

CARLETON UNIVERSITY
Department of Economics
International Monetary Theory
ECON 5602 F – 2024 Fall

COURSE INFORMATION

Lectures: Wednesdays 11:35-14:25

Office Hours: In person or virtual and by appointment via email (use your Carleton email).

CONTACT INFORMATION

Professor: Raul Razo-Garcia

Office: B-857 Loeb Building

Course Website: The course website will be hosted by **Brightspace**. Brightspace will be used for all the course announcements and email; office hours; assignments; documents; and online submission of the assignments and final exam. Students are responsible for regularly checking the course website to ensure that they are up to date with any announcements and have access to the documents posted.

Course Content Copyright: Classroom teaching and learning activities, including lectures, discussions, presentations, etc., by both instructors and students, are copy protected and remain the intellectual property of their respective author(s). All course materials, including PowerPoint presentations, lecture notes, outlines, videos, assignments, exams, and other materials, are also protected by copyright and remain the intellectual property of their respective author(s). Students registered in the course may take notes and make copies of course materials for their own educational use only. **Students are not permitted to reproduce or distribute lecture videos, lecture notes and any course materials publicly for commercial or non-commercial purposes without express written consent from the copyright holder(s).** If you have questions about fair dealing and your other rights to use works for educational purposes, please contact copyright@carleton.ca.

COURSE DESCRIPTION and LEARNING OBJECTIVES:

This is an advanced and theoretical course in international macroeconomics, international monetary theory, and international finance. The main objective of the course is to develop macroeconomic models for small open economies that can be usefully applied to understand international economic phenomena. We will study concepts such as the current account, the determination of exchange rates, and the effect of fiscal and monetary policies under different exchange rate regimes and currency crises.

Supplementary Textbooks:

- (SU) Martín Uribe and Stephanie Schmitt-Grohé, *Open Macroeconomics*, Princeton University Press, 2017.
- (SUW) Stephanie Schmitt-Grohe, Martin Uribe and Michael Woodford, *International Macroeconomics: A Modern Approach*, Princeton University Press, First Edition (ISBN: 9780691189543). **More info here.**

- (OR) Maurice Obstfeld and Kenneth Rogoff, *Foundations of International Macroeconomics*, MIT Press, 1996.

GRADING POLICY:

- Assignment 1: 15% (Friday October 18 via Brightspace before 11:59pm) tentative
- Assignment 2: 15% (Wednesday December 4 via Brightspace before 11:59pm) tentative
- Paper Presentation: 15% (November 27 and December 4 in person)
- Midterm Examination: 27% (Wednesday October 30 in person)
- Final Examination (take-home): 28% (during the December Exam Period as Scheduled by the University—online)

This % grade will then be converted into the alphabetical grade system using the standard equivalences, as outlined [here](#). **It is important to keep in mind that weights will not be transferred from one activity to another.**

Final Grades: Please note that “Standing in a course is determined by the course instructor subject to the approval of the Faculty Dean. This means that grades submitted by an instructor may be subject to revision. No grades are final until they have been approved by the Dean.”

Satisfactory Performance Criteria: Students must fulfill all of the course requirements, including the final exam, in order to achieve a passing grade (D- or higher).

TEACHING DELIVERY: In-person lectures. If for some reason the Professor cannot deliver the lecture in person, the lecture will be delivered virtually via Zoom. If that’s the case, the Professor will make the announcement at least 1 day in advance of the online lecture. **Since in this Fall semester the reading weeks at Carleton University (October 21-25) and UoO (November 4-8) are scheduled to be in different weeks, the lecture on October 23 for the students of the University of Ottawa will be delivered asynchronously (i.e., a recorded video on Brightspace) and not in person. Similarly, the lecture on November 6 for the students from Carleton University will be delivered asynchronously (i.e., a recorded video on Brightspace) and not in person. The video the Professor will post is the same for both weeks.**

Office Hours Delivery: Office hours will take place via Zoom or in person. Students can request via email an appointment with the Professor. To request such an appointment use your Carleton email address.

ACTIVITIES:

Assignments: The assignments will consist of several questions and problems and must be submitted before **11:59 pm** (Eastern Canada Time) **via Brightspace** on the due date. I recommend to start working on the assignments as soon as they are posted to **Brightspace** (it is very likely that you won’t finish the assignment on time if you start working on it one or two days before the due date). Note that assignments will **NOT** be accepted by email. **Late assignments will NOT be accepted and will receive a grade of ZERO.** Students can submit only ONE

pdf or word file for each assignment. Students may wish to work together on assignment material, **BUT each student MUST write up their own solutions INDEPENDENTLY. Students working in groups cannot submit identical solutions.** In this connection, please be sure to read the following document “**Academic Integrity and Offenses of Conduct.**” For the assignments, the use of generative AI tools (e.g., ChatGPT) is not permitted.

Midterm (in-person): The midterm exam will cover all the material reviewed in class until and including October 16. If you miss the midterm it will be treated in two ways:

- First, to explain your absence you must complete the self-declaration form available on the **Registrar’s Office website**) and submit it to the Professor. If you meet this condition you will have to take a make-up exam before the end of November. You have one week after the exam to submit the form. Needless to say, any make-up examination will not be identical to the original midterm examination.
- Alternatively, absent written explanations, you will receive a zero for the midterm.

Final Exam (Take Home): The final exam will cover the material reviewed from **October 23 to December 4**. The 24-hour take-home final exam is being set as if it was an in-person exam and you are expected to write them as if you were writing in person. That is, **you should not consult/discuss your solutions with other classmates or anyone else. This is an individual activity, so students cannot work in groups.** You will also be required to sign a statement that says what you have uploaded is your own. Application to write a deferred final examination must be made at the Registrar’s Office. In the event that a student writes a deferred examination, the deferred examination will carry the same weight as the final examination in determining the course grade. Needless to say, any deferred examination will not be identical to the original final examination. For the final exam, the use of generative AI tools (e.g., ChatGPT) is not permitted.

Presentations: On November 27 and December 4, the students, in groups or individually, will present a paper. In the third or fourth week of the term, the Professor will assign the papers to each student/group. The student/group will present for about 60 minutes with the requirement that **ALL** the team-members will be responsible for one part of the presentation (each student has to present approximately 60/N minutes where N is the number of students on his/her team). During the presentation the Professor can ask, to any member of the team, a question related to the paper and/or to continue with the presentation. A handout must be submitted at least 24hrs before the presentation. The grade will be assigned individually. **If you do not show up for your presentation on the designated day, you will receive a grade of zero.** The use of generative AI tools to produce assessed content and the script of the presentation is permitted as long as the student disclose what part of the final work/draft is generated by the AI tools and the part created by her/him. No more than 25% of the final work/draft can be generated by the AI tools.

PLAGIARISM, RESOURCES and MENTAL HEALTH, ACADEMIC ACCOMODATIONS

Academic Support: The Centre for Student Academic Support (CSAS) designs, develops, and implements educational programs and services that are available to support all Carleton University students to have successful academic experiences, achieve their goals and improve their learning.

CSAS offers academic assistance with online student success, course content, academic writing and skills development. For more information, visit the CSAS **website**.

Student Mental Health Support: As a University student you may experience a range of mental health challenges that significantly impact your academic success and overall well-being. If you need help, please speak to someone. There are numerous resources available both on- and off-campus to support you. **Here** is a list that may be helpful.

Academic Integrity: Assignments and exams will be compared to check if the answers submitted are too similar. If the answers in two or more documents are found very similar, they will be sent to an authority on campus for a second review (e.g., the Chair of the department or even the Dean's office). For further information on academic integrity at Carleton, click **here**. Carleton's Academic Integrity Policy defines **plagiarism** as "*presenting, whether intentionally or not, the ideas, expression of ideas or work of others as one's own.*" This includes reproducing or paraphrasing portions of someone else's published or unpublished material, regardless of the source, and presenting these as one's own without proper citation or reference to the original source. Examples of sources from which the ideas, expressions of ideas or works of others may be drawn from, and need to be cited, include but are not limited to: books, articles, papers, literary compositions and phrases, performance compositions, chemical compounds, artworks, laboratory reports, research results, calculations and the results of calculations, diagrams, constructions, computer reports, computer code/software, material on the internet and/or conversations.

Examples of plagiarism include, but are not limited to:

- any submission prepared in whole or in part, by someone else;
- using ideas or direct, verbatim quotations, paraphrased material, algorithms, formulae, scientific or mathematical concepts, or ideas without appropriate acknowledgment in any academic assignment;
- using another's data or research findings without appropriate acknowledgement;
- submitting a computer program developed in whole or in part by someone else, with or without modifications, as one's own; and
- failing to acknowledge sources through the use of proper citations when using another's work and/or failing to use quotations marks.

Plagiarism is a serious offence that cannot be resolved directly by the course instructor. The Associate Dean of the Faculty conducts a rigorous investigation, including an interview with the student, when an instructor suspects a piece of work has been plagiarized. Penalties are not trivial. They can include a final grade of "**F**" for the course.

You are responsible for reading and knowing the information about plagiarism, Carleton University resources, and academic accommodations found here.

ACADEMIC ACCOMMODATIONS:

You may need special arrangements to meet your academic obligations during the term. For an accommodation request the processes are as follows:

1. **Pregnancy Obligation:** Please contact your instructor with any requests for academic accommodation during the first two weeks of class, or as soon as possible after the need for accommodation is known to exist. For more details, click [here](#).

2. **Religious Obligation:** Please contact your instructor with any requests for academic accommodation during the first two weeks of class, or as soon as possible after the need for accommodation is known to exist. For more details, click [here](#).

3. **Academic Accommodations for Students with Disabilities:** If you have a documented disability requiring academic accommodations in this course, please contact the Paul Menton Centre for Students with Disabilities (PMC) at 613 – 520 – 6608 or pmc@carleton.ca for a formal evaluation or contact your PMC coordinator to send your instructor your Letter of Accommodation at the beginning of the term. You must also contact the PMC no later than two weeks before the first in-class scheduled test or exam requiring accommodation (if applicable). After requesting accommodation from PMC, meet with your instructor as soon as possible to ensure accommodation arrangements are made. Please check the **PMC website** or [here](#).

4. **Survivors of Sexual Violence:** As a community, Carleton University is committed to maintaining a positive learning, working and living environment where sexual violence will not be tolerated, and is survivors are supported through academic accommodations as per Carleton's Sexual Violence Policy. For more information about the services available at the university and to obtain information about sexual violence and/or support, visit: carleton.ca/sexual-violence-support

5. **Accommodation for Student Activities:** Carleton University recognizes the substantial benefits, both to the individual student and for the university, that result from a student participating in activities beyond the classroom experience. Reasonable accommodation must be provided to students who compete or perform at the national or international level. Please contact your instructor with any requests for academic accommodation during the first two weeks of class, or as soon as possible after the need for accommodation is known to exist: carleton.ca/senate/wp-content/uploads/Accommodation-for-Student-Activities-1.pdf

Re-grading Policy: Any request for regrading exams must be **submitted in writing** within **one week** of that exam first being returned to the class. The request should contain a detailed explanation of why you feel you should receive a higher grade. Please note that I will regrade the entire exam not just the contentious question. As a result, the revised grade may be higher than, lower than or the same as the original grade.

Reading List:

1 Traditional Models of International Monetary Economics

DORNBUSCH, R. (1976): “Expectations and Exchange Rate Dynamics,” *The Journal of Political Economy*, 84.

ENGEL, C., N. C. MARK, AND K. D. WEST (2007): “Exchange Rate Models Are Not as Bad as You Think,” *National Bureau of Economic Research Working Paper Series*, No. 13318.

MUNDELL, R. A. (1961): “A Theory of Optimum Currency Areas,” *The American Economic Review*, 51.

MUNDELL, R. A. (1963): “Capital Mobility and Stabilization Policy under Fixed and Flexible Exchange Rates,” *The Canadian Journal of Economics and Political Science*, 29, 475–485.

ROGOFF, K. S. (2002): “Dornbusch’s Overshooting Model After Twenty-Five Years,” *IMF Working Paper*, pp. 1–41.

Obstfeld-Rogoff, 8.1-8.2, 9.1-9.4.

2 (New) Open Economy Macroeconomics

CHARI, V. V., P. J. KEHOE, AND E. R. MCGRATTAN (2002): “Can Sticky Price Models Generate Volatile and Persistent Real Exchange Rates?,” *The Review of Economic Studies*, 69.

CHOUDHRI, E. U., H. FARUQEE, AND D. S. HAKURA (2005): “Explaining the exchange rate pass-through in different prices,” *Journal of International Economics*, 65(2), 349–374.

CORSETTI, G., L. DEDOLA, AND S. LEDUC (2010): “Optimal Monetary Policy in Open Economies,” *Handbook of Monetary Economics*, Volume III, 861–933.

CORSETTI, G. AND P. PESENTI (2008): “The Simple Geometry of Transmission and Stabilization in Closed and Open Economies,” *NBER International Seminar on Macroeconomics*, National Bureau of Economic Research, Inc., 2007, 65-116.

DEVEREUX, M. B., AND C. ENGEL (2003): “Monetary Policy in the Open Economy Revisited: Price Setting and Exchange-Rate Flexibility,” *Review of Economic Studies*, 70, 765–783.

DUARTE, M., AND M. OBSTFELD (2007): “Monetary Policy in the Open Economy Revisited: The Case for Exchange Rate Flexibility Restored,” manuscript, University of Toronto and UC Berkeley.

ENGEL, C. (2002): “Expenditure Switching and Exchange-Rate Policy,” *NBER Macroeconomics Annual*, 17, 231–272.

GHIRONI, F., AND M. J. MELITZ (2005): “International Trade and Macroeconomic Dynamics with Heterogeneous Firms*,” *Quarterly Journal of Economics*, 120, 865–915.

LANE, P. R. (2001): “The new open economy macroeconomics: a survey,” *Journal of International Economics*, 54(2), 235–266.

OBSTFELD, M., AND K. ROGOFF (1995): “Exchange Rate Dynamics Redux,” *Journal of Political Economy*, 103, 624–660.

——— (2000): “New Directions for Stochastic Open Economy Models,” *Journal of International Economics*, 50, 117–53.

Obstfeld-Rogoff, Ch 10.

Uribe-Stephanie Schmitt-Grohé, Chapters 2, 3, 4, 5, 8, 9 and 10.

3 Currency Crises

FLOOD, R. P., AND P. M. GARBER (1984): “Collapsing exchange-rate regimes : Some linear examples,” *Journal of International Economics*, 17(1-2), 1–13.

JEANNE, O. (2000): “Currency Crises: A Perspective on Recent Theoretical Developments,” *Princeton Special Papers in International Economics*, 20.

KAMINSKY, G. L. (1998): “Currency and banking crises: the early warnings of distress,” International Finance Discussion Papers 629, Board of Governors of the Federal Reserve System (U.S.).

KRUGMAN, P. (1979): “A Model of Balance-of-Payments Crises,” *Journal of Money, Credit and Banking*, 11(3), 311–325.

MORRIS, S., AND H. S. SHIN (1998): “Unique Equilibrium in a Model of Self-Fulfilling Currency Attacks,” *American Economic Review*, 88(3), 587–97.

OBSTFELD, M. (1996): “Models of currency crises with self-fulfilling features,” *European Economic Review*, 40(3-5), 1037–1047.

OBSTFELD, M., AND K. ROGOFF (1995): “The Mirage of Fixed Exchange Rates,” *The Journal of Economic Perspectives*, 9.

Obstfeld-Rogoff, 8.4.

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