

**Economics 435
Course Outline**

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Spring 2011**

This is a one-semester course in Open Economy Macroeconomics. We will study economic aggregates, such as inflation and unemployment, and macroeconomic policies, in relation to exchange rates determination, the balance of payments, international trade, and international capital movements.

Prerequisites. The prerequisite for this course is Economics 4021. I will assume that you are familiar with the main concepts developed in 4021, *and* with elementary calculus. If you have any concerns about prerequisites, please feel free to come to talk to me.

Readings. Readings will be mainly from *International Macroeconomics*, by Stephanie Schmitt-Grohé and Martín Uribe, Spring 2011. These lecture notes are available online from the website for the course. I also put two textbooks on reserve in the library. They are *Foundations for International Macroeconomics*, by Maurice Obstfeld and Kenneth Rogoff, 1996, MIT press, and *International Economics*, by Paul Krugman and Maurice Obstfeld, eighth edition, 2009, Pearson. These books provide good reference and background material, and develop some topics more in depth than we will do in class.

I will provide additional readings during the semester. These readings will be taken from magazines and newspapers or other books, and will provide some applications of the theories developed in class to current issues. The additional reading material will be either distributed in class or made available on the course web page. The course website is accessible through the School of Arts and Sciences web page at <http://artsci.wustl.edu/~e435ga>.

Exams and Homework. There will be two in-class exams, plus a final exam. The dates for the exams are:

First exam: Thursday, February 17, 2011.

Second exam: Thursday, March 31, 2011.

Final Exam: Wednesday, May 11, 2011 from 3:30 to 5:30.

The location of the final exam will be the usual lecture room, Seigle 106.

Problem sets will be handed out periodically, approximately every other week. Problem sets will constitute good samples for the questions that you will have to answer during the exams, and will follow examples solved in class. Problem sets (and solutions) will be posted on the course web page.

Grading. Each exam will be worth 30% of the final grade. Homework will constitute 10% of the final grade. In borderline cases, class participation will be taken into account. There will not be make-up exams for any reason. If for unavoidable reasons you will not be able to be present for an exam, you should notify me as soon as possible, and at least three days before the exam.

Office Hours. My office hours are on **Tuesday & Thursday: 1:00-2:00 PM.**

If you cannot make it during that time, please let me know and feel free to set up an appointment for another time. My office is in Seigle Hall, Room 331. My phone number is 935-7335. An efficient way of getting in touch with me when you have questions and concerns is by e-mail. My address is gaetano@wustl.edu.

Wei-Cheng (Vincent) Chen (wei-chengchen@go.wustl.edu) will be the teaching assistant for this course. Vincent's office is in Seigle Hall, room 374. **His office hours will be Thursday from 6:00 to 8:00 PM.**

Preliminary Course Outline. We will start by reviewing some of the basic principles of balance of payments accounting (material will be distributed in class). We will then move on to a simple two-period model of an open economy. After this introductory part, which should engage us for approximately the first half of the semester, we will study selected topics. Details on this part of the course will be announced later.

- The Balance of Payments Accounts. (Chapter 1 of the notes. Additional readings: Peter Kenen, *The International Economy*, Fourth Edition, 2000, Cambridge University Press, Chapter 12.)
- Current Account Determination. (Chapter 2 & 3.)
- Current Account Adjustment. (Chapter 4.)
- Fiscal Policy and the Current Account. (Chapter 5.)
- Financial Market Integration
- Real Exchange Rate determination
- Monetary Policy in Open Economies
- Debt Crises
- International Policy Coordination
- Target Zones and other Exchange Rate Regimes