

COURSE CONTENT

Course Coordinator	Chia Wai Mun
Course Code	HE4003
Course Title	Advanced International Finance
Pre-requisites	HE2002 Intermediate Macroeconomics/ HE9092 Economic Theory/ HE5092 Economic Theory
No of AUs	4
Contact Hours	52 hours (2-hour Lecture and 2-hour tutorial per week)

Course Aims

The aim of the course is to develop a coherent modern analytical framework for thinking about all of the fundamental problem in international finance (also known as international macroeconomics or open-economy macroeconomics). The course deals with many questions that are central to today's policy world such as current accounts, government budget deficits, speculative attacks and the implications of the expanding global markets for foreign assets.

Intended Learning Outcomes (ILO)

By the end of this course, you (as a student) would be able to:

1. Determine the identity of a country's net export outflows and its net capital outflows,
2. Distinguish between the trade balance and the current account balance,
3. Differentiate between gross domestic product and national income,
4. Make predictions of the trade balance and the current account balance on optimal consumer and firm behavior as well as government interventions in simplified two-period models, and
5. Use a fundamental current account equation to state predictions and relate the equation to empirical evidence on open-economy macroeconomics.

Course Content

The course content 12 weeks of instruction. The first 7 lectures gradually lay the foundations of open-economy macroeconomics, progressing from households in an endowment economy to households and firms in a production economy. The course covers core theory in the field of international finance and open economy macroeconomics for small open economies except Lecture 9 where a two-country large open economy model is introduced. A more detailed list of topics is outlined below.

Assessment (includes both continuous and summative assessment)

1. Continuous Assessment	:	50%
2. Final Examination	:	50%
Total	:	<u>100%</u>

Reading and References

There will be no official textbook for this class. We will draw some basic materials for parts of the course from the online textbook: International Macroeconomics by three professors Stephanie Schmitt-Grohe, Martin Uribe and Michael Woodford (SUW), Chapters 1,2,3,5,6,7,9 and 14. which is available for download at <http://www.columbia.edu/~mu2166/UIM/suw.pdf>. Additional materials for the class will be derived from class notes.

Course Instructors

Instructor	Office Location	Email
Chia Wai Mun	SHHK 04-66	aswmchia@ntu.edu.sg

Planned Weekly Schedule

Date	Topics	Course LO	Readings/ Activities
Week 1	Lecture 1 Introduction	1-5	Notes from NTULearn
Week 2	Lecture 2 Global Imbalances 2.1 Balance-of-payment accounting 2.2 Trade balances and current account balances across countries 2.3 The current account and the net international investment position 2.4 Valuation changes and the net international investment position 2.5 Who lends and who borrows around the world? Discussion on Problem Set 1	1-5	SUW Chapter 1
Week 3	Lecture 3 Current Account Sustainability 3.1 Can a country run a perpetual trade balance deficit? 3.2 Can a country run a perpetual current account deficit? 3.3 Savings, investment and the current account Discussion on Problem Set 2	1-5	SUW Chapter 2
Week 4	Lecture 4 A Theory of Current Account Determination	1-5	SUW Chapter 3

	4.1 A small open economy 4.2 Temporary vs permanent output shocks 4.3 World output shocks 4.4 World interest rate shocks 4.5 Capital controls Discussion on Problem Set 3		
Week 5	Lecture 5 Current Account Determination in a Production Economy I 5.1 The investment decision of firms 5.2 The investment schedule 5.3 The consumption decision of households 5.4 The saving schedule Discussion on Problem Set 4	1-5	SUW Chapter 5
Week 6	Lecture 6 Current Account Determination in a Production Economy II 6.1 The current account schedule 6.2 Equilibrium in the production economy Discussion on Problem Set 5	1-5	SUW Chapter 5
Week 7	Lecture 7 External Adjustment in Small Open Economies 7.1 The current account schedule 7.2 External adjustment in a small open economy 7.3 Interest rate shocks 7.4 Temporary output shocks 7.5 An investment surge 7.6 Country risk premia Discussion on Problem Set 6	1-5	SUW Chapter 5
Week 8	Lecture 8 Uncertainty and the Current Account 8.1 The great moderation 8.2 A model with uncertainty Discussion on Problem Set 7	1-5	SUW Chapter 6
Week 9	Lecture 9 External Adjustment in Large Open Economies 9.1 The global saving glut hypothesis 9.2 Optimal capital controls in a two-country model Discussion on Problem Set 8	1-5	SUW Chapter 7
Week 10	Lecture 10 Twin Deficits: Fiscal Deficits and Current Account Imbalances I 10.1 Twin deficits 10.2 The government sector in the open economy	1-5	SUW Chapter 14

	Discussion on Problem Set 9		
Week 11	Lecture 11 Twin Deficits: Fiscal Deficits and Current Account Imbalances II 11.1 Ricardian equivalence 11.2 Government spending and current account deficits 11.3 Failure of Ricardian equivalence Discussion on Problem Set 10	1-5	SUW Chapter 14
Week 12	Lecture 12 Determinants of the Real Exchange Rate 12.1 The law of one price 12.2 Purchasing power parity 12.3 Nontradable goods and deviations from absolute PPP 12.4 Productivity differentials and real exchange rates 12.5 Trade barriers and real exchange rates 12.6 Microfoundations of price indices Discussion on Problem Set 11	1-5	SUW Chapter 9
Week 13	Discussion on Problem Set 12	1-5	-