

INTERNATIONAL MONETARY ECONOMICS
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COURSE OUTLINE

Aim:

Providing the fundamental concepts and tools that are needed to describe and understand international macroeconomic relations and the constraints that openness put on macroeconomic policies.

1- The balance of payments as an account of the relationship with the rest of the world

- 1- A diagram of some essential macroeconomic flows in an open economy
- 2- Definitions: the balance of payments and the international investment position
- 3- The accounts of the balance of payments
- 4- Double-entry System
- 5- The balance of payments of the USA, Japan and Germany

2- The balance of payments and the foreign exchange market

- 1- Exchange rates and international transactions
- 2- The foreign exchange market: actors, characteristics, transactions
- 3- The balance of payments as the net demand for foreign currency
- 4- Exchange rate regimes

3- The market for goods and services in an open economy

- 1- Goods: Home, Foreign, Tradable, non tradable
- 2- The Law of One price, the Purchasing Power Parity and beyond
- 3- The trade balance and the Marshall-Lerner conditions
- 4- Equilibrium output
- 5- Full employment and the Current Account equilibrium

4- Macroeconomic policies in a small open economy (the Mundell-Fleming model)

- 1- Equilibrium in the financial markets (the LM and BP curves)
- 2- Representing a small open economy: IS-LM-BP
- 3- Policies in a flexible exchange rate regime
- 4- Policies in a fixed exchange rate regime
- 5- Concluding comments

Useful references:

Krugman and Obstfeld, *International Economics*, Pearson Education Internat.
Blanchard, *Macroeconomics*, Prentice Hall Pearson Education Internat.

www.imf.org – www.ecb.int – www.bundesbank.de – www.snb.ch

DETAILED COURSE OUTLINE

Chapter, section and subsection	Keywords (other than titles)	references
Chapter 1- The balance of payments as an account of the relationship with the rest of the world		
1- A diagram of some essential macroeconomic flows in an open economy		handout
2- Definitions: the balance of payments and the international investment position		
a- Balance of payments	Transaction, flow	handout
b- International Investment position	Stock	handout
3- The accounts of the balance of payments		
a- Current account	Goods, services, income, transfer	handout, KO 12
b- Capital account		handout, KO 12
c- Financial account		handout, KO 12
4- Double-entry System		
a- Rules		handout, KO 12
b- Examples		handout, KO 12
c- Net errors and omissions		handout, KO 12
5- The balance of payments of the USA, Germany [and Japan]		
		handout
Chapter 2- The balance of payments and the foreign exchange market		
1- Exchange rates and international transactions		
a- Domestic and foreign prices		KO 13
b- Exchange rates and relative prices	Depreciation, appreciation	KO 13, B 18
c- real exchange rates		KO 13, B 18
d- The effective real exchange rate		KO 13, B 18
2- The foreign exchange market : actors, characteristics		
a- Actors		KO 13
b- Characteristics		KO 13
c- transactions	Spot, forward, swaps, futures, options, covered interest parity	KO 13
3- The balance of payments as the net demand for foreign currency		
a- The flow approach to the foreign exchange market		
b- Monetary consequences of the balance of payments		
c- The equilibrium in the foreign exchange market	Uncovered interest parity, perfect capital mobility	B 19
4- Exchange rate regimes		
a- The current situation (IMF classification)		handout
b- Two kinds of fixed exchange rate systems: reserve currency standard, gold standard		KO 17
Chapter 3- The market for goods and services in an open economy		
1- Goods: a typology.	Tradable (non -), traded (non -)	B 18
2- The Law of One price, the Purchasing Power Parity and beyond		
a- The Law of One price		KO 15
b- The Purchasing Power Parity		KO 15
c- Beyond	absolute PPP, relative PPP, Pricing to market, Balassa-Samuelson effect	KO 15
3- The trade balance and the Marshall-Lerner condition		
a- Determinants of the trade balance		KO 16, B19
b- The Marshall-Lerner condition		KO 16, B19
c- The J-curve		KO 16, B19
d- Trade balance and PPP		

4- Equilibrium output		
a- The equilibrium on the market for goods		KO 12, KO 16
b- The IS curve		B 19
c- Why IS ? A reminder and a qualification	GDP, GNP	KO 12
Chapter 4- Macroeconomic policies in a small open economy (the Mundell-Fleming model)		
1- Equilibrium in the financial markets (the LM and BP curves)		
a- Money market equilibrium: the LM curve	Sterilisation policy	KO 14, KO 17
b- Foreign currency market equilibrium (the BP curve)		
2- Representing a small open economy : IS-LM-BP		
a- Internal and external balance		
b- Linearized version of the model [details skipped]		
c- Adjustment in a flexible exchange rate regime		
d- Adjustment in a flexible exchange rate regime		
e- Policy objectives	Internal objective, external objective, assignment	
3- Policies in a flexible exchange rate regime		
a- Budgetary expansion		handout
b- Monetary expansion		handout
c- Recap on policy efficiency		
4- Policies in a fixed exchange rate regime		
a- Budgetary expansion		handout
b- Monetary expansion		handout
c- Recap on policy efficiency		
d- capital mobility and the possibility of simultaneous internal and external balance		
5- Changes in the international environment		
a- Increase in the foreign GDP		handout
b- Increase in the foreign interest rate		handout
6- Concluding comments:		
a- Weaknesses of the M-F model		
b- The Incompatibility Triangle		
c- Pros and cons of exchange rate regimes		

References cited (in the table, a number after the initials indicates the chapter where reference material can be found, but note that the whole chapter is not always used in the lectures):

KO = Krugman and Obstfeld, *International Economics*, 6th edition, Pearson Education Internat. (German translation available)

B = Blanchard, *Macroeconomics*, 3rd edition, Prentice Hall Pearson Education Internat. (German translation available)

Other useful references on the Mundell-Fleming model (among others) :

Gandolfo, *International finance and open economy macroeconomics*, Springer (esp. chapters 10 and 11.3)

Gärtner & Lutz, *Makroökonomik flexibler und fester Wechselkurse*, 3. Auflage, Springer, (esp. chapters 2 and 3.1)

Find other useful reference material by looking for keywords in textbook indexes!

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