Evidence of Interest Parity

Main Text: Pugel Ch 17, 18
Alternative Texts: Daniels & Van Hoose Ch 2, 3, 4, 5; Feenstra & Taylor Ch 13

3. Exchange Rate Determination

3.1 Exchange Rate in the Short-run: The Asset Market Approach
- The Role of Interest Rates
- The Role of the Expected Future Spot Exchange Rate

3.2 Exchange Rate in the Short-run: Purchasing Power Parity (PPP)
- The Law of One Price
- Absolute Purchasing Power Parity
- Relative Purchasing Power Parity

3.3 Exchange Rate in the Long-run: The Monetary Approach
- Money, Price Levels and Inflation
- Money and PPP Combined
- The Effect of Money Supplies on an Exchange Rate
- The Effect of Real Incomes on an Exchange Rate

3.4 Exchange Rate Overshooting/ Dornbusch Sticky-Price)

Main Text: Pugel Ch 19
Alternative Texts: Daniels & Van Hoose Ch 8, 14; Feenstra & Taylor Ch.14, 15, 22

4. Government Policy toward Foreign Exchange Market

4.1 Rate Flexibility VS Restrictions on Use

4.2 Floating Exchange Rate

4.3 Fixed Exchange Rate

4.4 Foreign Exchange Market Intervention

4.5 Exchange Control

4.6 Experiences
- The Gold Standard Era
- Interwar Instability
- The Bretton Woods Era
- The Worldwide Current Systems

Main Text: Pugel Ch 20
Alternative Texts: Daniels & Van Hoose Ch 6; Feenstra & Taylor Ch 19

5. Macroeconomy, Internal Balance and External Balance under Fixed Exchange Regime

5.1 Revision of Framework for Macroeconomic Analysis

5.2 Revision of Mundell-Fleming Model
- Domestic Product Market (IS)
- Money Market (LM)
- Foreign Exchange Market (Balance of Payments)

5.3 Relationship between International Reserves and Money Supply: Implications on the Macroeconomy
5.4 Sterilization
5.5 Monetary and Fiscal Policy under Fixed Exchange Regime
5.6 Perfect Capital Mobility
5.7 Shocks to the Economy
- Internal Shocks
- International Capital-Flow Shocks
- International Trade Shocks

5.8 Imbalances and Policy Responses
- Monetary-Fiscal Mix
- Changing the Exchange Rate
- Timing: The J-Curve Effect

Main Texts: Pugel Ch 22, 23
Alternative Texts: Daniels &Van Hoose Ch 8**,** 9, 10, 11; Feenstra & Taylor Ch 18

6. Floating Exchange Rates and Internal Balance

6.1 Monetary Policy under Floating Exchange Regime
6.2 Fiscal Policy under Floating Exchange Regime
6.3 Shocks to the Economy
- Internal Shocks
- International Capital-Flow Shocks
- International Trade Shocks

6.4 Internal Imbalance and Policy Response
6.5 International Macroeconomic Policy Coordination

Main Text: Pugel Ch 24
Alternative Texts: Daniels & Van Hoose Ch 12 **,**15; Feenstra & Taylor Ch 21

7. Financial Crises

7.1 International Lendings: Benefits and costs ผลได้และผลเสีย
7.2 International Lending Experiences
- The Debt Crisis of 1982
- The Mexican Crisis, 1994-1995
- The Asian Crisis, 1997
- The Russian Crisis, 1998
- Argentina’s Crisis, 2001-2002
- Subprime Mortgage Crisis, 2008

7.3 Elements of Financial Crises
7.4 Rescue Packages and Moral Hazard
7.5 Debt Restructuring
7.6. Bank Regulation and Supervision
7.7 Capital Controls
7.8 Impossible Trinity Dilemma (“Trilemma”)

Main Text: Pugel Ch 21

Alternative Texts: Daniels & Van Hoose Ch 7; Feenstra &Taylor Ch 22;
Jarsulic, M. (2010) *Anatomy of a Financial Crisis.* New York: Palgrave Macmillan