

Department of Economics

University of Maryland

Economics 442
Globalization and Capital Markets
An Wang – Spring 2016

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Office: TYD 4118L

Lectures: Monday and Wednesday, 5:00 pm - 6:15 pm, TYD 0101

Office hours: Tuesday 2:00 pm – 4:00 pm

Course website and materials: all on ELMS

Prerequisites: The course has a heavy focus on theoretical models and requires rigorous mathematical skills. Both ECON 325 and ECON 326 are required. In addition, ECON 321 or STAT 400 are required. Students without prerequisites need to seek approvals from the instructor.

This course is designed for economics majors only.

Course description:

This course introduces the fundamental small-open-economy (SOE) framework to explain the causes and consequences of international capital flows. The SOE framework will be used to analyze current account determination, consumption and investment dynamics, exchange rate determination, and monetary policies in small open economies. This framework is also used to study speculative attacks on currencies, sudden reversals of capital inflows, and be further applied to understand currency crisis, banking crisis and sovereign crisis. After the theoretical part, the course introduces the historical development of global capital market. And finally, students are required to present an academic paper in group.

Required textbook:

Lecture notes by Stephanie Schmitt-Grohe and Martin Uribe.
Available on ELMS.

Recommended textbooks:

Krugman, Obstfeld, and Melitz, *International Economics: Theory and Policy*, 10th edition.
Eichengreen, *Globalizing Capital: A history of the International Monetary System*, 2nd edition.

Course requirements:

Class preparation: Required readings for each class is listed in the class schedule.

Class participation: Class participation is required, as it is part of your final grade.

Problem sets: There will be 5 problem sets throughout the semester. Work in group is allowed. No late assignments will be accepted.

Presentations: There will be 6 group presentations at the end of the semester. Each presentation involves 6 students presenting a research paper and providing comments and discussion. Presentation will be graded.

Mid-term: The mid-term is tentatively scheduled on **Monday, March 7th**, during regular class time.
Final exam: Monday, May 16, 4:00-6:00pm

Grading:

Attendance (10%), problem sets (20%), presentation (10%), mid-term (30%), final exam (30%).

Course topics:

1. Balance of payment

- 1.1 Balance of payment accounting
- 1.2 The current account
- 1.3 The net international investment position

2. A theory of current account determination

- 2.1 A two-period endowment economy
- 2.2 Temporary and permanent output shocks
- 2.3 Terms-of-trade shocks

3. A two-period production model

- 3.1 A production economy
- 3.2 Current account adjustment and investment dynamics

4. Exchange rates

- 4.1 Models with non-tradable goods
- 4.2 A small open economy with money
- 4.3 Exchange rate regimes
- 4.4. Speculative attack on currency

5. International capital flows

- 5.1 Global capital market integration and capital mobility
- 5.2 Global imbalance

6. History of international financial structure

- 6.1 Gold standard
- 6.2 Interwar period and the Bretton Woods system
- 6.3 After Bretton Woods

7. Financial crises

- 7.1 Currency crisis
- 7.2 Banking crisis
- 7.3 Eurozone crisis

Exam policy:

All students are required to take both the mid-term and the final exam. Any absence from an exam must be due to a reason that complies with University policies. The four valid excuses according to University policy are medical conditions, religious observances, participation in University events at the request of University authorities, and compelling circumstances beyond your control. Religious observances and participation in University events should be appropriately documented **well in advance**. Medical conditions and compelling circumstances beyond your control must be adequately documented as soon as possible consistent with the reason. If you miss the mid-term exam and if your documented absence complies with University policy, you will be given a make-up exam. Issues on the timing of exams should be directed to the instructor.

Exam re-grade policy:

If, after going over your exam and the exam solutions, you believe some of your solutions were more correct than originally judged to be, you may submit, **in writing**, an exam re-grade request. Your re-grade request must specify which solutions(s) you believe were not graded appropriately and a **substantive explanation** for why you believe your solutions are more correct than originally judged. Your entire exam is subject to re-grade. **Exam re-grade requests are due no later than two weeks (14 calendar days) after exams are returned.** This deadline applies even if you are not present in class the day graded exams are returned. It is your responsibility to pick up your graded exams in a timely manner.

Accommodations:

Students who require special accommodations for exams must get in touch with the instructor within the first three weeks of class.

Academic Integrity:

The University of Maryland, College Park has a nationally recognized Code of Academic Integrity, administered by the Student Honor Council. This Code sets standards applicable to all undergraduate students, and you are responsible for upholding these standards as you complete assignments and take exams in this course.

Please make yourself aware of the consequences of cheating, fabrication, and plagiarism. For more information see www.studenthonorcouncil.umd.edu.

Copyrights:

Course materials are copyrighted. Hence, selling or distributing copies or modified copies of instructors' course materials or assisting another person or entity in selling or distributing those materials may be considered in violation of the University Code of Student Conduct, Part 9(k).

IF SOMETHING IS NOT CLEAR, ASK ABOUT IT BEFORE, NOT AFTER.