



Universidad  
de Alcalá

# SYLLABUS

## INTERNATIONAL MACROECONOMICS II

**Degree in International Economics and  
Business**

**Universidad de Alcalá**

**Academic Year 2018-2019**

**Third Year- Second Semester**

## SYLLABUS

Name of the subject:	<b>International Macroeconomics II</b>
Code:	<b>361011</b>
Degree::	<b>International Economics and Business (Economía y Negocios Internacionales)</b>
Department and Academic field:	<b>Economics Economics</b>
Type:	<b>Compulsory</b>
Credits ECTS:	<b>6 credits</b>
Semester:	<b>Second</b>
Instructors:	Mariña Fernández Salgado m.fernandezsalgado@uah.es
Office hours:	<b>To be confirmed by the lecturer responsible of the module</b>
Language:	English

### 1. Introduction

International Macroeconomics II is an advanced course on International Macroeconomics. This course builds over the concepts studied in International Macroeconomics I and deepens the knowledge of the international economy from a macroeconomic perspective. Both courses, jointly with the courses on International Trade and Globalization I and II, set the fundamentals for a proper understanding of the problems faced by open economies nowadays

This course aims at explaining the world economy of both developed and emergent markets by covering the modelling and empirical analysis of concepts such as growth, inflation, interest rates, exchange rates or prices of financial assets in a global economy. International Macroeconomics II helps on the understanding of causes and consequences of trade deficits and external imbalances as well as the financial crises in developed and emerging economies. In addition to covering basic macroeconomic model, this course offers the tools required for the short and long term assessment of monetary and fiscal policies. The analysis of macroeconomic data and the discussion of recent documents and working papers provide an adequate complement to help the student with the understanding of the theoretical models.

The course is oriented to answering the following questions:

1. How are foreign exchange rates, interest rates and financial asset movements determined?
2. How is the current account balance between countries determined and how does it link to financial movements?
3. How do external shocks affect the economy and in particular what are their effects over production, employment and price levels?
4. What is the impact of fiscal and monetary policy and how they affect adjustments in the public and the private sector?
5. Which are the advantages and disadvantages of the different exchange rate regimes and which are their long-term effects on reserve accumulation?

International Macroeconomics II is structured in two parts.

The aim of the first part is to reinforce the understanding of the theoretical models of international macroeconomics through their empirical evaluation. The instructor will question the basic assumptions of the theoretical models of exchange rate determination (the monetary and asset approach) and balance of payments by analysing the available macroeconomic data and reviewing the recent literature. The last topic in this first block will focus on the attainment of internal and external balances and the macroeconomic adjustments needed to reach them. The student will acquire sufficient skills to evaluate how changes in macroeconomic policies and financial openness could affect real exchange rates.

The second part of the course studies basic macroeconomic policy challenges and their connection with global financial markets. It starts by analysing financial and exchange rate crisis by making use of the first, second and third generation models of balance of payment crises. With a final aim of understanding global imbalances and the difficulties of international coordination, transmission mechanisms of the different shocks at an international level will then be analysed together with the implications under different foreign exchange regimes. The third topic of this second block gives an overview of the theory of optimal currency areas and analyses the challenges of monetary integration. The course ends with a final discussion of the macroeconomic effects of global capital markets.

## 2. LEARNING OUTCOMES

### General Skills:

1. A general and integrated view of the main concepts, models and tools of international macroeconomics analysis.
2. Apply theoretical concepts to the analysis of the world economy and to assess international policy options.
3. The use of economic concepts, methods and tools to understand international macroeconomic problems and to make an assessment of the alternative decisions and outcomes.
4. The development, implementation and use of basic analytical models.
5. Ability to look for data sources and to manage and analyse the data.

**Specific Skills:**

1. Proficiency in the use of technical language and key concepts of international macroeconomics.
2. Ability to provide a critical assessment of economic newspaper articles and reports on world macroeconomic issues.
3. Ability to cooperate with classmates by discussing problems and insights with others and collectively finding alternatives and solutions to macroeconomic problems.

**3. SYLLABUS****CONTENTS****PART I. THE MACROECONOMICS OF THE OPEN ECONOMY**

6 theoretical sessions; 6 practice and exercises sessions. 1 exam

**TOPIC 1: The Asset Market Approach to Exchange Rate Determination**

The Uncovered Interest Parity condition and the Risk Premium: an empirical analysis

**TOPIC 2: Real Interest Rates and the Purchasing Power Theory**

Real interest rates, the Law of One Price, the Purchasing Power theory: an empirical analysis

**TOPIC 3: The DD-AA Model: A review of the main assumptions**

An empirical analysis of the Marshall Lerner condition

**TOPIC 4: Internal and External Balance**

The equilibrium in an open economy. Fiscal and monetary policies. Real and financial shocks. Stabilisation policies in practice.

## **PART II: INTERNATIONAL MACROECONOMIC POLICY**

6 theoretical sessions; 6 practice's sessions. 1 exam session.

### **TOPIC 5: Financial and exchange rate crises.**

First generation models of currency crisis. Second generation models. Third generation models.

### **TOPIC 6: International Macroeconomic Interdependence**

Macroeconomic interdependence with fixed and flexible exchange rates. Interdependence and cooperation. The failure of international policy coordination.

### **TOPIC 7: Monetary Integration and Optimum Currency Areas**

The theory of optimum currency areas. Costs and benefits of a monetary union. Monetary integration and monetary unions. Asymmetric shocks and the degree of integration. Adjustment mechanisms. The Crisis of the Eurozone.

### **TOPIC 8: The Global Capital Market: Functioning and Impacts**

The foreign exchange market efficiency. The emerging architecture of world financial markets. Financial regulation and the market system.

## **4. TEACHING-LEARNING METHODOLOGIES-PRACTICAL WORK**

### **4.1. Distribution of credits (in hours)**

Number of classroom hours: 48	<ul style="list-style-type: none"> <li>- Number of classroom hours: 45</li> <li>- Theoretical lectures: 22,5</li> <li>- Practical classes and seminars: 22,5</li> <li>- Exams: 3</li> </ul>
Number of hours of personal study: 102	Hours of independent study: 102 <ul style="list-style-type: none"> <li>• Preparation and completion of exercises.</li> <li>• Tutor marked assignments and activities in the virtual platform.</li> <li>• Preparation of exams.</li> </ul>
Total hours 150	

## 4.2. Methodological strategies, materials and didactic resources

<p><b>Classwork:</b></p>	<p>✓ <b>Theoretical sessions</b></p> <p>In these classes the professor, in lecture form, will develop the basic concepts of every topic in the programme. These lectures will guide students through the work they need to complete.</p> <p>✓ <b>Practical sessions</b></p> <p>In which the professor will develop practical examples of the issues and key concepts studied in theoretical lectures. The main aim of these sessions is to complete case studies on the application of the topics discussed in the theoretical sessions. Whenever possible, these practical classes will be take place in the computing classroom in order to have access to the data and information online. The instructor will prepare specific material available for the students: collections of exercises, research and economic policy papers and Internet resources. The students will develop part of their work within the virtual platform: Blackboard, which will improve the access to new contents, homework activities and evaluations and will facilitate the interrelationship among the instructor and students.</p>
<p><b>Autonomous (independent) work:</b></p>	<p>Students must read and understand the recommended reading material and any other material that may turn out important throughout the course. They also have to solve practical activities and exercises set in class, etc.</p>
<p><b>Tutorials:</b></p>	<p>Tutorials are optional for students and they can be carried out individually or in groups. Tutorial of consultation hours will be communicated to the students at the beginning of the course.</p>

The students might be required to follow a course at the library (CRAI) to help them develop their skills on the use and management of research data and information.

## 5. Evaluation System

## ASSESSMENT CRITERIA

The assessment criteria for this subject is designed to evaluate the acquisition of general and specific skills and will include both theoretical and practical content covered in class and during the students' personal study.

The student's assessment may follow two possible routes:

1. Continuous assessment along the semester and a re-sit exam (June).
2. A final assessment by a single exam (May) and a re-sit exam (June).

Both alternatives are detailed here forth:

### 1. Continuous assessment

This assessment requires students to complete ALL following items:

- A. Hand-in assignments, exercises, essay writing, etc.) that are constructed as practical learning tools. Student's effort more than success will be valued. (20% of the final grade).
- B. Two exams (80% of the final grade). The first exam will cover the topics in section I and the second one will cover those in section II. These assessments will evaluate student's key knowledge of the main topics in the course.

Students who pass reach at least 5 points in the two exams (see point B above) and A continuous assessment weighted grade pass the course and will obtain a grade ranging from Pass to Starred Distinction.

## Grading System

Grading scale with numerical and qualitative ratings:

0.0-4.9	Fail (Suspenso)
5.0-6.9	Pass (Aprobado)
7.0-8.9	Merit (Notable)
9.0-10	Distinction (Sobresaliente)
9.5-10	Starred Distinction (Matrícula de Honor) (limited to 5% of students in the standard examination session)

### 2. Final Assessment

Students who choose the final assessment option for this course must take a final exam in May according to the schedule previously established by the Faculty. This exam will contain theoretical and practical questions. In order to pass students must obtain a minimum grade of 5 points.

## Re-sit Exam

Students who do not pass the course in May have the option of taking a resit exam in June similar to that described in the Final Assessment section.

### Clarifications

For any circumstances not referred to in this course description, the regulations governing learning assessment procedures, which were approved by the Governing Council on March 24 2011, will be followed. Students must attend all exams bringing their I.D. and the University's Student Card.

## 6. READING LIST

### Core reading:

Paul R. KRUGMAN, Maurice OBSTFELD y Marc J.MELITZ: *International Economics Theory and Policy 10th Edition. Global Edition BD*, Pearson, 2016.

### Further reading:

FEENSTRA R. C. y A. M. TAYLOR: *International Macroeconomics. 3<sup>rd</sup> Edition*. MacMillan, 2015.

Stephanie Schmitt-Grohe and Martín Uribe. *International Macroeconomic. First draft, Fall 1998 Last updated: June 25, 2014. Notes: <http://www.columbia.edu/~mu2166/UIM/notes.pdf>*

CAVES, R. E., J. A. FRANKEL, R. W. JONES: *World Trade and Payments: An Introduction*. Prentice Hall, 10<sup>a</sup> ed. 2007.

TUGORES QUES, J.: *Economía Internacional*. McGraw-Hill, 2005.

KENEN, P. B.: *The International Economy*. 4<sup>a</sup> ed., Cambridge University Press, 2000.

DE GRAUWE, P.: *Macroeconomic Theory for the Open Economy*. Gower, 1983.

MCCALLUM, B.: *International Monetary Economics*, Oxford University Press, 1996.

NIEHANS, J.: *International Monetary Economics*, The John Hopkins University Press, 1984.

THOMPSON, H.: *International Economics: Global Markets and International Competition*. 2<sup>a</sup> ed., World Scientific, 2006.

A series of readings will be recommended by the instructor so as to feed the discussion of ongoing international macroeconomic issues relying on up to date analysis and data.