

Subject:				
International Finance				
ECTS code	Semester	Faculty: of Finance		
	3	Major: Finance and Accounting		
		Specialization: Corporate Finance and Accounting		
Teacher:				
Lecture: Igor Styn, Ph. D.				
Classes: Igor Styn, Ph. D.				
System of studies:				
part time, first degree				
Course status	Pass requirement	Number of contact hours		ECTS points
		Lectures	Classes	
Group B	examination	18	9	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>- 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)				
This is not a prescribed course. No imposed standard exists.				
Class topics (maximum 15 topics)				
<p><b>1. National income accounting and the balance of payments:</b></p> <p>1.1. national income accounting for an open economy</p> <p>1.2. the balance of payment accounts.</p> <p><b>2. Exchange rates and the foreign exchange market (an asset approach):</b></p> <p>2.1. exchange rates and international transactions</p> <p>2.2. the demand for foreign currency assets</p> <p>2.3. interest rates, expectations, and equilibrium in the foreign exchange market.</p>				

- 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.**

#### **Introductory courses**

Macroeconomics, Banking, Financial Mathematics

#### **Teaching methods**

Lectures, exercises, and case studies

#### **Basic literature and other sources**

1. **Krugman P. R., Obstfeld M., Melitz M., International Economics: Theory and Policy, 9<sup>nd</sup> ed., Prentice Hall, 2011.**
2. De Grauwe P., Economics of Monetary Union, 8<sup>th</sup> ed., Oxford University Press, Oxford 2009.
3. World Economic Outlook, IMF, different issues, at least from 2008, 2009, and 2010.
4. Global Financial Stability Report, IMF, different issues, at least from 2008, 2009, and 2010.
5. ECB Annual Report, ECB, different issues, at least from 2008, 2009, and 2010.

<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>