

Subject				
International Finance				
ECTS code	Semester	Faculty: Finance		
	3	Major: Finance and Accounting		
		Corporate Finance and Accounting		
Teacher:				
Lecture: Igor Styn, Ph. D.				
Classes: Piotr Karaś, Ph. D.				
System of studies:				
full time, first degree				
Course status	Pass requirement	Number of contact hours		ECTS points
		Lectures	Classes	
Group B	examination	30	15	4
Teaching language				
English				
Subject provisions and objectives (including the expected can-do of students on completion of the course)				
<p>This course is focused on the financial aspects of international economics at the macro level.</p> <p>Main objectives:</p> <ul style="list-style-type: none"><li>- to show how exchange rates are affected by different factors in an open economy;</li><li>- to show how international macroeconomic policy have changed over time and how it affected and can affect exchange rate regimes.</li></ul> <p>At the completion of the course the student should be able to:</p> <ul style="list-style-type: none"><li>- analyze balance of payments;</li><li>- understand all major factors having impact on exchange rates in an open economy;</li><li>- understand and apply in practice methods of exchange rates calculation;</li><li>- understand and apply in practice methods of foreign exchange instruments calculation;</li><li>- describe and use in practice foreign exchange market equilibrium models;</li><li>- understand major changes in the international monetary system over last 140 years (from 1870)</li><li>- understand differences between fixed and floating exchange rate regimes, and pros and cons of their implementation;</li><li>- understand basic conditions for optimum currency area and measure if they appear in real economy;</li><li>- understand basic problems to be solved in nearest future to make international economics more stable and how difficult it is to find the right solution.</li></ul>				
Teaching curriculum (in case of prescribed courses, compliance with the standards, maximum 15 topics)				

- 1. National income accounting and the balance of payments:**
  - 1.1. national income accounting for an open economy
  - 1.2. the balance of payment accounts.
- 2. Exchange rates and the foreign exchange market (an asset approach):**
  - 2.1. exchange rates and international transactions
  - 2.2. the demand for foreign currency assets
  - 2.3. interest rates, expectations, and equilibrium in the foreign exchange market.
- 3. Money, interest rates, and exchange rates:**
  - 3.1. the money supply and the exchange rate in the short run
  - 3.2. money, the price level, and the exchange rate in the long run
  - 3.3. inflation and exchange rate dynamics.
- 4. Price levels and the exchange rate in the long run:**
  - 4.1. the law of one price and purchasing power parity (PPP)
  - 4.2. a long-run exchange rate model based on PPP
  - 4.3. the Krugman-Obstfeld general model of long-run exchange rates
  - 4.4. international interest rate differences and the real exchange rate.
- 5. Output and the exchange rate in the short run:**
  - 5.1. determinants of aggregate demand in an open economy
  - 5.2. the equation of aggregate demand
  - 5.3. short-run equilibrium for an open economy
  - 5.4. permanent shifts in monetary and fiscal policy
  - 5.5. macroeconomic policies and the current account.
- 6. Fixed exchange rates and foreign exchange intervention:**
  - 6.1. central bank intervention and the fixed exchange rate
  - 6.2. stabilization policies with a fixed exchange rate
  - 6.3. balance of payments crises and capital flight
  - 6.4. reserve currencies in the world monetary system
  - 6.5. the Gold Standard.
- 7. The international monetary system to 1973:**
  - 7.1. international macroeconomic policy under the Gold Standard
  - 7.2. hyperinflation of 20's and effects of the Great Slump to the monetary system
  - 7.3. the Bretton Woods system and the IMF
  - 7.4. worldwide inflation and the transition to floating rates.
- 8. Macroeconomic policy and coordination under floating exchange rates:**
  - 8.1. pros and cons of floating exchange rates
  - 8.2. managed floating rate regime versus fully floating rate regime
  - 8.3. macroeconomic interdependence under a floating rate regime.
- 9. Optimum currency areas and the European Monetary Union (EMU):**
  - 9.1. the theory of optimum currency areas
  - 9.2. evolution of the European single currency
  - 9.3. the legal anchor and organization of EMU
  - 9.4. EMU as an optimum currency area – from bright beginnings to the bitter end?
- 10. The global capital market: performance and policy problems:**
  - 10.1. the international capital market and the gains from trade
  - 10.2. international banking and the international capital market
  - 10.3. regulating international banking or how to avoid contagion effect in global banking.
- 11. Developing countries: growth, crisis of 1997-98, reform, and back to growth:**
  - 11.1. East Asia case – when the growth will stop?
  - 11.2. Latin America case – uneven perspectives
  - 11.3. Africa case – uncertain future.
- 12. Dilemmas of reforming the world's financial architecture.**

<b>Class topics</b> (maximum 15 topics)
<ol style="list-style-type: none"> <li>1. Exchange rates and the foreign exchange instruments calculation.</li> <li>2. Examples of application of foreign exchange instruments to arbitrage, hedge and speculative transactions</li> </ol>
<b>Introductory courses</b>
Macroeconomics, Banking, Financial Mathematics
<b>Teaching methods</b>
Lectures, exercises, and case studies
<b>Basic literature and other sources</b>
<ol style="list-style-type: none"> <li>1. <b>Krugman P. R., Obstfeld M., Melitz M., <i>International Economics: Theory and Policy</i>, 9<sup>nd</sup> ed., Prentice Hall, 2011.</b></li> <li>2. De Grauwe P., <i>Economics of Monetary Union</i>, 8<sup>th</sup> ed., Oxford University Press, Oxford 2009.</li> <li>3. Ephraim A. Clark, <i>International Finance</i>, 2<sup>nd</sup> ed., Cengage Learning, EMEA; 2002</li> <li>4. <i>World Economic Outlook</i>, IMF, different issues, at least from 2008, 2009, and 2010.</li> <li>5. <i>Global Financial Stability Report</i>, IMF, different issues, at least from 2008, 2009, and 2010.</li> <li>6. <i>ECB Annual Report</i>, ECB, different issues, at least from 2008, 2009, and 2010.</li> </ol>
<b>Pass requirements for signature/examination</b>
Final test (multiple choice test) – 60%; case studies – 40%.
<b>Examples of questions for tests and examinations</b>
<ol style="list-style-type: none"> <li>1. Explain differences between purchase power parity and interest rate parity theory.</li> <li>2. Name adjusting factors in a national economy in a common currency area (after separate monetary policy was abandoned).</li> <li>3. What should be done to save EMU as a sound common currency area?</li> </ol>