AEM 4545/ECON 3545
International Finance and Macroeconomics

Fall 2014

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 special 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. 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, 2:00–4:20 p.m.
G37, Plant Science Building

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

Credits: 3

Teaching Assistant: Maulik Jagnani (mvj22)

TA’s Office Hours: Wednesdays & Thursdays, 3:00–4:00 pm.

Course Support: Carol Thomson (cmt8)
201 Warren Hall

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

**Lecture 1: August 26**  
**Lecture 2: September 2**  
**Topic: The New World Economic Order**

*Emerging Markets: Resilience and Growth Amidst Global Turmoil:* Chapters 4-6.


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 9**  
**Topic: Balance of Payments, Exchange Rates**


Section 5.3, pp. 127-141. [On reserve at the library]

September 16
No lecture meeting

Lecture 4: September 23
Topic: Capital Controls, Capital Account Liberalization

The Dollar Trap: Chapters 3, 4, 10.


Additional Lecture
Wednesday, September 26, 4-5 p.m.
Book Talk on The Dollar Trap
Chats in the Stacks, Mann Library

Lecture 5: September 30
Topic: Exchange Rate Regimes, Monetary Policy


Goldstein, Morris, and Nicholas Lardy, 2008, “China’s Exchange Rate Policy: An Overview of Some Key Issues,” in Debating China’s Exchange Rate Policy, eds. M.


**Lecture 6: October 7**

**Topic: Finance and its Role in Growth**


**Lecture 7: October 21**

**Topic: Currency Markets**

*Guest Lecturer: Dr. Robin Brooks, Chief Currency Strategist, Goldman Sachs*
Lecture 8: October 28
Topic: International Transmission of Business Cycles and Financial Cycles


Lecture 9: November 4
Topic: The Battle Among Reserve Currencies

The Dollar Trap: Chapters 12-15.


Lecture 10: November 11
Topic: Growth Prospects and Policy Reforms in China
Guest Lecturer: Dr. Steven Barnett, Division Chief, China Division, International Monetary Fund

Before class, read the 2014 IMF Staff Report on China, available online at:

Lecture 11: November 18
Topic: Currency Wars, Monetary Policy Spillovers, and Global Governance

The Dollar Trap: Chapters 7-9, 11.
Lecture 12: November 25  
Topic: Prospects for the World Economy


More readings to be added later.

Lecture 13: December 2  
Topic: To be determined
**Background Readings & Reference Materials**

**Required:**


**Recommended:**

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


**Suggested for Broader Perspectives:**


**COURSE ASSIGNMENTS AND REQUIREMENTS**

**Common Points about Formatting, Submission of Assignments**

1. All text should be double-spaced (except footnotes and references, which should be single-spaced).
2. Use **12-point font** for text (important: assignments with smaller font size won’t be accepted), 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 Maulik Jagnani (mvj22) 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  
Assignment V (Critique of News Article): 5 percent  

[Top four grades of assignments I-V will be used to determine final grade (20 percent)]

Assignment VI (Data Note): 10 percent  
Assignment VII (Research Note): 15 percent  
Assignments VIII-X (Research Proposal, First Draft, Final Draft): 55 percent (10+15+30)

**Assignment Schedule**

<table>
<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>Aug. 26</td>
<td>Aug. 29 / 5 p.m.</td>
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<tr>
<td>II.</td>
<td>GDP Comparisons</td>
<td>Sept. 2</td>
<td>Sept. 5 / 5 p.m.</td>
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<tr>
<td>III.</td>
<td>Trade, Exchange Rate</td>
<td>Sept. 9</td>
<td>Sept. 12 / 5 p.m.</td>
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<td>IV.</td>
<td>Interest Rates</td>
<td>Sept. 23</td>
<td>Sept. 26 / 5 p.m.</td>
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<td>V.</td>
<td>News Note</td>
<td>Sept. 9</td>
<td>Sept. 19 / 5 p.m.</td>
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<td>VI.</td>
<td>Data Note</td>
<td>Sept. 30</td>
<td>Oct. 6 / 9 a.m.</td>
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<tr>
<td>VII.</td>
<td>Research Note</td>
<td>Oct. 7</td>
<td>Oct. 17 / 5 p.m.</td>
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<tr>
<td>VIII.</td>
<td>Research Proposal</td>
<td>Oct. 21</td>
<td>Oct. 31 / 5 p.m.</td>
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<td>IX.</td>
<td>First Draft</td>
<td>Nov. 4</td>
<td>Nov. 21 / 5 p.m.</td>
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<tr>
<td>X.</td>
<td>Final Draft</td>
<td>Nov. 25</td>
<td>Dec. 5 / 5 p.m.</td>
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[Special sessions on Nov. 3, Nov. 5 @ 8:00-9:30 p.m. to present proposals]