



**JAMES MADISON UNIVERSITY
COLLEGE OF BUSINESS – DEPARTMENT OF ECONOMICS**

**International Finance - Econ/Fin 372
Fall 2010**

Instructor: Nevin Cavusoglu (**contact info:** 568-8752; cavusonx@jmu.edu)

Class Meetings: TTh 11:00-12:15 pm in ZSh 107 (Sect.1; CLS#78147); 2:00-3:15 pm in ZSh G1 (Sect.2; CLS#78153); 3:30-4:45 pm in ZSh G1 (Sect.3; CLS#78155)

Office & Off. Hrs: ZSh 411; TTh 12:30-2 pm and W 10:30 am-12:30 pm, or by appointment

REQUIRED TEXTBOOK: P. R. Krugman and M. Obstfeld, International Economics: Theory and Policy, 8th edition, Addison-Wesley, 2008. (7th edition is O.K.)

COURSE OVERVIEW:

Consider the following issues:

- 1) Since 1982, the U.S. has been borrowing an enormous amount of savings from the big surplus countries, namely China, Japan, Germany and OPEC countries. This borrowing shows up as a current account (CA) deficit, which implies that the U.S. imports more goods and services than it exports. Since 1998, however, U.S. CA deficits have become really large. The deficit reached its highest level in 2006, with \$803 billion! In 2009, the current account deficit was down to \$380 billion. What do such deficits mean for the U.S. economy? Are they necessarily bad? How long can the U.S. continue to run large CA deficits?
- 2) In February 1985 it took more than 250 Japanese yen to buy one U.S. dollar. Ten years later, during the summer of 1995 the yen/\$ exchange rate was close to 80, i.e., over these ten years the value of the dollar relative to the yen fell almost 70 percent! From the summer of 1995 to the summer of 1998, the yen/\$ exchange rate rose to a high of 148, i.e., in just three years the value of the dollar in yen rose 85%! For the past few months the dollar has been mostly losing value against many currencies. The yen/\$ exchange rate on August 26, 2010 was 84. This kind of behavior is typical when currencies are allowed to float. What can account for such extraordinary changes in the values of national currencies? What are the implications of such movements for the U.S. and world economy? Are there any problems with such behavior? Should the Fed be doing something about this?
- 3) For many years Thailand successfully fixed the value of their national currency (the Thai baht) relative to the U.S. dollar. But on July 2, 1997, after heavy speculation against their currency and stock markets, Thailand allowed the value of the Thai baht to float. In the ensuing 6 months, the baht lost half of its value. Once speculators saw that the Thai baht could become unglued they began attacking other Asian currencies, which were also tied to the U.S. dollar. In the end, the currencies and stock markets of Indonesia, Korea, Malaysia, Philippines and Thailand all incurred declines of staggering proportions. For example, Indonesia, the hardest hit country, saw their currency lose 70 percent of its value relative to the dollar within a 9-month period. To make matters worse, these currency and financial crises spilled over to the real sides of these economies. Before the crises, these countries were experiencing spectacular growth, with GDP growth rates for some of 8 to 10 percent annually. But once the currency and financial crises took hold at the end of 1997 and the

beginning of 1998, these economies were contracting at rates of 10-15%. Why do some countries peg their currency? Why do currency crises happen? Can they be predicted? Why do they take economies growing spectacularly well and transform them overnight into ones experiencing major depressions?

- 4) Since 1978, the countries of Western Europe tied their currencies to each other in the European Monetary System (EMS). During the fall of 1992, this system of fixed exchange rates began to collapse. In a similar fashion to the Asian currency crises, the speculators began betting against the weaker currencies of the EMS with massive amounts of capital and forced these currencies to float. (George Soros, who is perhaps the most successful speculator of all time, was reported to have made \$1 billion in one month!) Early in August 1993 the speculators put pressure on the EMS once again, causing the last two remaining countries keeping the system together (Germany and France) to let their currencies float. But Europe did not give up on fixing their exchange rates. In January 1999, 11 European countries entered into a monetary union (the EMU), in which there is one international currency called the euro and one central bank (the ECB). What is the importance of fixed exchange rate systems like the EMS or EMU? Is EMU a good idea for Europe?
- 5) Global credit markets almost collapsed in September 2008. Why did this happen? What role did global finance and the de-regulation of financial markets in the 1990s and 2000s play in the crisis? In what way were regulators to blame? How should the global financial system be re-regulated?

These issues will provide the backbone around which we will structure our study of International Finance. My main objectives are two. One is to provide you with enough knowledge (theoretical and empirical) and skills so that you will be able to think critically and arrive at informed opinions on all five issues outlined above and more! Another objective is for you to feel comfortable locating and using economic data.

INSTRUCTIONAL METHODS:

The course of study will consist of readings (from the book and additional articles), examinations, quizzes, homework assignments and a term project. I will be using blackboard (<https://blackboard.jmu.edu>) to post announcements, past exams, assignments and grades.

COURSE REQUIREMENTS/EXPECTATIONS AND GRADING:

(see Tentative Schedule for Dates)

EXAMS: There will be two **in-class** midterm exams, each worth 20% of your final grade. Every exam will cover the material covered since the previous exam. However, by nature, it will be necessary to master the basics well in order to be able to build up - the topics are interconnected. The final exam will make up 30% of your final grade and will be cumulative. Exams will be closed book and will cover all material assigned throughout the semester, including extra readings and discussions. If you are not able to take the test during the assigned time, it is your responsibility to contact me **AT LEAST a week in advance** to discuss appropriate steps. Otherwise, a make-up exam will be given only if you can present a document indicating the type of emergency (medical or family).

ONLINE QUIZZES: You will have 7 graded online quizzes on www.myeconlab.com, mostly covering one chapter. Graded quizzes will make up 15% of your total grade. You will have a **24-hour window** to take the quiz. **You can take each quiz only once, and each quiz will have to be completed within a specific amount of time** (usually about 20-30 min) that will be displayed before you start the quiz as well as during the quiz.

About a week **before** each quiz, you will be assigned a practice quiz that will allow you to test your understanding of the material. After completing the practice quiz, you will be given a personalized study plan. **To take the graded quiz, you have to have completed the corresponding practice quiz.** You will have two ‘free passes’, i.e. I will drop your lowest two quiz grades. These are mainly intended to provide a buffer against unexpected events and illnesses that prevent you from completing the quiz or performing well on it. There is NO make-up for quizzes.

On MyEconLab, you will be able to complete the practice sets and quizzes from any computer with an internet connection. Please don’t forget that computers have very strict understanding of due date and time. The course ID for myeconlab is **XL0I-U16W-201Y-1FT2**.

HOMEWORK: I will be distributing homework assignments that I expect you to solve within a week. I will NOT be collecting and grading these, however, some of the exam questions will be **VERY** similar to the questions on these assignments. **This part of the course work is extremely important in terms of your performance on exams** and it should not be underestimated. Keys to most questions will be posted on blackboard.

GROUP TERM PROJECT: You will be required to complete a term project that will count 15% towards your grade. Details will be discussed later in the semester.

CLASS PREPARATION: You should come to class on time having read the assigned pages from the book as well as any assigned additional articles.

CLASS ATTENDANCE AND PARTICIPATION: Class attendance is not mandatory, and as such it is not an explicit part of your grade. However, I strongly recommend that you avoid missing classes and that you participate to class discussions. **Extensive participation** in classroom discussions may add up to 2 extra points towards your final grade, which may boost your grade up if you are on the margin.

QUESTIONS: Questions are very welcome. You should ask any questions you have either in class, or in my office. Asking questions indicates that you are engaged and you want to understand, and learn more and that makes me happy!

HONOR CODE: You are expected to know and adhere to the JMU Honor Code. You are not allowed to collaborate or take assistance on any graded part of the course, as long as I have not stated otherwise. The penalty for cheating is a failing grade for the course.

CLASSROOM ETIQUETTE: All pagers, cell phones and other noise making equipment should be switched off during class.

USE OF E-MAIL: While I agree that the e-mail is a great way of communication, I expect you to limit your use of e-mail to necessary issues only. I will not be responding to questions regarding information that is already provided in the syllabus, or on blackboard, such as office hours, exam dates, coverage etc. Allow one business day for me to respond to your e-mails.

OFFICE HOURS: **Unless I announce otherwise in class or on blackboard, I am always available during my office hours** for your questions. If my office hours do not fit your schedule, contact me to establish a separate meeting time.

ADD/DROP DATES:

Tuesday, September 7, 2010 – last day to **add** a class without instructor and academic unit head signatures; last day to **drop** a class (withdrawing from a class after the drop deadline results in a “W” grade on your transcript)

Thursday, September 16, 2010 – last day to add a class with signatures.

Tentative Schedule

DATE	DAY	COVERAGE	HW	GRADED ITEMS
31-Aug-10	Tue	Introduction		
02-Sep-10	Thu	Chapter 12: National Income Accounting and the Balance of Payments + Ch.13	Hw 1	
07-Sep-10	Tue			
09-Sep-10	Thu	Chapter 13: Exchange Rates and the Foreign Exchange Market: An Asset Approach	Hw 2	Quiz 1 (Ch.12)
14-Sep-10	Tue			
16-Sep-10	Thu	Chapter 14: Money, Interest Rates, and Exchange Rates	Hw 3	Quiz 2 (Ch.13)
21-Sep-10	Tue			
23-Sep-10	Thu		Hw 4	
28-Sep-10	Tue			
30-Sep-10	Thu	Chapter 15: Price Levels and the Exchange Rate in the Long Run + Notes on Supply-Demand		Quiz 3 (Ch.14)
05-Oct-10	Tue			
07-Oct-10	Thu	-	-	Exam 1
12-Oct-10	Tue	Chapter 16: Output and the Exchange Rate in the Short Run	Hw 5	
14-Oct-10	Thu			
19-Oct-10	Tue		Hw 6	
21-Oct-10	Thu			
26-Oct-10	Tue	Notes on Exchange Rate Forecasting		Quiz 4 (Ch.16)
28-Oct-10	Thu			
02-Nov-10	Tue	Chapter 17: Fixed Exchange Rates and Foreign Exchange Intervention	Hw 7	
04-Nov-10	Thu			
09-Nov-10	Tue	Ch.18: The International Monetary System, 1870-1973	Hw 8	Quiz 5 (Ch.17)
11-Nov-10	Thu	Chapter 19: Macroeconomic Policy and Coordination under Floating Exchange Rates		
16-Nov-10	Tue			Quiz 6 (Ch.18+19)
18-Nov-10	Thu	-	-	Exam 2
23-Nov-10	Tue	THANKSGIVING BREAK		
25-Nov-10	Thu	NO CLASSES		
30-Nov-10	Tue	Ch.20: Optimum Currency Areas and Europe	Hw 9	
02-Dec-10	Thu	Chapter 21: The Global Capital Market		
07-Dec-10	Tue	Ch.22: Developing Countries: Growth, Crisis, and Reform		Quiz 7 (Ch.20+21)
09-Dec-10	Thu	Project Presentations		Projects due

14-Dec-10	Tue	Final exam: 1:00-3:00 pm (S2)		
16-Dec-10	Thu	Final exam: 10:30-12:30 pm (S1)		
16-Dec-10	Thu	Final exam: 1.00- 3.00 pm (S3)		

In case of class cancellations due to inclement weather, you should always check blackboard for my announcements.

This course tends to be very challenging and requires quite a bit of work outside of class. However, you also need to be studying for the class in the 'right' way, so if you work a lot but are not able to get a good grade, come and see me to establish a strategy **early in the semester**.

Your letter grade for the course will be solely based on your performance and not on your need. The average score in the class corresponds to **at least C/C+**. So, as long as the average is in that range or higher, you are looking at a grade schedule that looks **approximately** as follows: A>88%; B>78%; C>67%; D>56%. If the average score is lower than a C, or at my discretion, I will scale all grades up.