

# International Finance (1206029)

<mailto:xieer.dai@szu.edu.cn>

**Course Description:** This course provides an in-depth understanding of the global financial environment and its impact on businesses and economies. Students will gain knowledge of exchange rates, foreign exchange markets, balance of payments, and macroeconomic policies in an international context.

## Course Objectives:

1. Understand the global macroeconomic environment and its impact on international finance.
2. Analyze exchange rate determination models and their implications for businesses and policymakers.
3. Examine the role of national and international accounts in measuring economic performance.
4. Evaluate the gains from financial globalization and the balance of payments implications.
5. Explore the consequences of fixed and floating exchange rate regimes and their implications for macroeconomic policies.
6. Analyze the causes and consequences of exchange rate crises.
7. Investigate the formation, functioning, and challenges of the European Monetary Union.
8. Understand the evolution of the Chinese exchange rate policy and its implications for the global economy.

## Course Outline:

### 1. The Global Macroeconomy (FT Chapter 1)

- Overview of the global economic environment
- Measuring national output and income (GDP, GNP, NNP)
- Unemployment and inflation (types, measurement, and trade-offs)
- Economic growth and productivity (sources, determinants, and measurement)

## Readings:

- He, Z., & Wei, W. (2023). China's financial system and economy: a review. *Annual Review of Economics*, 15, 451-483.
- Obstfeld, M., & Rogoff, K. (2000). The six major puzzles in international macroeconomics: is there a common cause?. *NBER macroeconomics annual*, 15, 339-390.
- Lusardi, A., & Mitchell, O. S. (2023). The importance of financial literacy: Opening a new field. *Journal of Economic Perspectives*, 37(4), 137-154.

### 2. Introduction to Exchange Rates and the Foreign Exchange Market (FT Chapter 2)

- Concept of exchange rates (direct and indirect quotations)
- Foreign exchange market structure and participants (spot, forward, and

futures markets)

- Spot and forward exchange rates (calculations and examples)
- Exchange rate quotations and cross-rates (triangular arbitrage)

**Readings:**

- Rossi, B. (2013). Exchange rate predictability. *Journal of economic literature*, 51(4), 1063-1119.
- Bansal, R., & Dahlquist, M. (2000). The forward premium puzzle: different tales from developed and emerging economies. *Journal of international Economics*, 51(1), 115-144.

**3. Exchange Rates I: The Monetary Approach in the Long Run (FT Chapter 3)**

- Monetary approach to exchange rate determination
- Purchasing power parity theory (absolute and relative versions)
- Interest rate parity and exchange rates (covered and uncovered interest parity)
- Examples and applications in international finance

**Readings:**

- Itskhoki, O. (2021). The story of the real exchange rate. *Annual Review of Economics*, 13, 423-455.
- Blinder, A. S. (2023). Landings, soft and hard: the Federal Reserve, 1965–2022. *Journal of Economic Perspectives*, 37(1), 101-120.

**4. Exchange Rates II: The Asset Approach in the Short Run (FT Chapter 4)**

- Asset approach to exchange rate determination
- Portfolio balance model (asset market equilibrium)
- Overshooting and exchange rate volatility (Dornbusch model)
- Empirical evidence and implications for businesses

**Readings:**

- McKay, A., & Wolf, C. K. (2023). Monetary policy and inequality. *Journal of Economic Perspectives*, 37(1), 121-144.
- Gourinchas, P. O., Rey, H., & Sauzet, M. (2019). The international monetary and financial system. *Annual Review of Economics*, 11, 859-893.

**5. National and International Accounts (FT Chapter 5)**

- Structure of national income accounts (GDP components, savings, and investment)
- Balance of payments accounts (current account, capital account, and financial account)
- Current account and capital account (trade in goods, services, and assets)
- Measuring international investment positions (assets, liabilities, and net position)

**Readings:**

- Portes, R., & Rey, H. (2005). The determinants of cross-border equity flows. *Journal of international Economics*, 65(2), 269-296.

## **6. Balance of Payments I: The Gains from Financial Globalization (FT Chapter 6)**

- Benefits and risks of financial globalization
- International capital flows (portfolio investment, foreign direct investment, and remittances)
- International portfolio diversification (risk-return trade-offs)
- Challenges of financial globalization (contagion, volatility, and capital flight)

### **Readings:**

- Simsek, A. (2021). The macroeconomics of financial speculation. *Annual Review of Economics*, 13, 335-369.

## **7. Balance of Payments II: Output, Exchange Rates, & Macroeconomic Policies in the Short Run (FT Chapter 7)**

- Relationship between balance of payments and output (absorption approach)
- Exchange rate effects on trade and output (expenditure-switching and expenditure-reducing policies)
- Macroeconomic policies and balance of payments (fiscal and monetary policies)
- Case studies and real-world examples

### **Readings:**

- Bassetto, M., & Sargent, T. J. (2020). Shotgun wedding: Fiscal and monetary policy. *Annual Review of Economics*, 12, 659-690.
- Kashyap, A. K., & Stein, J. C. (2023). Monetary policy when the central bank shapes financial-market sentiment. *Journal of Economic Perspectives*, 37(1), 53-75.
- Binder, C., & Kamdar, R. (2022). Expected and realized inflation in historical perspective. *Journal of Economic Perspectives*, 36(3), 131-155.

## **8. Fixed vs. Floating Exchange Rates (FT Chapter 8)**

- Fixed exchange rate regimes (gold standard, Bretton Woods system, currency boards)
- Floating exchange rate regimes (freely floating, managed floating)
- Advantages and disadvantages of each regime
- Optimum currency area theory (criteria for an optimal currency area)

### **Readings:**

- Li, H., Ma, H., & Xu, Y. (2015). How do exchange rate movements affect Chinese exports?—A firm-level investigation. *Journal of International Economics*, 97(1), 148-161.
- Auer, R., Frost, J., Gambacorta, L., Monnet, C., Rice, T., & Shin, H. S. (2022). Central bank digital currencies: motives, economic implications, and the research frontier. *Annual review of economics*, 14, 697-721.
- Cipriani, M., Goldberg, L. S., & La Spada, G. (2023). Financial sanctions, SWIFT, and the architecture of the international payment system. *Journal of Economic Perspectives*, 37(1), 31-52.

## **9. Exchange Rate Crises (FT Chapter 9)**

- Causes of exchange rate crises (fundamental and self-fulfilling crises)
- Currency attacks and speculative attacks (first-generation and second-generation models)
- Consequences of exchange rate crises (output, employment, and financial instability)
- Crisis management and resolution (IMF interventions, bailouts, and restructuring)

#### **Readings:**

- Longstaff, F. A., Pan, J., Pedersen, L. H., & Singleton, K. J. (2011). How sovereign is sovereign credit risk?. *American Economic Journal: Macroeconomics*, 3(2), 75-103.
- Lane, P. R., & Milesi-Ferretti, G. M. (2004). Financial globalization and exchange rates. Available at SSRN 654529.
- Chari, A. (2023). Global risk, non-bank financial intermediation, and emerging market vulnerabilities. *Annual Review of Economics*, 15, 549-572.
- Gelpern, A., & Panizza, U. (2022). Enough potential repudiation: economic and legal aspects of sovereign debt in the pandemic era. *Annual Review of Economics*, 14, 545-570.
- Radelet, S., Sachs, J. D., Cooper, R. N., & Bosworth, B. P. (1998). The East Asian financial crisis: diagnosis, remedies, prospects. *Brookings papers on Economic activity*, 1998(1), 1-90.

### **10. The Euro (FT Chapter 10)**

- Formation of the European Monetary Union (Maastricht Treaty and convergence criteria)
- Structure and governance of the Eurozone (European Central Bank, Stability and Growth Pact)
- Benefits and challenges of the Euro (trade integration, policy coordination, and fiscal constraints)
- Future prospects and reforms (banking union, fiscal integration, and expansion)

#### **Readings:**

- Lane, P. R. (2021). The resilience of the euro. *Journal of Economic Perspectives*, 35(2), 3-22.
- Bilbiie, F., Monacelli, T., & Perotti, R. (2021). Fiscal policy in Europe: controversies over rules, mutual insurance, and centralization. *Journal of Economic Perspectives*, 35(2), 77-100.
- Rogoff, K. (2022). Emerging market sovereign debt in the aftermath of the pandemic. *Journal of Economic Perspectives*, 36(4), 147-166.

### **11. Chinese Exchange Rate Policy and Reforms (Additional Chapter)**

- Evolution of the Chinese exchange rate regime (fixed, managed float, and gradual liberalization)
- Reasons for maintaining an undervalued currency (export-led growth strategy)

- Implications of the Chinese exchange rate policy (global trade imbalances, currency wars)
- Recent reforms and internationalization of the Renminbi (capital account liberalization, SDR inclusion)

#### **Readings:**

- Allen, F., Qian, J., & Qian, M. (2005). Law, finance, and economic growth in China. *Journal of financial economics*, 77(1), 57-116.
- Fu, X. M., & Heffernan, S. (2009). The effects of reform on China's bank structure and performance. *Journal of Banking & Finance*, 33(1), 39-52.
- Jeanneney, S. G., & Hua, P. (2011). How does real exchange rate influence labour productivity in China?. *China Economic Review*, 22(4), 628-645.
- 易纲.(2023).货币政策的自主性、有效性与经济金融稳定.经济研究(06),19-29.
- 梅冬州,宋佳馨 & 谭小芬.(2023).跨境资本流动、金融摩擦与准备金政策分化.经济研究(06),49-66.
- 彭俞超,马思超,王南萱 & 郑航行.(2023).影子银行监管与银行风险防范.经济研究(08),83-99.

#### **Assessment Methods:**

- Final Examination (70%), on week 16th
- Reading (20%)
- Participation (10%)

#### **Teaching Methods:**

- Lectures and class discussions
- Case study analyses
- Guest lectures by industry professionals
- Online resources and readings

#### **Required Textbook:**

- International Finance: Theory and Policy by Paul R. Krugman, Maurice Obstfeld, and Marc J. Melitz (referred to as "FT" in the syllabus)
- Feenstra, R. C., & Taylor, A. M. (2011). *International macroeconomics*. Macmillan.
- Mishkin, F. S. (2016). *The economics of money, banking, and financial markets*. Pearson education (13<sup>th</sup> edition).
- 克鲁格曼《国际经济学（理论与政策）》第 11 版，中国人民大学出版社
- 易纲，海闻《货币银行学》上海人民出版社
- 芬斯特拉，泰勒《国际宏观经济学》人民出版社
- 沈国兵《国际金融理论与实务》复旦大学出版社
- 米什金《货币金融学》中国人民大学出版社

#### **Additional Readings:**

- Journal articles and research papers
- Reports from international organizations (IMF, World Bank, BIS)
- Financial news and publications