

**ECON0302**  
**International Finance**  
M 4-4:50pm; F 3-4:50pm  
419 Knowles Building

**Course Description**

This is a course on open-economy macroeconomics and finance. The goal of this course is to explain movements in macroeconomic variables such as the trade balance, money, the exchange rate, national output and inflation. The first module of the course will lay out several useful theories regarding these variables, and the second module will help you assemble these theories into an overall analytical framework. The third module will challenge you to apply this analytical framework to real-world applications.

By the end of the course, I hope that you will have developed a keen interest in issues related to international economics, as well as a set of analytical tools that can be applied on other fields. You should be able to analyze, in an unbiased way, a wide array of important international policy issues.

**Contact Information**

Instructor: Dr. Miaojie Yu  
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Course Webpage: <http://www.econ.hku.hk/~mjyu/teaching.html>

**Discussion Sections**

Teaching Assistant: Ms. Winnie Yu  
Section Time: T 3-4, W 11:40-12:30, 1-1:50; R 11:40-12:30, 1-1:50  
F 1-2, 2-3  
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**Course Prerequisites**

Prerequisite for this course is elementary macroeconomics (ECON1002) or equivalent. Calculus and matrix algebra are *not* required but preferable.

### **Textbook:**

Paul Krugman and Maurice Obstfeld, International Economics: Theory and Policy, 7<sup>th</sup> edition. The course will follow fairly closely the outline of the second half of the text.

### **Additional Readings:**

In addition to the textbook, we will read a few journal articles in selected applied subject areas of the course. These will be distributed through our class web page, or as announced.

### **Course Grading and Requirements:**

Problem Sets (6)	Due dates as announced	6*3%=18%
Midterm	Nov. 4th in class	32%
Cumulative Final Exam	To-Be-Announced	50%

### **Course Policies:**

- All homework assignments are due and must be handed in during lecture.
- Homework assignments will be handed out in lecture and are discussed in sections.
- Homework is graded "check+", "check", and "check-". When determining course grades, the homework is recorded as a 100% for "check+", a 75% for "check", a 50% for "check-", and 0% if not handed in. There is a significant penalty for NOT handing in the homework.
- No make-up exams will be provided. Consider to drop the course if you have conflicts with the final exam time.
- Exams are closed book with a mixture of short answer and multiple part analytical problems. The final is cumulative with a greater weight on material from the second part of the quarter.

### **Midterm Re-grade Policy:**

If an administrative error has been made in calculating your midterm grade (such as an arithmetic error in adding up your score), no re-grade request need to be submitted. Merely bring the error to my attention so that I can correct it. If you desire a midterm re-grade, please adhere to the following procedure:

- Submit, *in person*, a *written* request for the re-grade within one week of receiving your midterm.
- In your written request, enumerate questions deserving special attention and why such questions deserve special attention.
- Please note that your entire midterm will be reviewed. That is, if some of your answers are revealed lacking (in contents, in clarity, etc.) upon my second reading, you may end up losing points.

## Course Outline:

This is tentative and subject to change. Check back at our class webpage for periodic updates and direct links to papers. Please read the assigned readings before the lecture.

<b>Week</b>	<b>Date</b>	<b>Contents</b>
<b><u>Week 1</u></b> <b>National Income Accounts</b>	Sep. 9	<b>National Income Accounting</b> Introduction, National Income Accounting, Application  <u>Readings:</u> Krugman-Obstfeld, chapter 12.
<b><u>Week 2</u></b> <b>Exchange Rates</b>	Sep. 12	<b>Balance of Payment Accounting</b> Rules of BOP accounting, U.S. current account deficit, twin deficit  <u>Readings:</u> Krugman-Obstfeld, chapter 12.
	Sep. 16	<b>Exchange Rates and Foreign Exchange Market</b> Exchange rates, international transaction, foreign exchange market  <u>Readings:</u> Krugman-Obstfeld, chapter 13.
<b><u>Week 3</u></b> <b>Foreign Exchange Market</b>	Sep. 19	<b>No Class, Mid-Autumn Festival Holiday</b>
	Sep. 23	<b>Asset Approach to Exchange Rate and IRP Conditions</b> Demand for foreign currency assets, equilibrium, interest rates and expectation  <u>Readings:</u> Krugman-Obstfeld, chapter 13.
<b><u>Week 4</u></b> <b>Money, Interest Rate &amp; Exchange Rate</b>	Sep. 26	<b>Money and Exchange Rate in the Short Run</b> Definition of money, aggregate money demand, money supply, money market equilibrium in the short run  <u>Readings:</u> Krugman-Obstfeld, first half of chapter 14.
	Sep. 30	<b>Money, Price and Exchange Rate in the Long Run</b> Money and exchange rate in LR, inflation and exchange rate dynamics, overshooting, real interest rate parity  <u>Readings:</u> Krugman-Obstfeld, second half of chapter 14.
<b><u>Week 5</u></b> <b>PPP</b>	Oct. 3	<b>Overshooting</b>  <u>Readings:</u> Krugman-Obstfeld, second half of chapter 14
	Oct. 7	<b>Purchasing Power Parity and Money Approach</b>

		<u>Readings:</u> Krugman-Obstfeld, chapter 15.
<b><u>Week 6</u></b>	Oct. 10	<b>Goods Market and Asset Market Equilibrium</b> Aggregate demand and equilibrium in goods market; asset market overall equilibrium  <u>Readings:</u> Krugman-Obstfeld, first half of chapter 16.
<b>Goods Market, Asset Market, and Policy Analysis</b>	Oct. 14	<b>Asset Market Equilibrium and Monetary Policy</b> temporary vs. permanent monetary policy; interest rate and current account implications  <u>Readings:</u> Krugman-Obstfeld, second half of chapter 16.
<b><u>Week 7</u></b>	Oct. 17	<b>Mechanics of Fixed Exchange Rate &amp; Monetary Policy</b>  <u>Readings:</u> Krugman-Obstfeld, first half of chapter 17.
<b>Fixed Exchange Rate</b>	Oct. 21	<b>Sterilization with Fixed Exchange Rate</b> Fiscal policy and sterilization; gold standard and Bretten woods system  <u>Readings:</u> Krugman-Obstfeld, second half of chapter 17.
<b><u>Week 8</u></b>		<b>No class, Reading/Field Trip</b>
<b><u>Week 9</u></b>	Oct. 31	<b>Gold Standard and Bretten Woods System</b> Balance of payment crises and capital flight, reserve currencies, gold standard, and Bretten woods system.  <u>Readings:</u> Krugman-Obstfeld, second half of chapter 17.
<b>History of Fixed Exchange Rate</b>	Nov. 4	<b>Midterm in class</b>
<b><u>Week 10</u></b>	Nov. 7	<b>Currency Crises</b>  <u>Readings:</u> Krugman-Obstfeld, chapter 18.
<b>European Monetary Arrangements</b>	Nov. 11	<b>Flexible Exchange Rate and its History</b>  <u>Readings:</u> Krugman-Obstfeld, chapter 19.
<b><u>Week 11</u></b>	Nov. 14	<b>Policy Coordination</b>  <u>Readings:</u> Krugman-Obstfeld, chapter 19.
<b>International Capital Market</b>	Nov. 18	<b>European Monetary System and EMS Crisis</b>  <u>Readings:</u> Krugman-Obstfeld, chapter 20.

<b><u>Week 12</u></b>	Nov. 21	<b>European Monetary Union and European Central Bank</b> <u>Readings:</u> Krugman-Obstfeld, chapter 20.
<b>Developing Country Issues</b>	Nov. 25	<b>Reform of International Financial Architecture</b> <u>Readings:</u> Krugman-Obstfeld, chapter 21.
<b><u>Week 13</u></b>	Nov. 28	<b>Crisis in Latin America and Eastern Europe</b> <u>Readings:</u> Krugman-Obstfeld, chapter 22.
<b>Financial Crises</b>	Dec. 2	<b>Asian Financial Crisis</b> <u>Readings:</u> Krugman-Obstfeld, chapter 22.
<b><u>Week 14</u></b>	Dec. 5	Review

**FINAL EXAM:** To-Be-Announced