

McGill University

Department of Economics

Open Economy Macroeconomics (ECON454)

Winter 2021

Instructor Contact Information:

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Regular classes: We will have two types of classes this semester: In-person classes and online classes.

In-person classes schedule and requirements:

On Tuesdays from 10:05am to 11:25am, we will have in-person classes in room **MAASS 112**.

Please follow the in-person activities guidelines published by McGill to attend classes. For example, we must keep social distance and wearing masks required for in door activities by McGill and the government of Quebec. Any violation of the regulations will cause a suspension of the in-person activities. Any confirmed Covid-19 case among the instructor and students will suspend the in-person classes automatically.

All the in-person classes will be recorded and posted on MyCourses and are not mandatory for you to attend. If you are not in Montreal or you don't feel safe to attend or you are not feeling well, please inform the instructor by email no later than 2 hours before the class starts. We will switch an in-person class to a Zoom meeting if there is no demand from any students.

On Thursdays from 10:05am to 11:25am, classes will be offered on-line with a mix of pre-recorded videos and zoom meetings through MyCourses. All Zoom classes will be recorded and posted on MyCourses.

Course Overview: This course is designed to provide 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. This course also provides discussions on various recent policy debates, case studies, and in-class experiments.

Textbook: *International Macroeconomics* by Schmitt-Grohe, Uribe, and Woodford (version 2019 is available on the authors' webpage)

Course Evaluation:

Midterm Examination.....20%
Project (50% oral+50% written) 40%
Final examination40%

Examinations: There will be two exams.

Midterm exam is open book take home exam. You will have 48 hours to complete the exam and the exam is due at 11:25pm Montreal time on **March 18th, 2021. The midterm exam will be released on MyCourses. You must submit your answers on MyCourses no later than the due. No tardy submission will be graded. The midterm exam is optional.**

The final exam will be open book take home exam scheduled by the university during the final exam period.

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

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/ for more information).

In accord with McGill University’s Charter of Students’ Rights, students in this course have the right to submit in English or in French any written work that is to be graded.

Projects: You must work INDEDENDANTLY. In your paper, you will investigate an important topic in international finance covered in this course. You will submit the topic of your choice and a one-page draft of your analysis to me no later than **Feb. 26th, 2021.** The final version of your paper should be submitted no later than April 15th 5pm. **Only the final version will be graded.**

The final version of your term paper should not exceed 10 pages and should be double spaced; single sided with 12-point font. **The project guideline and the grading criteria** will be posted on MyCourses.

The due date for submitting the paper will be at 5:00pm on April 15th, 2021. No exceptions will be made concerning this due date except with the written permission of your department chair.

The oral part of this project requires a 15-20 minutes in-class or Zoom presentation.

Readings: You are encouraged to read the Wall Street Journal and the Financial Times. I will choose several articles from these two journals and we will discuss them in our classes. Other assigned readings will be posted on MyCourses.

COURSE OUTLINE

I. Global Imbalances

1. Balance of payments Accounting
2. The US Current account
3. Imbalances in Merchandise Trade
4. Current account sustainability
5. Case study: NAFTA and the imbalance in trade.

II. A simple theory of Current Account Determination

1. A Small Open Economy
2. Temporary Versus Permanent Output shocks
3. Terms-of-Trade Shocks
4. World Interest Rate Shocks
5. Capital Controls

III. Free Trade, manufacturing jobs, trade war and more

IV. External Adjustment in Small and Large Economies

1. External Adjustment in a small open economy (Canada)
2. External Adjustment in a large open economy (US or China)
3. The Global Saving Glut Hypothesis
4. Case study: Current account imbalances and “Made in the U.S.A”

V. International Capital Market Integration

1. Measuring the degree of capital mobility

VI. Speculative Attacks and Currency Crises

1. Speculative attacks
2. Currency Crises in the 1990s