

McGill University

Department of Economics

## **International Payments (ECON424 001)**

### **Winter 2024**

#### **Instructor Contact Information:**

Dr. Lingling Zhang

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Hashtag : #mge424

**Office: LEA434**

#### **Regular classes:**

**Times:** Mondays 11:35am-2:25pm

**Location:** RPHYS 114

**OFFICE HOURS:** Tuesdays and Thursdays 12pm-1pm in LEA434.

**Email Policy:** Due to the large number of students enrolled in the courses, it is challenging to respond individually to all emails. To make the most of our communication and to address your queries effectively, please read the following policies carefully:

1. In-Class and Office Hours Queries will be the primary Mode of Communication: I encourage you to ask questions during class time and during my office hours. This approach not only allows for immediate clarification but also benefits other students who may have similar queries.
2. Emails for Class-Wide Concerns will be addressed in Class: Emails that require detailed explanation will be addressed in the subsequent class sessions. This method ensures that everyone receives the same level of understanding and information.

**Course Overview:** This course explores the fundamentals of international payments, focusing on trade finance, foreign exchange, and payment methods used in global business transactions. Students will gain a deep understanding of how international payments are conducted, the risks involved, and the strategies employed by businesses and financial institutions to manage these risks. This course also provides a comprehensive coverage of international finance topics, including balance of payments, the foreign exchange market, exchange rate determination, purchasing power parity, fixed and flexible exchange rate regimes, international monetary system, speculative attacks, and international financial crises, etc. There will be discussions on various recent policy debates, case studies, and in-class experiments for most of the topics.

**References:** *International Macroeconomics: A Modern Approach* by Schmitt-Grohe, Uribe, and Woodford. This book is optional. Any version/edition of the book will be a good reference. This book is available on Amazon.ca but is not available at the McGill Bookstore.

**Readings:** You are encouraged to read the Wall Street Journal, Financial Times, and other top financial journals. There will be assigned readings posted on MyCourses.

**Course Project:** The guidelines and grading criteria for the course project will be discussed in the first lecture and will later be posted on MyCourses.

**Course Evaluation:**

|                                      |     |
|--------------------------------------|-----|
| Participation and attendance.....    | 10% |
| Midterm Examination.....             | 20% |
| Project (50% oral+50% written) ..... | 20% |
| Final examination .....              | 50% |

**Examinations:** All examinations will be closed note and closed book in-person exams.

Midterm exam is scheduled on **MARCH 18th, 2024. It is in-class exam. (If you don't take the midterm exam or if you obtain a higher grade in the final exam, the weight on the midterm exam will be shifted to the final exam automatically.)**

McGill University values academic integrity. Therefore, all students must understand the meaning and consequences of cheating, plagiarism and other academic offences under the Code of Student Conduct and Disciplinary Procedures (see [www.mcgill.ca/students/srr/honest/](http://www.mcgill.ca/students/srr/honest/) for more information).

There will be a supplemental examination which will be worth 100% of your final grade.

**Participation and Attendance:** Attendance and participation are worth **10%** of your final grade. For those of you who don't attend classes regularly, **the weight will be shifted to the final exam automatically.**

**PRELIMINARY COURSE OUTLINE**

**I. Introduction to International Payments**

1. Overview of international trade and its importance
2. Key players in international payments
3. Role of banks and financial institutions
4. Case study: Revolutionizing International Payments: The Impact of AI, Blockchain, and Machine Learning

**II. Balance of Payments Account**

1. Current account, capital account, and financial account

2. Current account sustainability
3. Twin deficit hypothesis and Ricardian equivalence.
4. Case study 1: The current account deficits and the foreign debts of the United States
5. Case study 2: Canada's current account deficits and surplus in the past 10 years.

### **III. Trade Finance**

1. Overview of trade finance
2. Letters of Credit (LCs) and their types
3. Documentary collections and trade credit
4. Trade finance instruments and their application
5. Case study: The transformation of Agrocorp, a global Agri-Commodity trading and processing company.

### **IV. Foreign Exchange Markets and Foreign Exchange Risk Management**

1. The foreign exchange markets (Forex)
2. Exposure to foreign exchange risk
3. Case study: A tale of two dollars (Blue Jays): how to avoid exchange rate risk
4. Forward contracts, options, and swaps
5. Covered interest rate parity vs. Uncovered interest rate parity
6. The purchasing power parity (PPP) and the PPP Puzzle
7. The Big mac index and the world bank's ICP
8. The Balassa-Samuelson Model

### **V. International Payment Methods and Systems**

1. Cash-in-advance (CIA) and open account transactions
2. Documentary credit methods: sight and usance LCs
3. Documentary collection methods: D/P and D/A
4. SWIFT (Society for Worldwide Interbank Financial Telecommunication)
5. Role of FinTech in international payments
6. International banking and regulations (e.g., Basel III)

### **VI. International Monetary system**

7. Gold standard, revisited
8. Bretton Woods system
9. Collapse of the Bretton Woods system
10. International Monetary Fund

### **VII. Speculative Attacks and Balance of Payments Crises**

1. Speculative attacks
2. Balance of payments crisis
3. Online experiment (Currency attack with FEELE lab)
4. Case study: The Balance of Payments Crisis in the Euro Area Periphery

