

ECON 420 – INTERNATIONAL MONEY AND FINANCE

Planetary Hall 212

Mondays and Wednesdays, 3:00 P.M. – 4:15 P.M.

Cameron Harwick — charwick@gmu.edu

Office hours: after class, or contact me to schedule

I. Introduction

On your shelf are goods labeled “Made in China”, “Made in India”, “Made in Mexico”, and so on. We take them mostly for granted, but for much of human history, international trade was relatively rare. The modern world has made the transport of goods much easier and less risky. But the interaction of multiple monetary systems – making sure everyone gets paid what they expected – is a problem that, if anything, has become more difficult and risky over time. This is the problem that the international monetary system is designed to solve.

The goal of this class is to give you an appreciation of the theory and the history of the international monetary system, and the problems it solves. Many seemingly unrelated developments, both current and historical, are linked by an undercurrent of problems with the international monetary system. This class will give you the tools to see that linkage, and to figure out the likely consequences of international financial developments.

II. Prerequisites

Intermediate Micro (ECON 306) and Macro (ECON 311) are prerequisites for this class. Money and Banking (ECON 310) is recommended. You should be fluent in producing and reading supply and demand diagrams. In addition, you will need to be fluent in algebra, and familiar with basic calculus concepts and notation. If you are rusty on any of these, I suggest brushing up at a site like www.khanacademy.org, which has excellent free videos on all of the above topics.

III. Classroom Policies

1. Notes are important, but *don't just copy the Powerpoints*. The Powerpoints will be posted on Blackboard before or shortly after class. They are only an outline, and will not contain all the information you are responsible for knowing. They are an aid for studying and following along, not a substitute for listening.
2. Participation and discussion are encouraged. If you don't understand something, please ask for clarification, as others are probably confused too (though I reserve the right to defer an answer until the break or after class, if the discussion gets too far afield). For this reason, you are welcome to bring a laptop or tablet so you can look things up to help you formulate questions, or to gain more context on the class discussion. Be careful, though, not to let these devices distract you or others from important lecture material (see point 1). The volume should be off on all your devices, especially cellphones.
3. We will usually go over the homework on the class following its due date. I will accept homework on that day for a 10 point late penalty. I will not accept homework after we've gone over it.

4. Exams may not be rescheduled except in truly extenuating circumstances, and must be arranged at least one week prior.

IV. Grading

Your final grade will be composed of classroom participation (10%), homework assignments (20%), a research paper (20%), a midterm exam (20%), and a cumulative final exam (30%). Each of these assignments is curved, so your “real” grade will usually be higher than your “nominal” grade.

Homework is assigned every other Wednesday, and due the following Monday. The homework is intended to help you study for the tests, and will contain questions both from class and from the readings. The more work you put into the homeworks, the better you will tend to do on the tests.

V. Schedule and Readings

The textbook is Krugman, Obstfeld, and Melitz, *International Economic Policy: Theory and Practice*. There will also be a few short additional readings per unit, which I reserve the right to add or subtract, in which case I will notify the class by email. All non-textbook readings will be posted on Blackboard.

Unit 1: The History of the International Financial System

Readings: KOM ch. 19: “International Monetary Systems: A Historical Overview”

Bordo & Schwartz, “Monetary Policy Regimes and Economic Performance” (sections 1-3)

Unit 2: The Economics of Exchange Rates

Readings:

KOM ch. 14, “Exchange Rates and the Foreign Exchange Market: An Asset Approach”

KOM ch. 15, “Money, Interest, and Exchange Rates”

KOM ch. 16, “Price Levels and the Exchange Rate in the Long Run”

Obstfeld and Rogoff, “The Six Major Puzzles in International Macroeconomics”

Unit 3: Fixed Exchange Rates and Currency Crises

Readings: KOM ch. 18, “Fixed Exchange Rates and Foreign Exchange Intervention”

Other miscellaneous readings

Unit 4: Mundel-Fleming and the Balance of Payments

Readings: KOM ch. 13, “National Income Accounting and the Balance of Payments”

KOM ch. 17, “Output and the Exchange Rate in the Short Run”

VI. Important Dates

- **Monday, September 4:** No class (labor day)
- **Tuesday, September 5:** Last day to add, or drop without tuition liability

- **Tuesday, September 19:** Last day to drop with 33% tuition liability
- **Friday, September 29:** Final drop deadline (67% tuition liability)
- **Monday, October 9:** Class will be held on Tuesday, October 10 (Columbus Day)
- **Wednesday, October 18:** Midterm exam
- **Wednesday, November 22:** No class (Thanksgiving)
- **Monday, December 18 at 1:30 P.M.:** Cumulative final exam

VII. Miscellany

Academic Integrity: You are allowed to include excerpts from others' writings in your homeworks and research paper, *provided that you clearly attribute them to their source*. Failure to attribute this material is plagiarism, and will be automatically referred to George Mason University's honor committee, along with other instances of cheating or academic dishonesty. See honorcode.gmu.edu for more information.

Disability notice: If you are a student with a disability and you need academic accommodations, please notify me and contact the Office of Disability Services at (703) 993-2474 or ods.gmu.edu as soon as possible. All academic accommodations must be arranged through that office.

Enrollment: Students are responsible for verifying their enrollment in this class. After the last day to drop a class, withdrawing from this class requires the approval of the dean and is allowed only for nonacademic reasons. Undergraduate students may choose to exercise a selective withdrawal. See the schedule of classes for selective withdrawal procedures.

Other useful campus resources:

Writing center — A114 Robinson Hall — (703) 993-1200 — writingcenter.gmu.edu

University Libraries — library.gmu.edu/mudge/IM/IMRef.html

Counseling and Psychological Services — (703) 993-2380 — caps.gmu.edu

University policies: The university catalog (catalog.gmu.edu/policies) is the central resource for university policies affecting student, faculty, and staff conduct in university academic affairs. Other policies are available at universitypolicy.gmu.edu. All members of the university community are responsible for knowing and following established policies.