

THE UNIVERSITY OF  
NEW SOUTH WALES



School of Economics

Econ3104  
International Macroeconomics

Course Outline  
Session 1, 2009

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## **1. STAFF CONTACT DETAILS**

Lecturer: Glenn Otto

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Phone No: 9385 3332

Email: [g.otto@unsw.edu.au](mailto:g.otto@unsw.edu.au)

Consultation Times – Wednesday 1-2 and Friday 10-12 (or by appointment).

I am happy to be contacted initially by email with course specific inquiries.

Tutor's contact details will be posted on WebCT Vista.

## **2. COURSE DETAILS**

### **2.1 Teaching Times and Locations**

Lecture: Tuesday 9-11 am - Webster Theatre A (F Hall A)

Tutorials: Tuesday 11-12 am - Goldstein G05

Tuesday 11-12 am - Australian School Business 118

Tuesday 1-2 pm - Law 202

Tuesday 2 – 3 pm - Goldstein G04

Tuesday 3 - 4 pm - Quadrangle G026

### **2.2 Units of Credit**

The course is worth 6 units of credit.

There is no parallel teaching in this course.

### **2.3 Summary of Course**

This course examines models and policy issues in international macroeconomics. It begins with an introduction to the standard open-economy macroeconomic models; basic intertemporal models, traded and non-traded goods, short-run models and Dornbush's overshooting model. These models are then used to interpret important issues in international macroeconomics including: the exchange rate, the current account, international capital mobility, exchange rate regimes, monetary unions and monetary policy in open economies. In addition to examining various theoretical models, empirical evidence and policy issues will be discussed.

### **2.4 Course Aims and Relationship to Other Courses**

The pre-requisite for this course is Econ2102 Macroeconomics 2. The material in the course builds on Econ2102, but is taught at a more advanced level and with an explicit focus on the international aspects of macroeconomics.

### **2.5 Student Learning Outcomes**

On completion of the course, students should be able to:

1. Understand and explain the assumptions and structure of standard models in international macroeconomics
2. Analyze and manipulate simple versions of these models
3. Apply the models to interpret and analyze real problems in international macroeconomics
4. Have knowledge of key institutions and important policy issues in the international economy

## Graduate Attributes

This course contributes to your development of the following Australian School of Business Graduate Attributes, which are the qualities, skills and understandings we want you to have by the completion of your degree.

Course Learning Outcomes	ASB Graduate Attributes
1,2,3,4	1. Critical thinking and problem solving
1,3	2. Communication
NA	3. Teamwork and leadership
4	4. Social, ethical and global perspectives
1	5. In-depth engagement with relevant disciplinary knowledge
3,4	6. Professional skills

## 3. LEARNING AND TEACHING ACTIVITIES

### 3.1 Approach to Learning and Teaching in the Course

In the movie *Shrek*, Shrek compares himself to an onion, claiming that he has “layers.” Economics is also like an onion because it has layers. The central layer consists of the basic economic theories and models that are the core of the subject. These models are the framework or toolbox that economists use to interpret the economic world. Economic models typically have a formal mathematical structure and often presented using a combination of equations and diagrams. In this course we focus on models that are designed to explain key macroeconomic aspects of the open economy such as exchange rates or international capital flows.

Since understanding and using economic models is such a fundamental component of economics a considerable part of this course is devoted to systematically working through key open economy macro models. The best way to gain a deep understanding of these models is by working through the models yourself using a pen and paper. Look at the equations and write them out (or draw the diagrams). Note what variables enter into the models and make sure you can provide an intuitive explanation as to why they are there. Think about the assumptions used in the model and ask why they are used. Look at how the model is solved and then look at the solution and see if it makes economic sense. It usually takes time to build-up these skills so it is good practice to begin early in the session and do a little at a time. In the lectures I will work through key models, however the tutorial exercises and the two problem sets will give you practice at working with economic models and help you acquire the necessary skills.

Once you have a good understanding the important core models in international macroeconomics we can consider testing the predictions of these models against real world data. How well do the theories we have considered do at explaining key aspects

of the international macro-economy? These are the outer layers of economics. Sometimes we will consider the results of formal econometric tests of models (eg. in the case of uncovered interest rate parity), but often we will look more informally at the ability of a model to explain some economic phenomenon. For example how well do the standard international macroeconomic models do in explaining the US current account deficit? Much of the latter part of this course is concerned with the applications of open economy models to policy issues. Key issues are covered in lectures and further details can be found in the readings provided for the topic.

### **3.2 Learning Activities and Teaching Strategies**

The examinable content of the course is defined by the references given in the Lecture Schedule, the content of Lectures, and the content of the Tutorial Program.

#### *Lectures*

The purpose of lectures is to provide a logical structure for the topics that make up the course; to emphasize the important concepts, models and methods of each topic, and to provide relevant examples to which the concepts and methods are applied. Lecture slides can be downloaded from WebCT Vista prior to each lecture.

#### *Tutorials*

Tutorials are an integral part of the subject. They will be devoted to examining the structure of standard macroeconomic models of the open economy and to learning how to analyze and interpret such models. Tutorial problem sets will be provided for each week's tutorial via WebCT Vista.

#### *Out-of-Class Study*

While students may have preferred individual learning strategies, it is important to note that most learning will be achieved outside of class time. Lectures can only provide a structure to assist your study, and tutorial time is limited.

An "ideal" strategy (on which the provision of the course materials is based) might include:

1. Reading of the relevant chapter(s) of the textbook and accessing the lecture slides from WebCT Vista before the lecture. This will give you a general idea of the topic area.
2. Attendance at lectures. Here the context of the topic in the course and the important elements of the topic are identified. The relevance of the topic will be explained.
3. Attending tutorials and attempting the tutorial questions.

## **4. ASSESSMENT**

### **4.1 Formal Requirements**

In order to pass this course, you must:

- achieve a composite mark of at least 50; and
- make a satisfactory attempt at all the assessment tasks;

## 4.2 Assessment Details

Assessment Task	Weighting	Learning Outcomes assessed	ASB Graduate Attributes assessed	Length	Due Date
Assignment No.1	10%	2.3	1,2	As necessary	Week 4 31/3
Assignment No. 2	10%	2.3	1,2	As necessary	Week 8 5/5
Assignment No 3.	10%	2.3	1,2	As necessary	Week 11 26/5
Final Exam	70%	1,2,3.4	1,2,5	2 hours	University Exam Period

### *Assignments*

The three assignments are designed to provide practical experience with analysing simple models and using data to evaluate various models in international macroeconomics. Details on Assignment No. 1 will be provided in Week 1 tutorials and in WebCT Vista. Details of Assignments 2 and 3 will be provided in WebCT Vista.

### *Final Exam*

The final exam will be held during the University examination period with the date and time determined by the University. It will cover materials covered in lectures and tutorials during Weeks 1-12 (inclusive), and will have the following structure;

Part A: short-answer questions (1/2)

Part B: longer essay type questions and/or problems (1/2)

The final exam will test the ability of students to explain the assumptions and structure of standard models in international macroeconomics and to analyze simple versions of these models. In addition students will need to be able to apply open-economy models to interpret and analyze real problems in international macroeconomics. The questions will also test knowledge important policy issues in the international economy.

Examples of previous exams are provided in WebCT Vista.

## 4.3 Assessment Format

There is no special format for the three assignments although answers should be neatly set out and legible if handwritten.

## 4.4 Assignment Submission Procedure

The three assignments should be submitted during the lecture in the relevant week. Students should keep a copy of all work submitted for assessment and keep returned marked assignments.

#### **4.5 Late Submission**

Late problem sets will have one mark deducted for each day they are late.

#### **5. ACADEMIC HONESTY AND PLAGIARISM**

The University regards plagiarism as a form of academic misconduct, and has very strict rules regarding plagiarism. For UNSW's policies, penalties, and information to help you avoid plagiarism see: <http://www.lc.unsw.edu.au/plagiarism/index.html> as well as the guidelines in the online ELISE tutorial for all new UNSW students: <http://info.library.unsw.edu.au/skills/tutorials/InfoSkills/index.htm>.

#### **6. COURSE RESOURCES**

The prescribed textbook for this subject (available at the UNSW Bookshop) is

Krugman, P. and M. Obstfeld, *International Economics Theory and Policy*, 8<sup>th</sup> edition, Addison and Wesley, 2006.

The 6<sup>th</sup> and 7<sup>th</sup> editions of the book are also suitable.

The examinable content of the textbook is defined by the lecture schedule and the tutorial program.

##### *Additional References*

Students may find the following textbooks (available in the UNSW library) useful for some parts of the course.

Makin, T., *International Macroeconomics*, Prentice Hall, 2002.

Mankiw, G., *Macroeconomics*, 5th Edition, Worth Publishers, 2003.

McCallum, B., *International Monetary Economics*, Oxford University Press, 1996.

Sachs, J. and F. Larrain, *Macroeconomics in the Global Economy*, Harvester Wheatsheaf, 1993.

Wells, G., *Macroeconomics*, Nelson, 1995.

#### **7. COURSE EVALUATION AND DEVELOPMENT**

Each year feedback is sought from students and other stakeholders about the courses offered in the School and continual improvements are made based on this feedback. UNSW's Course and Teaching Evaluation and Improvement (CATEI) Process is one of the ways in which student evaluative feedback is gathered. Previous student feedback has led to the development of a set of notes (available in WebCT Vista) that provide a brief review of important maths concepts and to the inclusion of more written assignments and projects.

#### **8. STUDENT RESPONSIBILITIES AND CONDUCT**

Students are expected to be familiar with and adhere to university policies in relation to class attendance and general conduct and behaviour, including maintaining a safe, respectful environment; and to understand their obligations in relation to workload, assessment and keeping informed.

Information and policies on these topics can be found in the 'A-Z Student Guide': <https://my.unsw.edu.au/student/atoz/ABC.html>. See, especially, information on 'Attendance and Absence', 'Academic Misconduct', 'Assessment Information', 'Examinations', 'Special Consideration', 'Student Responsibilities', 'Workload' and policies such as 'Occupational Health and Safety'.

### **8.1 Workload**

It is expected that you will spend at least **ten hours** per week studying this course. This time should be made up of reading, research, working on exercises and problems, and attending classes. In periods where you need to complete assignments or prepare for examinations, the workload may be greater.

Over-commitment has been a cause of failure for many students. You should take the required workload into account when planning how to balance study with employment and other activities.

### **8.2 Attendance**

Your regular and punctual attendance at lectures and seminars is expected in this course. University regulations indicate that if students attend less than eighty per cent of scheduled classes they may be refused final assessment.

### **8.3 Special Consideration and Supplementary Examinations**

You must submit all assignments and attend all examinations scheduled for your course. You should seek assistance early if you suffer illness or misadventure which affects your course progress. For advice on UNSW policies and procedures for granting special consideration and supplementary exams, see:

'UNSW Policy and Process for Special Consideration':  
<https://my.unsw.edu.au/student/atoz/SpecialConsideration.html>

The 'ASB Policy and Process for Special Consideration and Supplementary Exams in Undergraduate Courses' is available at:  
<http://wwwdocs.fce.unsw.edu.au/fce/current/StudentSuppExamProcedure.pdf> .

Further information for undergraduate students is on the ASB website (see '[Policies and Guidelines for Current Students](#)').

### **8.4 General Conduct and Behaviour**

You are expected to conduct yourself with consideration and respect for the needs of your fellow students and teaching staff. Conduct which unduly disrupts or interferes with a class, such as ringing or talking on mobile phones, is not acceptable and students may be asked to leave the class. More information on student conduct is available at: [www.my.unsw.edu.au](http://www.my.unsw.edu.au)

## 8.5 Occupational Health and Safety

UNSW Policy requires each person to work safely and responsibly, in order to avoid personal injury and to protect the safety of others. For more information, see <https://my.unsw.edu.au/student/atoz/OccupationalHealth.html>.

## 8.6 Keeping Informed

You should take note of all announcements made in lectures, tutorials or on the course web site. From time to time, the University will send important announcements to your university e-mail address without providing you with a paper copy. You will be deemed to have received this information. It is also your responsibility to keep the University informed of all changes to your contact details.

## 9. ADDITIONAL STUDENT RESOURCES AND SUPPORT

The University and the ASB provide a wide range of support services for students, including:

- **ASB Education Development Unit (EDU)** ([www.business.unsw.edu.au/edu](http://www.business.unsw.edu.au/edu))  
Academic writing, study skills and maths support specifically for ASB students. Services include workshops, online and printed resources, and individual consultations. EDU Office: Room GO7, Ground Floor, ASB Building (opposite Student Centre); Ph: 9385 5584; Email: [edu@unsw.edu.au](mailto:edu@unsw.edu.au)
- **UNSW Learning Centre** ([www.lc.unsw.edu.au](http://www.lc.unsw.edu.au))  
Academic skills support services, including workshops and resources, for all UNSW students. See website for details.
- **Library training and search support services:** <http://info.library.unsw.edu.au>
- **UNSW IT Service Desk:** Technical support for problems logging in to websites, downloading documents etc. Library, Level 2; Ph: 9385 1333.  
Website: [www.its.unsw.edu.au/support/support\\_home.html](http://www.its.unsw.edu.au/support/support_home.html)
- **UNSW Counselling Service** (<http://www.counselling.unsw.edu.au>)  
Free, confidential service for problems of a personal or academic nature; and workshops on study issues such as 'Coping With Stress' and 'Procrastination'. Office: Level 2, Quadrangle East Wing; Ph: 9385 5418
- **Student Equity & Disabilities Unit** (<http://www.studentequity.unsw.edu.au>)  
Advice regarding equity and diversity issues, and support for students who have a disability or disadvantage that interferes with their learning. Office: Ground Floor, John Goodsell Building; Ph: 9385 4734

## 10. COURSE SCHEDULE

### Standard Open-Economy Models

#### 1. *Flexible Price Models*

##### **Week 1 (9 – 13 March): Intertemporal Models of the Current Account**

The current account as the outcome of individual saving and investment decisions in open economies

Krugman and Obstfeld – Ch 12 & 16 (Appendix I)

Sachs and Larrain – Ch. 6

##### **Week 2 (16 - 20 March) and Week 3 (23 – 27 March): A Tradable Non-tradable Goods Model**

What happens in a world with two types of goods? We get another relative price – the real exchange rate.

Lecture Notes

Sachs and Larrain - Ch. 21

#### 2. *Sticky-Price Models*

##### **Week 4 (30 March – 3 April) and Week 5 (6 – 10 April) : A Short-Run Model of Output and the Exchange Rate**

KO present a short-run model of an open economy

Krugman and Obstfeld - Ch. 12, 13, 14, 16

##### **Week 6 (20 – 24 April): Exchange Rate Overshooting**

Dornbusch's classic attempt to explain excessively volatile exchange rates

Rogoff, K, (2002), "Dornbusch's overshooting model after 25-years," *IMF Staff Papers*, Vol. 49, 1-35.

### Issues in International Macroeconomics

##### **Week 7 (27 April – 1 May): Saving, Investment, the Current Account and International Capital Mobility**

Explanations for the US current account deficit. Is there too little or too much mobility of international capital flows?

Krugman and Obstfeld - Ch. 12, Ch. 21

Sachs and Larrain - Ch. 6

Engle, C. (2005), "The US current account deficit: A re-examination of the role of private saving," RDP2005-09, Reserve Bank of Australia.

Mann, C. (2002), "Perspectives on the US current account deficit and sustainability," *Journal of Economic Perspectives*, 16, 3, 131-152.

Feldstein M. and C. Horioka, (1980), "Domestic saving and international capital flows," *Economic Journal*, June, 314-329.

Obstfeld, M. (1998), "The global capital market: benefactor of menace," *Journal of Economic Perspectives*, Fall, pp. 9-30.

Tobin, J. (1978), "A proposal for international monetary reform," *Eastern Economic Journal*, 4, 153-9.

### **Week 8 (4-8 May): Exchange Rates: Definitions, Arbitrage Conditions and Empirical Regularities**

Krugman and Obstfeld - Ch. 13 , 15

Flood, R and A. Rose, (2002), "Uncovered interest parity in crisis," *IMF Staff Papers* 49, 2, 252-266.

### **Weeks 9 (11-15 May) and 10 (18-22 May): Exchange Rate Models: Nominal and Real**

How well do economic fundamentals explain exchange rates? Why are exchange rates so difficult to forecast?

Krugman and Obstfeld - Ch. 13, 14, 15

Dwyer, J. and P. Lowe, (1993), "Alternative concepts of the real exchange rate: a reconciliation," RDP1993-09, Reserve Bank of Australia.

Engle, C. and K. West, 2005, "Exchange rates and fundamentals," *Journal of Political Economy*, 113(3), 485-517.

Meese, R. and K. Rogoff, (1983), "Empirical models of the exchange rate: do they fit out of sample?" *Journal of International Economics*, 14, 3-24.

Macdonald, R. and M. Taylor, (1992), "Exchange rate economics: a survey," *IMF Staff Papers*, 39, 1, 1-57.

Sarno, L. and M. Taylor, (2002), "Purchasing power parity and the real exchange rate," *IMF Staff Papers*, 49, 1, 65-105.

### **Week 11 (25-29 May): Exchange Rate Regimes: Fixed or Flexible**

How well has Australia's floating currency served it?

Krugman and Obstfeld - Ch. 17, 18, 19

Fischer, S, "Exchange rate regimes: Is the bipolar view correct?" *Journal of Economic Perspectives*, 15, 2, 3-24.

### **Week 12 (1-5 June): Common Currencies and Monetary Union**

Should we adopt the US dollar for our currency?

Krugman and Obstfeld - Ch. 20

Rose, A. One Money, One Market: Estimating the Effect of Common Currencies on Trade" Economic Policy 2000. This paper is available at <http://faculty.haas.berkeley.edu/arose/>