AEM 4545/ECON 3545

International Finance and Macroeconomics

Fall 2013

Professor Eswar Prasad

This course will examine the determinants of international capital flows and their consequences for growth and volatility. Basic analytical models in open economy macroeconomics and international finance, including those related to exchange rate dynamics, will be covered. The course will analyze the challenges created by rising global financial integration for monetary policy, financial regulation and other policies. Emerging market perspectives on these issues will be emphasized, with a particular focus on the economies of China and India. In particular, the course will focus on the roles of domestic financial sector development and international financial integration, and the interaction between them, in the process of economic development in emerging market economies. The course will also discuss growth prospects for emerging markets, the myriad domestic and external challenges that they face in sustaining high growth, and the implications for the world at large. Students will be required to write an independent research paper.

Prerequisites: Intermediate-level courses in macroeconomics, international economics, and econometrics/statistics.

Lecture hours: Tuesdays, 2:00–4:25 p.m.
Academic II B-108, Comstock Hall

Grading: Letter grade only. Grade will be based on assignments, research paper, and class participation

Credits: 3

Teaching Assistant: Parul Sharma (ps552)

TA’s Office Hours: Thursdays and Fridays, 4:30-5:30 p.m.
B-05 Warren Hall

Course Support: Carol Thomson (cmt8)
310 Warren Hall

Professor’s Office Hours: By appointment (through Carol Thomson)
COURSE SCHEDULE

Lecture 1: September 3
Lecture 2: September 10
Topic: The New World Economic Order


We will have guest presentations about data resources available at Cornell to work on topics related to international finance and open economy macro. Some data issues (and potential pitfalls) will also be discussed.

Lecture 3: September 17
Topic: Balance of Payments, Exchange Rates


Lecture 4: September 24
Topic: Capital Controls, Capital Account Liberalization


**Lecture 5: October 1**
**Topic: Macroeconomic Policies and Growth in China**

*Guest Lecturer from IMF: Steven Barnett, Division Chief, China Division, IMF*


**Lecture 6: October 8**
**Topic: Exchange Rate Regimes, Monetary Policy**


Lecture 7: October 22
Topic: The Euro Zone Debt Crisis

Guest Lecturer from World Bank: Indermit Gill, Chief Economist, Europe & Central Asia


Lecture 8: October 24
Topic: Finance and its Role in Growth


**Lecture 9: October 29**  
**Topic: International Transmission of Business Cycles and Financial Cycles**


**Lecture 10: November 5**  
**Topic: India’s Economic Prospects**

*Guest Lecturer from IMF: Paul Cashin, Division Chief, India Division, IMF*


**Lecture 11: November 12**  
**Topic: The Battle Among Reserve Currencies**


Lecture 12: November 19
Topic: Global Governance—Structure of International Financial Institutions

Readings to come later.

Lecture 13: December 3
Topic: Prospects for the World Economy


More readings to be added later.
BACKGROUND READINGS & REFERENCE MATERIALS


The Renminbi’s Role in the Global Monetary System, Eswar Prasad (with Lei Ye), Brookings Institution Report, February 2012.


Sustaining China’s Economic Growth after the Global Financial Crisis, Nicholas R. Lardy, 2012, Peterson Institute Press.


COURSE ASSIGNMENTS AND REQUIREMENTS

Common Points about Formatting, Submission of Assignments

1. All text should be double-spaced (except footnotes and references, which can be single-spaced).
2. Use 12-point font for text (important: do not use smaller font size), at least 1” margins on all sides.
3. Follow formatting instructions for tables and figures.
4. Put on the subject line “4545: Assignment I” or whatever the relevant document is.
5. Email the documents in pdf format to Parul Sharma (ps552) and Carol Thomson (cmt8).
6. Put your name at the top right corner of each assignment.

Indicative Grade Allocation

Assignment I (Macro Data: Basic): 5 percent
Assignment II (GDP Comparisons): 5 percent
Assignment III (Trade, Exchange Rate): 5 percent
Assignment IV (Capital Flows): 5 percent
[Top three grades of assignments I-IV will be used to determine final grade]

Assignment V (Data Note): 10 percent
Assignment VI (Research Note): 15 percent
Assignments VII-IX (Research Proposal, First Draft, Final Draft): 60 percent (10+20+30)

Assignment Schedule

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<thead>
<tr>
<th>Number</th>
<th>Description</th>
<th>Handed out</th>
<th>Due date / time</th>
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<tbody>
<tr>
<td>I.</td>
<td>Macro Data: Basic</td>
<td>Sept. 3</td>
<td>Sept. 6 / 5 p.m.</td>
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<td>II.</td>
<td>GDP Comparisons</td>
<td>Sept. 10</td>
<td>Sept. 13 / 5 p.m.</td>
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<td>III.</td>
<td>Trade, Exchange Rate</td>
<td>Sept. 17</td>
<td>Sept. 20 / 5 p.m.</td>
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<td>IV.</td>
<td>Interest Rates</td>
<td>Sept. 24</td>
<td>Sept. 27 / 5 p.m.</td>
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<td>V.</td>
<td>Data Note</td>
<td>Oct. 1</td>
<td>Oct. 7 / 9 a.m.</td>
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<td>VI.</td>
<td>Research Note</td>
<td>Oct. 8</td>
<td>Oct. 18 / 5 p.m.</td>
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<td>VII.</td>
<td>Research Proposal</td>
<td>Oct. 22</td>
<td>Nov. 1 / 5 p.m.</td>
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<td>VIII.</td>
<td>First Draft</td>
<td>Nov. 5</td>
<td>Nov. 22 / 5 p.m.</td>
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<td>IX.</td>
<td>Final Draft</td>
<td>Nov. 26</td>
<td>Dec. 6 / 5 p.m.</td>
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