



INSTITUTE
OF ECONOMIC STUDIES
Faculty of Social Sciences
Charles University

International Finance

Spring Term

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Course Code: JEB050

Course Description:

This course covers, with a focus on both theory and empirics, basic topics in international finance (exchange rate economics & international macroeconomics) at undergraduate level. The course does not deal with international business methods (logistics, use of letters of credits etc.), instead it focuses on theory and policy analysis and attempts to provide some insight into questions such as the following ones:

- Why determines exchange rates?
- How do national economic policies influence external equilibrium of an economy?
- What effect have different foreign exchange policies and foreign exchange arrangements have on economic stability and economic growth?
- What causes balance of payments crises/international financial crises?
- When it is optimal for several countries to share one currency?
- How many global currencies do we really need?

Course Objectives:

The objective of this course is to offer basic guidelines on how finances operate in the international scene.

At the end of the course its students should:

- (i) Understand the logic of balance of payments accounting and its relationships to the national accounting.
- (ii) Be able to find and work with usual data on exchange rates and balance of payments.
- (iii) Understand the logic of basic macroeconomic models of exchange rate determination.
- (iv) Understand the main trends in development of international monetary systems and exchange rate regimes.
- (v) Be able to use basic macroeconomic models which can elucidate relationships between national economic policies, exchange rates and external (dis)equilibria of individual economies.

Structure:

There will be only lectures during this course. Even though this subject has no official time scheduled for seminars, we will practice an interactive communication with enrolled students. Please expect to work on three practical exercises based on the data analysis.

Instructions:

Please contact the IEF staff to learn more about the instructions for this course, including meeting times and how to register.

Please print the most recent file with handouts for your own use before the lecture.

Academic Honesty:

Although the students are encouraged to exchange ideas in and outside of class, everybody is required to submit their own work. That means that copying the work of other students or published materials is strictly prohibited, as mentioned above.

Grading System:

Continuous work during the course, active and honest participation in the teamwork, and successful participation in both midterm and final exam are expected from all participants. There will be occasional assignments and a longer paper will have to be worked-out by the teams at the end of the semester.

The contribution of all the components to the final grade is as follows:

Midterm exam:	15%
Final exam:	40%
(Team) assignments:	20%
(Team) paper:	25%

Every of the components of the grade will be expressed in 0-100 scale, then a weighted average will be calculated with the use of the aforementioned weights.

Grading scale (based on the weighted average score):

A ... 90 - 100%

B ... 78-89%

C ... 66 - 77%

F ... less than 65%

The final exams (compulsory for all enrolled) will be taking place in May 2016. At least three options will be provided, every student can try the exam up to three times. The exam will consist of a written test (sample questions will be provided on Moodle website).

The test will include a quiz (multiple choice questions) + solution of problem sets, mainly by means of models and graphs. The creative thinking and understanding of the problem (e.g. described by a model), will be graded higher than a mere memorization of facts or formulas.

All papers/essays worked out in this course (by teams or individuals) must be original and subject to specific rules. Plagiarism will be severely punished.

Course Content:

1. Introduction to international finance. Balance of payments structure and accounting. Sources of data on international transactions, exchange rates and financial markets.
2. National income accounting for open economy. Foreign exchange market: features, introduction to asset approach and covered/uncovered interest parity and forward exchange.
3. Introduction to monetary economics: money creation, national bank's intervention and sterilisation, adjustment processes. Interaction between foreign and domestic role of money under golden standard, currency boards and fixed exchange rates.
4. Nominal and real exchange rates, the PPP theories of (real) exchange rate; concepts of equilibrium real exchange rates, competitiveness
5. Introduction to the IS-LM-BP model Domestic income and the principles of multiplier in closed and open economies
6. Fixed and floating exchange rates in the IS-LM-BP model. **Midterm quiz** (35 minutes)
7. Swan model of policy options. Introduction to the AA-DD model
8. AA-DD model and its application.
9. Monetary approach to balance of payments.
10. Monetary exchange rate models: exchange rates and interest rates.
11. Introduction to portfolio balance approach to exchange rate determination. Forex forecasting (May 2)
12. Optimum currency area and international currency systems.
13. Balance of payments crises.

Reading Materials:

Main textbook: P. Krugman, M. Obstfeld, M. J. Melitz: International Trade, Theory & Policy. 9th edition or newer. Addison-Wesley (Pearson), 2012.

Alternative texts:

M.D. Levi: International Finance, 5th edition. Routledge, 2009

P. Wang: The Economics of Foreign Exchange and Global Finance. Springer-Verlag Berlin, 2009

T. Pugel.: Int. Economics, 2009, part I & II., pp. 1-378 (available in the IES library)

D. Appleyard, A. Field, S. Cobb: International Economics, McGraw-Hill/Irwin, any recent edition

Other older texts may also be useable for many of the topics, please contact the instructor if you have questions about any of them.

