

International Finance – Module I, Fall 2014

Peking University HSBC Business School

General Information

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Office hours: 5PM – 6PM Tuesday & 9AM – 10AM Friday, or by appointment

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Teaching Assistants: TBA

Class Time and Location: 1:30PM – 3:20PM, Tuesday & Friday @403 PHBS

Course Description

Outline: This is an elective class open to graduate students in Master Programs in Economics, Finance, and Management. The purpose of the class is twofold. On the one hand, we broadly survey academic literature on various issues in international finance, and learn how theoretical models are used to explain (or more interestingly at times, weren't able to explain) stylized empirical facts. On the other hand, each student will explore one specific topic of interest, learn broadly about relevant background facts, and identify possible future research by delving deeply into existing literature.

Prerequisites: knowledge of intermediate level Macroeconomics & Econometrics (To give some solid examples, textbooks such as “Intermediate Macroeconomics” by Mankiw and “Introductory Econometrics” by Wooldridge are what I have in mind.)

Class Materials:

Required text:

None. Lecture notes and supplemental materials will be provided to students, either by in-class handouts or by email. Check also the reading lists of papers.

Recommended References:

- Obstfeld & Rogoff, “*Foundations of International Economics*”
- Nelson Mark, “*International Macroeconomics and Finance: Theory and Empirical Methods*”
- Krugman, Obstfeld, and Melitz, “*International Economics – Theory & Policy*”

Course Works and Grading

Final grade will be determined according to the following schedule.

| Component | Weight |
|----------------------|--------|
| Homework assignments | 30% |
| Project: | 60% |

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|-----------------------|-----|
| 15% Background Facts | |
| 20% literature review | |
| 10% Presentation | |
| 15% Proposal | |
| Class participation | 10% |

Homework: There will be 3 homework assignments. Students are expected to complete these homework assignments independently.

Project: The project has two parts: a group report and an individual proposal. Each group selects one specific topic, and completes a report that consists of a survey of relevant facts and a review of previous academic literature. Students are expected to present the knowledge acquired in a coherent and organized manner. All members of a group receive the same grade on the group report. The grade is then adjusted using outcome of an intragroup peer evaluation. However, each student should come up with an individual proposal for future research, based on one or two papers in the literature surveyed. Check the project guidelines for detailed requirements.

Participation: Class attendance is expected. Students who miss class beyond reasonable frequency will automatically lose the class participation grade. In-class discussion and participation are strongly encouraged, and I reserve the right to make minor upward adjustments to your final grade using participation performance.

Class Schedule

| <i>Time</i> | <i>Class Coverage</i> |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Week 1 | Course introduction A brief history of the international monetary system |
| Weeks 2 - 3 | Balance of payment account Models of current account Global imbalances before and after the 2008 financial crisis |
| Weeks 4 - 5 | Real & nominal exchange rate Models of exchange rate determination Macroeconomic model of international transmission |
| Week 6 - 7 | Special topics*: Exchange rate regimes and capital control International key currency Currency crises and financial crises Economic and monetary unions |
| Weeks 8 - 9 | Students' presentations |

* Tentative and subject to change

Important Deadlines

September 30th by the end of class: Preliminary facts of group report due

October 24th by the end of class: Group report due
November 7th by the end of class: Individual proposals due

Project Guidelines

The project will test students' ability to select a topic of interest, learn widely of related facts and previous researches, and think deeply and critically about existing literature. This is a class offered to graduate students. Students are expected to demonstrate these qualities by identifying possible ways to extend or mend the existing literature. The final report should resemble a proposal of master thesis.

The project contains two parts: background facts and literature review, and will be communicated in two ways: presentation and writing.

Choose a topic: you can select any topic in international finance according to your interest. In principle you can also select a topic in international trade, if that is what your hearts really desire, but you must consult me first in that case. The topic should not be too broad. For example, "the behavior of exchange rate" would be too large and vague. Topics such as "the long run effectiveness of nominal exchange rate control" or "the role of capital control in avoiding financial crisis for developing countries" are likely to give better guidance regarding where to look. It is a good idea to start with a specific question. Do not worry if you think the initial topic is too small. It helps to focus your attention and effort, and once you have a deep understanding of the issue, it is always easy, and natural, to extend to related questions.

Background facts: These are the facts that are relevant for your topic. For example, if you intend to examine the effectiveness of exchange rate control, this section can examine past experiences of several representative countries. It is critical that you obtain *first-hand information* for this section. Please do not simply restate another researcher's observation, or copy a graph or a table from an earlier paper. Instead I expect you to obtain, play with, and present the data, even if in some case this is an exact replication of an earlier work. This is important because in existing papers, an author presents facts in a way that is most supportive of his or her later points. You will likely import another person's opinion if you take his graph as the "fact". Also it is helpful that you have the data at hand, because it makes it easy for you to explore patterns or check a simple idea. When submitting your report, I expect you to submit data together with the essay. The background facts section will be judged based on relevance, accuracy, coherence, and organization.

Literature review: Each student should read at least three papers very carefully. Group members should communicate with each other and supplement each other's knowledge on the topic, and eventually come up with a coherent map of the current state of knowledge on the topic. It is essential that the final literature review is well synthesized, instead of being a list of summaries. Guidance on how to write a literature review will be provided in a separate file.

Proposal: This is the *individual* part of the project. Each student should propose one possible future research by think critically about the previous literature surveyed. When reading the papers, think about

whether the paper takes into account all important facts, and whether overlooking a fact could lead to biased conclusion. Think about the limitation of the current research and how additional steps can be taken to improve it. Extending a paper is a possible way to go. Reconciling two papers that differ in opinions or findings could also yield fruitful new idea.

This simple proposal is intended to serve as a first step towards a full-scale thesis. It should be detailed and specific. The steps been proposed must be executable. That is to say, another person with necessary knowledge should be able to carry out the analysis proposed. Data availability check is not required for this class project, but it must be reasonable that the data you propose to use exists.

It is highly encouraged that you discuss your idea with your group members. In practice, it is almost never a good idea to do research in complete isolation. The class project is designed to facilitate exchange of ideas. Likely your idea will sprout from the several papers you read most carefully, and your group members know about other papers regarding the topic. By sharing your ideas with each other, each will get new or better ideas.

Appendix: Examples of project topics

- RMB exchange rate misalignment estimation
- The financial crisis and global imbalances
- The development of currency union
- Relationship between exchange rate regime and current account
- Recent advances in currency crises literature
- RMB internationalization: what are the benefits and costs?