

ECONOMICS 5333: FOREIGN EXCHANGE MARKETS AND INTERNATIONAL MONETARY INSTITUTIONS

FALL 2003, MW 12:30-1:50, HCB 309

INSTRUCTOR: David VanHoose OFFICE HOURS:
 OFFICE: 339 Hankamer MW 8:15-8:45 & 2:00-2:45; TR 1:30-2:45;
 OFFICE PHONE: 710-6206 and F 8:15-8:45 & 11:00-11:30 or by appoint-
 E-MAIL: David.VanHoose@baylor.edu ment, or when I am in and have time.

TEXT: Joseph Daniels and David VanHoose, *International Monetary and Financial Economics*, ITP/South-Western, 2nd Edition, 2002.

COURSE DESCRIPTION: Three hours. Foreign exchange markets, emphasizing theoretical and empirical issues and their relation to the business environments. Topics include exchange rate regimes, efficiency, forecast measurement and management of foreign exchange risk, forward and futures markets, options, swaps, and multicurrency bonds. Prerequisite(s): Economics 3305 and Finance 3310 or Business 5902.

I. COURSE OVERVIEW AND OBJECTIVES:

The goal of this course is to help students develop a concrete understanding of international monetary and financial economics, which encompass the spot market for foreign exchange, exchange rate arrangements, forward currency markets, foreign currency derivatives, international financial integration, international banking and payment arrangements, central banking, balance-of-payments determination, and basics of open-economy macroeconomic theory and policy.

II. GRADES AND GRADING POLICIES

A. Examinations

1. Administered in a short answer-essay format.
2. "Make-up" policy:
 - a. Midterm exams:
 - 1) There are NO "make-up" midterm exams.
 - 2) There are NO "early" midterm exams.
 - 3) The weight of a missed midterm exam is *automatically* placed on the final exam. If one midterm is missed, the final exam is worth 250 points. If two are missed, the final exam counts 350 points.
 - b. Quizzes: There are no makeup quizzes.
3. Every student must take the final exam. There are NO "early" final exams. "Make-up" finals are given only if the student provides acceptable written documentation of circumstances that prevented the student's presence at the scheduled time.
4. The final exam date and time appears in the schedule of classes and this syllabus, so it is your responsibility to know it. If you miss the final exam simply because you did not know the date and time of the exam, you will earn a score of zero for the exam.

B. Research Projects

1. Each research project will count 50 points, distributed as follows:
 - 10 points: Quality of writing (spelling, grammar, style)
 - 10 points: Quality of research effort.
 - 30 points: Quality of economic analysis.
2. Each research project will address research issues relating to course topics.
3. I shall provide the general topic for each paper, along with background readings. Although your analysis of each research topic should relate most directly to the assigned background readings, you are welcome to draw other resources when conducting your analyses, including (1) course content, including the text and its chapter bibliographies, assigned readings, and lectures; (2) the *Wall Street Journal* and other publications such as (but not limited to) *The Financial Times*, *The Economist*, Federal Reserve and government publications; (3) any other appropriate resources, including materials available on the Internet and a general bibliography that I shall also provide.
4. The research projects must be typed, double-spaced, standard font and character size (12 points).
5. The length of each research project should not exceed 20 pages, including tables, diagrams, and/or charts. Normally it will be difficult to do a good job in less than 12-15 pages, but length is a minor consideration relative to quality.
6. Each research project must be turned in by its deadline (see point 7 and the schedule below). The penalty for failing to meet this requirement is 10 points for each 24-hour period (or fraction thereof, where a weekend or University break counts as one 24-hour period) beyond the 1:50 P.M., time that the research project is due. For example, if the first research project is turned in at 1:51 P.M. on October 9, then if it otherwise would have received a score of 45, it will be awarded 35 points instead. If it is turned in at 1:51 P.M. on October 10, it be awarded 25 points. In light of this penalty, my strong suggestion to you is to try to have your research project completed at *least a day before* the final deadline.
7. Research project due dates:
 - Research project #1: October 8
 - Research project #2: November 5
 - Research project #3: December 3

C. Grading

1. Each student's final grade is based on his/her total points earned on examinations and quizzes, distributed as follows:

Midterm Exam #1	(September 24, in class)	100 Points
Midterm Exam #2	(October 29, in class)	100 Points
Research Projects	(October 8, November 5, December 3)	150 Points
Comprehensive Final Exam	(December 12, 1:30-3:30 PM)	150 Points
Course Total		500 Points

2. Determination of a final course grade is based on the following scale. I do not plan to deviate from this scale.

440 - 500 (88 - 100%)	A	300 - 359 (60 - 71.99%)	C
420 - 439 (84 - 87.99%)	B+	250 - 299 (50 - 59.99%)	D
380 - 419 (76 - 83.99%)	B	0 - 249 (0 - 49.99%)	F
360 - 379 (72 - 75.99%)	C+		

3. Attendance: I take attendance and follow Baylor attendance policies. This means that if you are absent from more than 7 class meetings, you will fail this course. It is every student's obligation to be in class. Class meeting time is the single best opportunity for me to teach you the course material *and* to communicate to you important facts about exams, class assignments, etc. Beginning within one or two class meetings after the first class meeting, a seating chart will be constructed. You will have the opportunity to help determine which seat you are assigned, and you will be required to sit in that seat for the entire semester. (See me, however, if a problem develops.) "Bonus points" will be awarded using the following scale:

<u>Absences</u>	<u>Points Added to Your Total</u>
0 - 1	20
2	7
3 or More	0

Note that these are truly BONUS points: If you fail to earn these bonus points, the point total that you earn based upon your exam performances and the course paper is unaffected. Therefore, for purposes of bonus point tabulation, there are NO excused absences from class. NO EXCEPTIONS, for any reason. Attendance will be taken after class starting time of 12:30. I will take role by marking absences on an overhead projector transparency in full view of all students near the beginning of class. If you arrive late to class, it is your responsibility to see me immediately after that class meeting to correct my attendance listing. This will be your *final chance* to make certain you were not mistakenly counted as absent. After that opportunity, you will have no other way to appeal an absence you feel was incorrectly listed.

4. "Incomplete" Policy:
- A student who misses the final exam will be awarded a temporary grade of incomplete only if a letter is received from a health care provider (or other source I deem acceptable) attesting to an illness or personal or family emergency. In the absence of such proof, the student will be awarded a grade based on his/her point total leading up to the final exam, including the zero earned on the final exam.
 - A student who misses the final exam and has an excused absence must take a make-up final exam as soon as possible after the conclusion of the semester and no later than the deadline specified by University policy.
5. Note: Although my intention is to follow all policies laid out in this syllabus, I reserve the right to make changes in response to unanticipated events.

III. COURSE OUTLINE (Dates subject to some alterations.)

<u>Date</u>	<u>Assignment</u>	<u>Topic</u>
August 25	Attend class Read Chapter 1	Introduction and overview
August 27	Chapter 1	The balance of payments
Sept. 1	Chapter 2	Exchange rates and the spot market for foreign exchange
Sept. 3	Chapters 2-3	Purchasing power parity and exchange rate arrangements
Sept. 8	Chapter 4	Foreign exchange risks and the forward currency market
Sept. 10	Chapter 4	Interest parity conditions
Sept. 15	Chapter 5	Term and risk structures of interest rates
Sept. 17	Chapter 5	International derivative securities
Sept. 22	Chapter 5	Currency futures
Sept. 24	Midterm Exam #1	Chapters 1-5 (in part)
Sept. 29	Chapter 5	Currency options and swaps
Oct. 1	Chapter 6	International financial integration
Oct. 6	Chapter 7	International banking, payments, & central banks
October 8	Research Project #1 Due in Class	
October 8	Chapter 8	Elasticities and the trade balance
October 13	Chapter 8	The Marshall-Lerner condition, the J-curve, and the absorption approach
October 15	Chapter 9	The monetary and portfolio approaches to the balance of payments
Oct. 20-22	Chapter 10	Review of national income accounting, price indexes, and basic macroeconomics
October 27	Chapter 10	The <i>IS</i> and <i>LM</i> schedules
October 29	Midterm Exam #2	Chapters 5-9
Nov. 3	Chapter 10	<i>IS-LM-BP</i> model; external versus internal balance

<u>Date</u>	<u>Assignment</u>	<u>Topic</u>
November 5 Research Project #2 Due in Class		
Nov. 5-10	Chapter 11	Fixed exchange rates and economic performance: small open economies and interdependent nations
Nov. 12-17	Chapter 12	Floating exchange rates and economic performance: small open economies and interdependent nations
Nov. 19	Chapter 13	Aggregate demand and supply in an open economy
Nov. 24	Chapter 13	Policy rules, policy discretion, and central banks
Dec. 1	Chapter 14	International policy coordination
Dec. 3 Research Project #3 Due in Class		
Dec. 3	Chapter 14	Monetary union and target zones
Dec. 8	Chapter 15	The international financial architecture
Dec. 12	1:30-3:30 PM	Final examination: the course