

Course Title	International Finance
Course Code	ECO-462
Pre-Requisite	Eco-103: Principles of Microeconomics Eco-113: Principles of Macroeconomics
Degree Program (BS / MS / PhD)	BS

Course Objectives

This course aims to:

- 1) introduce basic concepts of international macroeconomics such as the national accounts, balance of payments and foreign exchange rates, and market arbitrage conditions.
- 2) analyze the impact of opening the economy on the alternative macroeconomic policies available.
- 3) analyze the main factors that determine exchange rates between national and foreign currencies.
- 4) assess the benefits and drawbacks of fixed and floating exchange rates, current account imbalances from an inter-temporal perspective, and how world macroeconomic imbalances drove the 2008/09 international financial crisis.
- 5) developing basic foundations that are fundamental in understanding the context in which firms and governments work.

Learning Outcomes

By the end of the course, students will be able to:

1. demonstrate knowledge and understanding of basic theoretical concepts such as exchange rates, interest rates and capital movements in an international setting.
2. synthesize and critically compare different economic analyses of issues relating to international finance and policy formation.
3. critically assess and examine the main debates on international finance problems.
4. understand the implications of capital flows for the international transmission of economic shocks.

5. identify, analyze, and understand macroeconomic policy coordination within a global context.

Contents

This course covers selected topics in international macroeconomics and finance. The course starts with the exploration of the major sources of data on international macroeconomics, and the main stylized facts contained in this data. Then the course will apply economic theory to the macroeconomic problems and policies of open economies. The main economic linkages between countries of the world are through the trade balance and capital movements. The course therefore covers an extensive discussion of how these relationships are determined. In this context, exchange rate and the workings of the forex market are at the centre stage. The interdependencies in the world economy and the transmission of shocks between countries will be studied. A central policy issue has been the choice between fixed and flexible exchange rates, in this context different aspect of monetary and fiscal policies will be examined. At the end of each main topic empirics related to the topic will be discussed in detail.

Week	Topic
1	International Finance Issues in Pakistan
2	Basic Concepts in International Finance
3	National Income Accounting in the Open Economy (and empirics)
4	Balance of Payments Accounts (and empirics)
5	Balance of Payments Imbalances (and empirics)
6	Demand for Foreign Currency Assets and Equilibrium in Foreign Exchange Market
7	Interest Rates, Expectations, and Foreign Exchange Market Equilibrium
8	Money Supply and the Exchange Rate in the Short Run
9	Mid-term
10	Money, the Price Level, and Exchange Rate in the Long Run, and Inflation and Exchange Rate Dynamics

11	A Long-Run Exchange Rate Model based on Purchasing Power Parity Theory (and empirics)
12	A General Model of Long-Run Exchange Rates, International Interest Rate Differences and the Real Exchange Rate, Real Interest Parity
13	Determinants of Aggregate Demand in an Open Economy, Output Determination in the Short-Run
14	Short-Run Equilibrium for an Open Economy, Shifts in Monetary and Fiscal Policy, Macroeconomic Policies, and the Current Account
15	Mundell-Fleming Model
16	Sterilization of Foreign Exchange Intervention, The Balance of Payments Crises and Capital Flight, The State of Exchange Rate in Pakistan
17	Buffer Week
18	Final Examination

Readings List (including Books, Journals, Papers Articles, & Websites whatever is applicable)

- 1) Paul Krugman, Maurice Obstfeld, and Marc Melitz. International Economics: Theory and Policy. New York: Pearson (Latest Edition).
- 2) Paul Krugman, Maurice Obstfeld, and Marc Melitz. International Finance: Theory and Policy. New York: Pearson (11th Edition).
- 3) Zafar Mahmood (2013). Reverse Capital Flight to Pakistan: Analysis of Evidence. *The Pakistan Development Review*, 52(1): 1-15.