

Spring 2013

Financial Aspects of International Relations

Robert Chandross

FINANCIAL ASPECTS OF INTERNATIONAL RELATIONS
The John C. Whitehead School of Diplomacy and International Relations
Seton Hall University
Spring 2013
Tuesday and Thursday

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Description of the Course

Financial issues are central to the international economic debate. Each time the G8 financial ministers and heads of state meet there is a discussion and statement about the appropriateness of the exchange rates among the various countries with particular emphasis on exchange rate of China's currency against the U.S. dollar. A primary goal of this course will be to provide the skills required to understand and be engaged in the international economic policy debate.

The course will include a brief section on the benefits of international trade and of free trade. Considerable time will be devoted to international financial integration, the determination of exchange rates, the foreign exchange market and the internationalization of capital markets. The sovereign debt crisis in the Euro zone and the sustainability of the Euro as currently constituted will play a prominent role in the course.

Among the other issues we will examine are the implications of growing foreign ownership of U.S. Government debt and the role of various entities such as the IMF, in the global financial landscape. We will devote particular attention to the ongoing debate about the exchange rate of the Chinese renminbi against the U.S. dollar. We will also look at some major financial crises of the last several decades, such as those in Latin America, Asia and Russia.

As part of the coursework, each student will be required to prepare a short verbal presentation to the class on an event or development relevant to the international financial markets.

The format of the course will emphasize discussion among students and between the students and the instructor. Students are expected to have read the material assigned for each class and to be prepared for a spirited discussion. Students will be expected to be aware of current international economic developments and to be prepared to discuss them at each class. Students are also encouraged to read periodicals with a strong coverage of international economic developments; *The New York Times*, *the Wall Street Journal*, *the Financial Times* and *the Economist*.

Some Ground Rules

Since this is an advanced undergraduate course, the instructor assumes that students are aware of the benefits of regular class attendance. Students should feel free to email me with questions that will be answered promptly. Attendance will be taken and excessive unexcused absences, defined as more than three times during the semester, will be detrimental to course grades. Students are expected to come to class prepared

and to be capable of answering questions when called on. Participation in class will count for 20% of the course grade.

Students are expected to turn off cell phones and other electronic devices when in class and to treat other class members respectfully.

Course Text

Feenstra, Robert and Taylor, Alan, *International Macroeconomics*, Worth Publishing

Students are expected to read articles and reports included in this syllabus and to be added. Each item should be accessible through the internet. Where necessary, papers will be provided to students via email.

Presentations and Research Papers

In consultation with the instructor, students will select a topic for a research paper of about 15 pages. Before final copies are turned in, students will be able to present papers to the class for the purpose of obtaining feedback on the work. The oral presentations will not be graded. Students will have considerable latitude in the selection of topic, examples of which will be given in class.

Plagiarism and the Honor Code

It goes without saying that as in all courses at Seton Hall academic integrity is a high priority in this course. Plagiarism will not be tolerated and will result in a failing grade and likely damage to academic standing and enrolment in the Whitehead School and the University.

A Note for Students with Disabilities

If you have a documented disability, or think you might have one, you may be eligible for accommodations in academic classes, the residence halls, food service areas, etc., under the Americans with Disabilities Act and Section 504 of the Rehabilitation Act. Disabilities may include those that are permanent or temporary and include, but are not limited to: learning disabilities, ADHD, medical issues, psychological or psychiatric problems, limited mobility, low vision or blindness, and hearing impairments. Students are not permitted to negotiate accommodations directly with professors. To receive special accommodations or assistance, please self-identify at the Office for Disability Support Services (DSS), Duffy Hall, Room 67 at the beginning of the semester. For more information or to register for services, contact DSS, at (973) 313-6003.

Grading

There will be two exams, including a final, each of which will have a weight of 30% in the calculation of the final grade. Class participation, including the selection and presentation of a current developments topic will have a weight of 20% as will the research paper. While this is not a formal writing course, students are expected to follow a high standard in their papers and to seek assistance in grammar and form where necessary. The instructor reserves the right to utilize unannounced quizzes.

Week 1, January 15

Course introduction: overview and review of material on comparative advantage and the theory of international trade.

Students who have taken Diplomacy 4555 or its equivalent should review relevant chapters. Another useful source for this material is: "The Economics of International Trade" pp. 2-51 which can be found on the website Globalization 101.org

Feenstra, ch. 1

Week 2, January 22

Review of or Introduction to The Basic Model of Trade, comparative advantage, etc. continued.

National Income and Balance of Payments Accounting, Feenstra ch. 5

The gains from Trade and International Financial Integration,

Week 3, January 29

Overview of Exchange Rates and the Global Macroeconomy

The Foreign Exchange Market, Bank for International Settlements (bis.org)
Triennial Central Bank Survey of Foreign Exchange Market Activity in 2010,
December 2010, pages 4-16

Feenstra, Chapter 1, 2

Exchange Rate Regimes

Covered and uncovered interest rate parity

Week 4, February 5

Continuation of week 3 topics

The Global Economy and the Determination of Exchange Rates in the Short Run
Feenstra Ch. 4

Cline, William and Williamson, John, "New Estimates of Fundamental Equilibrium Exchange Rates", Peterson Institute for International Economics, Policy Brief 12-23, November 2012

Williamson, John, "Exchange Rate Economics", Peterson Institute for International Economics, Working Papers March 2008.

Week 5, February 12

Class will not meet on February 14

Long Run Determination of Exchange Rates Feenstra ch. 3

Purchasing Power Parity--the Big Mac index data from the Economist, various issues

Real Exchange Rates and Real Interest Rates

Week 6, February 19

Balance of payments, the Gains from Financial Globalization and Exchange Rates and Macroeconomic policies in the Short Run Feenstra, ch. 6

Week 7, February 26

Midterm Exam

Output, Exchange Rates and Macroeconomic Policy Feenstra, ch. 7

Week 8, March 12

Exchange Rate Regimes

The International Monetary System 1870-1973 and afterwards; the Plaza accord Krugman and Obstfeld, International Economics, Ch. 18

Feenstra, Ch. 8

International Experience with fixed and floating exchange rates
Why pegged rates rarely work

Week 9 March 19

Currency Crises and Debt Crises, Feenstra, ch. 9

Sovereign Government Ratings: Methodology and Assumptions, Standard and Poor's, June 2011; this can be accessed on the web

Chiodo, Abigail and Owyang, Michael, A Case Study of a Currency Crisis: The Russian Default of 1998, Review, Federal Reserve Bank of St. Louis, November/December 2002.

Pesenti, Paolo and Tille Cedric, "The Economics of Currency Crises and Contagion: An Introduction", Economic Policy Review, Federal Reserve Bank of New York, September 2000.

Felix, David "Latin America's Debt Crisis", World Policy Journal Fall 1990.

Whitt, Joseph, "The Mexican Peso Crisis," Economic Review, Federal Reserve Bank of Atlanta, Jan/Feb 1996

Whitt, Joseph, "The Role of External Shocks in the Asian Financial Crisis" Economic Review Federal Reserve Bank of Atlanta, Second Quarter 1999

Week 10 March 26

No classes on Thursday March 28

Debt Crises Continued

"Financial Globalization, Beyond the Blame Game" Finance and Development, March 2007, published by the IMF

Levy Eduardo, "The Greek Debt Crisis in the Latin American Mirror" Brookings Institution, June 2011.

The IMF and the World Bank

Globalization 101.org. "International Financial Institutions: The IMF and the World Bank" can be accessed on globalization 101.org

The Euro and Optimum Currency Areas Feenstra, Ch. 21

Students to begin presenting research papers

Week 11, April 2

The Euro zone financial crisis

Anslund, Anders "Why a Breakup of the Euro Area Must Be avoided: Lessons from Previous Breakups, Policy Brief, 12-20, August 2012

Students to continue presenting research papers

International Capital Markets

Week 12, April 9

The Chinese Exchange Rate

Morrison, Wayne and Labonte, Marc, "China's Currency: An Analysis if the Economic Issues" Congressional Research Service, January 2011.

LaFrance, Robert, "Chinese Exchange Rate Policy: A survey of the Literature," Bank of Canada, March 2008

U.S. Congressional Budget Office "How Changes in the Value of the Chinese Currency Affect U.S. Imports", July 2008; this can be accessed on cbo.gov

Lardy, Nicholas and Goldstein Morris "China's Exchange Rate Policy: an Overview of Some Key Issues, October 2007; this can be accessed directly on the web.

Week 13, April 16

The Exchange Rate and the Trade Balance

Goldberg, Linda, and Dillon, Eleanor, "Why a Dollar Depreciation may not Close the US Trade Deficit, *Current Issues in Economics and Finance*, Federal Reserve Bank of New York, June 2007. This can be accessed through the NY Fed's website.

Week 14, April 23

Selected topics, Feenstra, ch. 12.

Last set of student presentations

Week 15, April 29

Review and Final Exam