**Syllabus – Spring 2024**

University of Connecticut

Excluding materials for purchase, syllabus information may be subject to change. The most up-to-date syllabus is located within the course in HuskyCT.

Course Title: International Finance (ECON 3422)

Credits: 3

Format: In class

Prerequisite: ECON 2202

Professor: Dr. Paul Tomolonis

E-mail: [paul.tomolonis@uconn.edu](mailto:paul.tomolonis@uconn.edu)

Office Hours: By appointment, please email anytime, **available before & after class for all**

Classroom:

**Optional Materials**

[*https://saylordotorg.github.io/text\_international-finance-theory-and-policy/*](https://saylordotorg.github.io/text_international-finance-theory-and-policy/) *(open source)*

*International Finance 5th* Edition, Maurice Levi ISBN: 9780415774598

**For Macro Theory Review Purposes:**

*Macroeconomics Theories and Policies,* 9th Edition, Richard Froyen ISBN: 978-0-13-600155-3

*Macroeconomics,* 4th Edition, Stephen Williamson ISBN: 978-0-13-136873-6

*Macroeconomics: Policy and Practice* Frederic Mishkin ISBN: 978-0-32-143633-7

*Additional course readings and media are available within HuskyCT, through either an Internet link or Library Resources*

**Course Description**

This course is a study and discussion of the following broad topics: Payments and financing of international trade, foreign exchange markets, the balance of payments, capital flows, and international monetary arrangements.

**Course Objectives**

By the end of the semester, you should be able to:

1. Analyze the effect of the terms of trade and other macroeconomic conditions on international monetary flows through FX markets and their effect on relative prices.
2. Apply the framework of macroeconomic (e.g. balance of payments) and financial theories (e.g. arbitrage) developed in class to current or hypothetical international changes.
3. Evaluate FX hedging strategies for both investments and supply chains.

**Course Outline**

# ECON 3422 Topical Schedule (subject to change)

*Note: material not covered in lecture is the students’ responsibility*

**Topic 1:**

Introduction to International Finance:

***What is finance?***

***Why allow for international flows?***

***Review of Macro-economics***

***Output (real GDP), Inflation, Unemployment***

***Business cycle***

***Expenditure model: Y = C + I + G + X - M***

***Policy response: fiscal & monetary***

***Growth, productivity, and risk***

***Interest Rates as prices***

***Welfare implications***

* [**Chapter 1: Introductory Finance Issues: Current Patterns, Past History, and International Institutions**](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s04-introductory-finance-issues-cu.html)
  + [The International Economy and International Economics](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s04-01-the-international-economy-and-.html)
  + [GDP, Unemployment, Inflation, and Government Budget Balances](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s04-02-gdp-unemployment-inflation-and.html)
  + [Exchange Rate Regimes, Trade Balances, and Investment Positions](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s04-03-exchange-rate-regimes-trade-ba.html)
  + [Business Cycles: Economic Ups and Downs](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s04-04-business-cycles-economic-ups-a.html)

**Topic 2:**

***Who are the financial intermediaries?***

***Public & Private intermediation***

***Diversification & Pooling***

***Yield curve (maturity transformation)***

***Finance: savings, investment, operational risks, productivity, cyclicality, & return***

***Cost of investment (cost of capital): to firms and society***

***Reinvestment***

***Domestic investment by foreigners (DI)***

***Foreign investment (FI)***

***Supply and Demand View of Exchange Rates: currency pairs***

***Imports (M), exports (X), and exchange rates (FX)***

***Factors affecting exchange rates: supply & demand one currency for another***

***Demand for one is supply of the other and vice versa***

***This changes the FX rate (the price of one in terms of the other)***

***The stability of exchange rates***

***Depends on changes in supply and demand across currency pair***

***Driven by changes in M, X, DI, FI***

***Asset Based Theory of Exchange Rates: DI, FI, portfolio theory***

***Balance of payments:***

***(CA) = Current Account = X-M***

***(FA) = Financial Account = DI-FI***

***Re-equilibration of FX rates pushes BOP = ΔCA + ΔFA towards 0 (balance)***

* [**Chapter 2: National Income and the Balance of Payments Accounts**](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s05-national-income-and-the-balanc.html)
  + [National Income and Product Accounts](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s05-01-national-income-and-product-ac.html)
  + [National Income or Product Identity](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s05-02-national-income-or-product-ide.html)
  + [U.S. National Income Statistics (2007–2008)](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s05-03-u-s-national-income-statistics.html)
  + [Balance of Payments Accounts: Definitions](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s05-04-balance-of-payments-accounts-d.html)
  + [Recording Transactions on the Balance of Payments](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s05-05-recording-transactions-on-the-.html)
  + [U.S. Balance of Payments Statistics (2008)](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s05-06-u-s-balance-of-payments-statis.html)
  + [The Twin-Deficit Identity](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s05-07-the-twin-deficit-identity.html)
  + [International Investment Position](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s05-08-international-investment-posit.html)

**Topic 3:**

***Loanable funds & bond markets***

***Opposite sides of the same coin***

***Cyclical supply & demand***

***Relative prices***

***The cost of foreign transactions in the domestic currency (DC), & vice versa***

***The terms of trade (price) includes the FX rate as a step***

***Arbitrage opportunities across currency pairs***

***Current Account***

***Financial Account***

***Supply and demand affect price (FX): a four-corners approach***

***Monetary policy & risk adjusted returns***

***Remove idiosyncratic risks for generic returns***

***Risk spreads are informative and tradeable***

***Supply and demand in home & foreign markets (X, M, DI, FI)***

***Drive FX changes & re-equilibration***

***Result from FX changes***

***BOP in the long-run***

* [**Chapter 3: The Whole Truth about Trade Imbalances**](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s06-the-whole-truth-about-trade-im.html)
  + [Overview of Trade Imbalances](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s06-01-overview-of-trade-imbalances.html)
  + [Trade Imbalances and Jobs](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s06-02-trade-imbalances-and-jobs.html)
  + [The National Welfare Effects of Trade Imbalances](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s06-03-the-national-welfare-effects-o.html)
  + [Some Further Complications](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s06-04-some-further-complications.html)
  + [How to Evaluate Trade Imbalances](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s06-05-how-to-evaluate-trade-imbalanc.html)

**Topic 4:**

***Macro, Monetary policy, and FX affect: (X, M, DI, FI) 🡪 cross effects***

***Changes underlying goods and financial markets supply, demand, price***

***Monetary policy, interest rates as price 🡪 supply & demand***

***Bond market cf. loanable funds,***

***Effect on macro variable (GDP, inflation, U)***

***FX risks***

***Transaction (including investment)***

***Decreasing Revenue (lower profit)***

***Increasing Costs (lower profit)***

***Return Trip (investment only 🡪 lower overall return)***

***Translation risk (reporting or “paper” only***

***Multinationals***

***Foreign sourced Profits***

* [**Chapter 4: Foreign Exchange Markets and Rates of Return**](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s07-foreign-exchange-markets-and-r.html)
  + [The Forex: Participants and Objectives](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s07-01-the-forex-participants-and-obj.html)
  + [Exchange Rate: Definitions](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s07-02-exchange-rate-definitions.html)
  + [Calculating Rate of Returns on International Investments](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s07-03-calculating-rate-of-returns-on.html)
  + [Interpretation of the Rate of Return Formula](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s07-04-interpretation-of-the-rate-of-.html)
  + [Applying the Rate of Return Formulas](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s07-05-applying-the-rate-of-return-fo.html)

**Topic 5:**

***Interest rate parity (IRP)***

***Driven by arbitrage returns***

***Changes supply and demand across loanable funds markets***

***Return Trip risk at close of investment***

***Hedged or “Covered” IRP (a.k.a. CIRP) is closer to parity***

***Creates an imperfect parity due to the cost of hedging***

***Hedging***

***Forwards (actual exchange) or Futures in the opposite currency pair direction***

***If underlying risk occurs, opposite exchange has value***

***If NOT, the hedge is a cost (loss) to sell or execute (like insurance)***

***Options***

***Upfront cost (premium) for choice of execution (i.e. only this cost)***

***Exercise or sell to offset loss on underlying exchange (opposite)***

***“Long” end up with DC, “short” sell DC***

* [**Chapter 5: Interest Rate Parity**](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s08-interest-rate-parity.html)
  + [Overview of Interest Rate Parity](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s08-01-overview-of-interest-rate-pari.html)
  + [Comparative Statics in the IRP Theory](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s08-02-comparative-statics-in-the-irp.html)
  + [Forex Equilibrium with the Rate of Return Diagram](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s08-03-forex-equilibrium-with-the-rat.html)
  + [Exchange Rate Equilibrium Stories with the RoR Diagram](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s08-04-exchange-rate-equilibrium-stor.html)
  + [Exchange Rate Effects of Changes in U.S. Interest Rates Using the RoR Diagram](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s08-05-exchange-rate-effects-of-chang.html)
  + [Exchange Rate Effects of Changes in Foreign Interest Rates Using the RoR Diagram](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s08-06-exchange-rate-effects-of-chang.html)
  + [Exchange Rate Effects of Changes in the Expected Exchange Rate Using the RoR Diagram](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s08-07-exchange-rate-effects-of-chang.html)

**Topic 6:**

***Purchasing Power Parity (PPP)***

***Driven by arbitrage returns in goods & services***

***Changes supply and demand across aggregate output markets***

***NO return trip risk since it closes in the currency where it began***

***FX to FC to import and sell in DC***

***Export to FC, FX to DC***

***Hedges used for fixed cost supply chain contracts***

***Necessary import for an input to production***

***Absorb revenue risk for strengthening DC***

***Forwards (more common), Futures, and Options***

* [**Chapter 6: Purchasing Power Parity**](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s09-purchasing-power-parity.html)
  + [Overview of Purchasing Power Parity (PPP)](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s09-01-overview-of-purchasing-power-p.html)
  + [The Consumer Price Index (CPI) and PPP](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s09-02-the-consumer-price-index-cpi-a.html)
  + [PPP as a Theory of Exchange Rate Determination](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s09-03-ppp-as-a-theory-of-exchange-ra.html)
  + [Problems and Extensions of PPP](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s09-04-problems-and-extensions-of-ppp.html)
  + [PPP in the Long Run](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s09-05-ppp-in-the-long-run.html)
  + [Overvaluation and Undervaluation](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s09-06-overvaluation-and-undervaluati.html)
  + [PPP and Cross-Country Comparisons](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s09-07-ppp-and-cross-country-comparis.html)

**Topic 7:**

***Loanable funds (money) market revisited***

***Price is the interest rate (return on investment)***

***Driven by demand for loanable funds (borrowing) & supply (lending)***

***More demand, higher interest rates***

***More supply, lower interest rates***

***Includes the government and foreign investors (through FX)***

***Therefore, FX influences and is influenced by interest rates***

***Governments might crowd out borrowers or take in foreign investment***

***FX rates and return trip risk***

***Alters supply and demand of loanable through the FX channel***

***Hedging mitigates this risk***

* [**Chapter 7: Interest Rate Determination**](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s10-interest-rate-determination.html)
  + [Overview of Interest Rate Determination](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s10-01-overview-of-interest-rate-dete.html)
  + [Some Preliminaries](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s10-02-some-preliminaries.html)
  + [What Is Money?](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s10-03-what-is-money.html)
  + [Money Supply Measures](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s10-04-money-supply-measures.html)
  + [Controlling the Money Supply](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s10-05-controlling-the-money-supply.html)
  + [Money Demand](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s10-06-money-demand.html)
  + [Money Functions and Equilibrium](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s10-07-money-functions-and-equilibriu.html)
  + [Money Market Equilibrium Stories](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s10-08-money-market-equilibrium-stori.html)
  + [Effects of a Money Supply Increase](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s10-09-effects-of-a-money-supply-incr.html)
  + [Effect of a Price Level Increase (Inflation) on Interest Rates](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s10-10-effect-of-a-price-level-increa.html)
  + [Effect of a Real GDP Increase (Economic Growth) on Interest Rates](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s10-11-effect-of-a-real-gdp-increase-.html)
  + [Integrating the Money Market and the Foreign Exchange Markets](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s10-12-integrating-the-money-market-a.html)
  + [Comparative Statics in the Combined Money-Forex Model](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s10-13-comparative-statics-in-the-com.html)
  + [Money Supply and Long-Run Prices](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s10-14-money-supply-and-long-run-pric.html)

**Topic 8:**

***Goods & Services market revisited***

***Price is determined by aggregate demand and supply, including RoW***

***GDP influences prices, therefore X and M, altering FX (supply & demand)***

***GDP is influenced by FX through supply and demand for X and M***

***Hedges are used for vulnerable supply chain investments (fixed costs)***

***Forwards for multinationals***

***Futures and Options***

***Real hedges through investment in opposite risk***

***Can be FI or real property***

***De-risk by “home” sourcing***

***Performance of Domestic economy informs investors***

***Slow growth***

***High unemployment (output underperforming) lower returns***

***High inflation (output overperforming) higher returns but at risk***

***Inflation too high will lead to recession and lower returns***

***Foreign investors not exposed to inflation in FC***

***Higher prices curtail export demand and fuel import demand***

***Re-equilibration***

***Good returns slow, slow returns gain***

***Appreciation of currency due good returns lowers investment and exports***

***Depreciation helps fuel recover with more investment and export demand***

***Creates another wave of re-equilibration***

* [**Chapter 8: National Output Determination**](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s11-national-output-determination.html)
  + [Overview of National Output Determination](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s11-01-overview-of-national-output-de.html)
  + [Aggregate Demand for Goods and Services](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s11-02-aggregate-demand-for-goods-and.html)
  + [Consumption Demand](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s11-03-consumption-demand.html)
  + [Investment Demand](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s11-04-investment-demand.html)
  + [Government Demand](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s11-05-government-demand.html)
  + [Export and Import Demand](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s11-06-export-and-import-demand.html)
  + [The Aggregate Demand Function](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s11-07-the-aggregate-demand-function.html)
  + [The Keynesian Cross Diagram](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s11-08-the-keynesian-cross-diagram.html)
  + [Goods and Services Market Equilibrium Stories](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s11-09-goods-and-services-market-equi.html)
  + [Effect of an Increase in Government Demand on Real GNP](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s11-10-effect-of-an-increase-in-gover.html)
  + [Effect of an Increase in the U.S. Dollar Value on Real GNP](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s11-11-effect-of-an-increase-in-the-u.html)
  + [The J-Curve Effect](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s11-12-the-j-curve-effect.html)

**Topic 9:**

***“Four corners” revisited***

***Each component to (X, M, DI, FI) affects FX as it changes (real)***

***FX affects each component to (X, M, DI, FI) through relative price and return***

***Changes ripple through FX, loanable funds, and aggregate output markets***

***Creates arbitrage opportunities as re-equilibration occurs***

***Increases volatility in FX rates 🡪 risks***

***Both increase the need to hedge***

* [**Chapter 9: The AA-DD Model**](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s12-the-aa-dd-model.html)
  + [Overview of the AA-DD Model](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s12-01-overview-of-the-aa-dd-model.html)
  + [Derivation of the DD Curve](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s12-02-derivation-of-the-dd-curve.html)
  + [Shifting the DD Curve](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s12-03-shifting-the-dd-curve.html)
  + [Derivation of the AA Curve](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s12-04-derivation-of-the-aa-curve.html)
  + [Shifting the AA Curve](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s12-05-shifting-the-aa-curve.html)
  + [Superequilibrium: Combining DD and AA](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s12-06-superequilibrium-combining-dd-.html)
  + [Adjustment to the Superequilibrium](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s12-07-adjustment-to-the-superequilib.html)
  + [AA-DD and the Current Account Balance](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s12-08-aa-dd-and-the-current-account-.html)

**Topic 10:**

***Re-equilibration (freely) allows for perfectly floating FX rates***

***All central banks intervene to some extend***

***Some to reduce volatility in FX***

***Some for necessary imports (food)***

***Some for fixing the FX to improve the terms of trade***

***If a small country pegs, it is for monetary policy stability***

***Changes in monetary policy ripple across freely floating FX countries***

***Arbitrage in Financial Account alters supply & demand across loanable funds markets***

***Causes FX re-equilibration altering relative prices in FA and Current Account***

***Increases volatility in FX, aggregate output markets, & loanable funds markets***

***Increases the prices for “insurance” hedges since they are in higher demand***

***Changes in Fiscal Policy affects investment returns (output 🡪 profit 🡪 return)***

***Changes supply and demand in loanable funds including FX loanable funds***

***FX changes alter relative prices of investments, affecting DI & FI***

***Also affects aggregate output markets through X & M, relative prices***

***Foreign reserves held by central banks***

***Key in defending a currency for necessary imports (e.g. food)***

***Necessary for “pegging” small economy to assure monetary policy stability***

***Can be abused to manipulate currency or even “fix” it***

***Alter terms of trade in Current Account***

***Protect or exploit financial account for investment***

* [**Chapter 10: Policy Effects with Floating Exchange Rates**](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s13-policy-effects-with-floating-e.html)
  + [Overview of Policy with Floating Exchange Rates](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s13-01-overview-of-policy-with-floati.html)
  + [Monetary Policy with Floating Exchange Rates](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s13-02-monetary-policy-with-floating-.html)
  + [Fiscal Policy with Floating Exchange Rates](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s13-03-fiscal-policy-with-floating-ex.html)
  + [Expansionary Monetary Policy with Floating Exchange Rates in the Long Run](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s13-04-expansionary-monetary-policy-w.html)
  + [Foreign Exchange Interventions with Floating Exchange Rates](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s13-05-foreign-exchange-interventions.html)

**Topic 11:**

***FX pair is “fixed” in a range by central bank intervention***

***By demanding DC with foreign reserves (FC held by central bank)***

***Or by supplying DC from central bank reserves***

***This changes (or doesn’t change) the relative prices in CA & FA***

***By not allowing FX market to re-equilibrate***

***Creates “pressure” across BOP through relative prices***

***Close financial (capital) account***

***Or conduct monetary policy to alter interest rates***

***Keeps supply & demand in FA balanced***

***Takes DI & FI flows out of FX***

***Used to maintain a peg for monetary policy stability***

***Alters terms of trade in CA to keep relative prices fixed***

***Strong DC good for imports of necessary goods (e.g. food)***

***Weak DC good for exports and GDP growth***

***Dis-equilibria allows for “off shore” or “black” markets in FX***

***Arbitrage with “official” or “on shore” FX***

***Global trade but still central bank influenced***

* [**Chapter 11: Fixed Exchange Rates**](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s14-fixed-exchange-rates.html)
  + [Overview of Fixed Exchange Rates](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s14-01-overview-of-fixed-exchange-rat.html)
  + [Fixed Exchange Rate Systems](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s14-02-fixed-exchange-rate-systems.html)
  + [Interest Rate Parity with Fixed Exchange Rates](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s14-03-interest-rate-parity-with-fixe.html)
  + [Central Bank Intervention with Fixed Exchange Rates](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s14-04-central-bank-intervention-with.html)
  + [Balance of Payments Deficits and Surpluses](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s14-05-balance-of-payments-deficits-a.html)
  + [Black Markets](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s14-06-black-markets.html)

**Topic 12:**

***Fixed FX is not sustainable***

***If foreign reserves run out (defending)***

***Repurchasing would have opposite effect to policy***

***Borrowing is short-term, even with Special Drawing Rights from IMF***

***Or if monetary policy “runs out of room” with interest rates***

***Unless FA (capital account) is closed (capital controls)***

***Arbitrage pressure to shift investments in FA pushes against FX policy***

***Devaluation (revaluation) eases pressure but is counter to policy purpose***

***Can lead to capital flight (FA towards deficit) [or in-flow]***

***Opposite of flight to safety***

***Can borrow reserves, including Special Drawing Rights from IMF***

***These are inverted for a currency depreciator (devaluation) like China***

* [**Chapter 12: Policy Effects with Fixed Exchange Rates**](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s15-policy-effects-with-fixed-exch.html)
  + [Overview of Policy with Fixed Exchange Rates](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s15-01-overview-of-policy-with-fixed-.html)
  + [Monetary Policy with Fixed Exchange Rates](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s15-02-monetary-policy-with-fixed-exc.html)
  + [Fiscal Policy with Fixed Exchange Rates](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s15-03-fiscal-policy-with-fixed-excha.html)
  + [Exchange Rate Policy with Fixed Exchange Rates](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s15-04-exchange-rate-policy-with-fixe.html)
  + [Reserve Country Monetary Policy under Fixed Exchange Rates](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s15-05-reserve-country-monetary-polic.html)
  + [Currency Crises and Capital Flight](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s15-06-currency-crises-and-capital-fl.html)
  + [Case Study: The Breakup of the Bretton Woods System, 1973](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s15-07-case-study-the-breakup-of-the-.html)

**Topic 13:**

***Each component to (X, M, DI, FI) affects BOP and domestic economy***

***Risk from foreign interactions (changes in S&D in CA and FA 🡪 FX volatility***

***FX rate “management” smooths risk and volatility***

***FX rate changes alter investment returns***

***FX rate changes affect supply chain (NX) investments***

***Makes the world share the risks (floating exchange rates)***

***Exporting recessions: less demand at home, less M and more X to ROW***

***Exporting inflation: higher prices for X, more M, attract investment (DI) to DC***

***Sharing risks and prosperity is a good idea, but adds to the need to hedge***

***Monetary policy is global under floating systems***

***Decreases Monetary policy effectiveness at home***

***Increases the need for effective fiscal policy***

***We are all in this together (or not?)***

* [**Chapter 13: Fixed versus Floating Exchange Rates**](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s16-fixed-versus-floating-exchange.html)
  + [Overview of Fixed versus Floating Exchange Rates](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s16-01-overview-of-fixed-versus-float.html)
  + [Exchange Rate Volatility and Risk](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s16-02-exchange-rate-volatility-and-r.html)
  + [Inflationary Consequences of Exchange Rate Systems](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s16-03-inflationary-consequences-of-e.html)
  + [Monetary Autonomy and Exchange Rate Systems](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s16-04-monetary-autonomy-and-exchange.html)
  + [Which Is Better: Fixed or Floating Exchange Rates?](https://saylordotorg.github.io/text_international-finance-theory-and-policy/s16-05-which-is-better-fixed-or-float.html)

**Calendar**

Student should check, and consult often, the due dates for assignments in HuskyCT. Ample time will be given to complete assignments (a week or more), but the student must pay attention to announcements and postings in HuskyCT. Each class I teach has a unique timetable predicated on the needs of the given students in the class; so, dates and assignments shift (as does material discussed) to meet those needs.

**Course Requirements and Grading**

Grades for the semester will be based on the following coursework:

|  |  |  |
| --- | --- | --- |
| Course Components | Weight (%) |  |
| In-term Assessments | 60% |  |
| Final Exam | 40% |  |
| Total | 100% |  |

**In-term Assessments**

In-class andtake-home quizzes & assignments will be used to check your understanding and verify that you are keeping up with class material. These quizzes will be matching, fill-in-the-blank, multiple choice or multi-select, and, perhaps, a short essay response with outline. These assessments will be open resource & may be done in groups for discussion purposes. **Discussing the material with each other is the single best way to learn and master the material.**

**There will be NO MIDTERMS!**

**Final Exam**

The Final Exam will be administered during the assigned final exam slot for our class. It will be CLOSED book/notes assessment but the in-term assessments will lead up to it. This is your chance to demonstrate your ultimate understanding and ability to apply the material presented and discussed in class. This opportunity to demonstrate what you have learned during the course will significantly affect your grade for the course. It will be comprehensive in scope including material from the in-term assessments.

**Grading Scale:**

|  |  |  |
| --- | --- | --- |
| **Grade** | **Letter Grade** | **GPA** |
| 94-100 | A | 4.0 |
| 90-93 | A- | 3.7 |
| 87-89 | B+ | 3.3 |
| 83-86 | B | 3.0 |
| 80-82 | B- | 2.7 |
| 77-79 | C+ | 2.3 |
| 73-76 | C | 2.0 |
| 70-72 | C- | 1.7 |
| 67-69 | D+ | 1.3 |
| 63-66 | D | 1.0 |
| 60-62 | D- | 0.7 |
| <60 | F | 0.0 |

**Due Dates and Late Policy**

All course due dates are identified in HuskyCT. Deadlines are based on Eastern Time unless otherwise specified. *The instructor reserves the right to change dates accordingly as the semester progresses.  All changes will be communicated in an appropriate manner.*

**Late Work Policy**

Assignments submitted after the established due dates will not be accepted unless arrangements have been made in advance and will be graded at the instructor’s discretion; you can expect a reduction in your grade. Missed assignments may result in the weight of the assignments being placed on the final exam. There will be NO formal exams during the semester; instead, we will have smaller more frequent assessments. These assessments will lead up to the final exam, which will be held during the final exam period established by the registrar.

**Feedback and Grades**

I will make every effort to provide feedback and grades in a timely manner after due dates (immediate to one week). To keep track of your performance in the course, refer to My Grades in HuskyCT.

**Weekly Time Commitment**

You should expect to dedicate 7 to 9 hours a week to this course, depending on how prepared you are (pre-requisites) and how quickly you assimilate new material. This expectation is based on the various course activities, assignments, and assessments and the [University of Connecticut’s policy regarding credit hours](https://policy.uconn.edu/2012/08/22/credit-hour/). (More information related to hours per week per credit can be accessed at the [Online Student website](https://onlinestudent.uconn.edu/learn-more/#collapsepanel-269-1-0-07)).

**Student Authentication and Verification**

The University of Connecticut is required to verify the identity of students who participate in online courses and to establish that students who register in an online course are the same students who participate in and complete the course activities and assessments and receive academic credit. Verification and authentication of student identity in this course will include secure access to the learning management system using your unique UConn NetID and password along with plagiarism analysis.

### How to Succeed in this Course

**Use of Email**

Feel free to use email to ask questions and make comments. I will communicate with the class via HuskyCT (Announcements); this material will be a part of the class material and ***MUST*** be accessed by the student. Often, this will take the form of de-identifying an email questions and response of general interest.

**Miscellaneous**

Students are expected to practice writing out the concepts we study to gain experience and understanding. This includes editing and revising along with outside research of the topics. This should be done daily since a little bit each day keeps the topics in your mind and continues your progress in being able to express yourself. As little as 20 minutes a day on writing has proven (among prior students) to make a significant impact. Please do NOT wait until the end to work on your understanding and expression!

If you have any issues with the schedule, the material, the method of instruction, or any other aspect of this class, the expectation is that you make those issues known to the instructor as soon as possible. This includes not being able to attend (access) class meetings or meet deadlines.

This syllabus represents the intended structure of this class but the instructor reserves the right to adapt and change this structure depending on the needs and direction of the class.

**Class Participation**

Although there is no formal grade for participation, students are encouraged to ask questions and share their thoughts in class. This type of interaction helps me (the instructor) see where you (the students) are struggling so that I can direct my efforts to helping you. Indeed, conversations regarding this material will be beneficial to you in any venue; so, you are encouraged to discuss the class material with others in the class, those outside of the class, as well as with the instructor during class. Please let me know if you have questions about the material and how it all connects together. This should be done in class (preferred) or via email.

### Integrity of scholarship

*Honesty in all academic work is expected of every student. This means giving one’s own answers in all class work, quizzes, and examinations without help from any source not approved by the instructor. Written material is to be the student’s original composition. Appropriate credit must be given for outside sources from which ideas, language, or quotations are derived*.

See the student code of conduct for specific parameters and punishments for violating this expectation. This policy will be STRICTLY enforced.

### Helpful Links (especially the Writing Center – start writing immediately!):

[Dean of Students Office](https://dos.uconn.edu/), [Academic Achievement Center](https://achieve.uconn.edu/), [Writing  Center](https://writingcenter.uconn.edu/), [Quantitative Learning Center](https://qcenter.uconn.edu/), [Center for Students with Disabilities](https://csd.uconn.edu/), [Title IX Office](https://titleix.uconn.edu/title-ix-at-uconn/about-title-ix-uconn/), [Student Health and Wellness -- Mental Health](https://counseling.uconn.edu/)

### Husky Study Groups

Are you interested in forming a study group with other students in the class?  There is a study group application in Nexus that can help you get started. Feel free to share this [video](https://nexus.uconn.edu/secure_per/studygroups/video.php) with students and send them [here](https://login.uconn.edu/cas/login?service=https%3a%2f%2fnexus.uconn.edu%2fsecure_per%2fstudygroups%2findex.php) (<https://nexus.uconn.edu/secure_per/studygroups/index.php>) for more information.

### Resources for Students Experiencing Distress

The University of Connecticut is committed to supporting students in their mental health, their psychological and social well-being, and their connection to their academic experience and overall wellness. The university believes that academic, personal, and professional development can flourish only when each member of our community is assured equitable access to mental health services. The university aims to make access to mental health attainable while fostering a community reflecting equity and diversity and understands that good mental health may lead to personal and professional growth, greater self-awareness, increased social engagement, enhanced academic success, and campus and community involvement.

Students who feel they may benefit from speaking with a mental health professional can find support and resources through the [**Student Health and Wellness-Mental Health**](https://counseling.uconn.edu/) (SHaW-MH) office. Through SHaW-MH, students can make an appointment with a mental health professional and engage in confidential conversations or seek recommendations or referrals for any mental health or psychological concern.

Mental health services are included as part of the university’s student health insurance plan and also partially funded through university fees. If you do not have UConn’s student health insurance plan, most major insurance plans are also accepted. Students can visit the **Student Health and Wellness-Mental Health located in Storrs on the main campus in the Arjona Building, 4th Floor,** or contact the office at **(860) 486-4705, or** [**https://studenthealth.uconn.edu/**](https://nam10.safelinks.protection.outlook.com/?url=https%3A%2F%2Fcounseling.uconn.edu%2F&data=02%7C01%7Csuzanne.lafleur%40uconn.edu%7C8de70653941b46a391c008d82eaa9de5%7C17f1a87e2a254eaab9df9d439034b080%7C0%7C0%7C637310657616301680&sdata=sV755zd9%2F4RCEkS3OHYwdjGjGkZRLNVdHklZLtnhHSI%3D&reserved=0)for services or questions**.**

### Accommodations for Illness or Extended Absences

Please stay home if you are feeling ill and please go home if you are in class and start to feel ill.  If illness prevents you from attending class, it is your responsibility to notify your instructor as soon as possible. You do not need to disclose the nature of your illness, however, you will need to work with your instructor to determine how you will complete coursework during your absence.

If life circumstances are affecting your ability to focus on courses and your UConn experience, students can email the Dean of Students at dos@uconn.edu to request support.  Regional campus students should email the Student Services staff at their home campus to request support and faculty notification.

### Classroom/Virtual Classroom Guidelines

Students are expected to treat HuskyCT as our classroom, checking in often, setting alerts for new posts, accessing material posted (lectures and content), monitoring due dates, and submitting assignments. I will try to post consistently and allow appropriate time for accessing the material. If students have questions or concerns, they should ask in class or reach out via email.

### Student Responsibilities and Resources

As a member of the University of Connecticut student community, you are held to certain standards and academic policies. In addition, there are numerous resources available to help you succeed in your academic work. Review these important [standards, policies and resources](https://onlinestudent.uconn.edu/learn--more/#POL), which include:

* The Student Code
  + Academic Integrity
  + Resources on Avoiding Cheating and Plagiarism
* Copyrighted Materials
* Credit Hours and Workload
* Netiquette and Communication
* Adding or Dropping a Course
* Academic Calendar
* Policy Against Discrimination, Harassment and Inappropriate Romantic Relationships
* Sexual Assault Reporting Policy

### Students with Disabilities

The University of Connecticut is committed to protecting the rights of individuals with disabilities and assuring that the learning environment is accessible.  If you anticipate or experience physical or academic barriers based on disability or pregnancy, please let me know immediately so that we can discuss options. Students who require accommodations should contact the Center for Students with Disabilities, Wilbur Cross Building Room 204, (860) 486-2020 or<http://csd.uconn.edu/>.

Blackboard measures and evaluates accessibility using two sets of standards: the WCAG 2.0 standards issued by the World Wide Web Consortium (W3C) and Section 508 of the Rehabilitation Act issued in the United States federal government.” (Retrieved March 24, 2013 from [Blackboard's website](http://www.blackboard.com/platforms/learn/resources/accessibility.aspx))

### Software/Technical Requirements (with Accessibility and Privacy Information)

The software/technical requirements for this course include:

* HuskyCT/Blackboard ([HuskyCT/ Blackboard Accessibility Statement](http://www.blackboard.com/Platforms/Learn/Resources/Accessibility.aspx), [HuskyCT/ Blackboard Privacy Policy](http://www.blackboard.com/footer/privacy-policy.aspx))
* [Adobe Acrobat Reader](http://www.adobe.com/products/acrobat/readstep2.html) ([Adobe Reader Accessibility Statement](http://www.adobe.com/accessibility/products/reader.html), [Adobe Reader Privacy Policy](http://www.adobe.com/privacy.html))
* Google Apps ([Google Apps Accessibility](https://www.google.com/accessibility/), [Google for Education Privacy Policy](https://www.google.com/edu/trust/))
* Microsoft Office (free to UConn students through [uconn.onthehub.com](https://uconn.onthehub.com)) ([Microsoft Accessibility Statement](http://www.microsoft.com/enable/microsoft/mission.aspx), [Microsoft Privacy Statement](https://privacy.microsoft.com/en-us/privacystatement/))
* Dedicated access to high-speed internet with a minimum speed of 1.5 Mbps (4 Mbps or higher is recommended).
* WebCam

For information on managing your privacy at the University of Connecticut, visit the [University’s Privacy page](https://privacy.uconn.edu/).

**NOTE:** This course has NOT been designed for use with mobile devices.

### Evaluation of Course Experience

Students will be given an opportunity to provide feedback on their course experience and instruction using the University's standard procedures, which are administered by the [Office of Institutional Research and Effectiveness](http://www.oire.uconn.edu/) (OIRE).

The University of Connecticut is dedicated to supporting and enhancing teaching effectiveness and student learning using a variety of methods. The Student Evaluation of Teaching (SET) is just one tool used to help faculty enhance their teaching. The SET is used for both formative (self-improvement) and summative (evaluation) purposes.

Additional informal formative surveys and other feedback instruments may be administered within the course.