**Instructor:** Teresa Beckham Gramm  
Office: 229 Buckman  
Office hours: Tuesday and Thursday 9-10 and 12-12:30  
Phone: 843-3853  
Email: grammt@rhodes.edu


**Required Text:** *Economist*, print edition. Students should bring me a check (made out to “Teresa Beckham Gramm”) for $20.00 to pay for a semester subscription to this magazine.

In International Economics you will learn about the application of economic principles in the analysis and interpretation of economic interdependence among nations. Specifically, we will cover the theory of exchange rate determination and policy, foreign exchange markets, balance of payments, and the effects of macro policy in an open economy.

The readings for each section are outlined below. A detailed outline of the material to be discussed will be given prior to each lecture to aid in your preparation. Readings from *The Wall Street Journal* and *The Economist* will be a regular part of the course. We will discuss current events related to international finance.

This course is for 2 credits, so we will meet for the first half of the semester. The last day of class is on Wednesday, February 27.

**Goals:** The goals of this course are to expose you to the theories of international finance, to hone and expand the use of macroeconomic tools/models that you learned in Introduction to Economics, and to train you to understand and analyze “current events” in international finance. The means by which these goals will be achieved are through lecture and out-of-class problems and reading assignments, which are explained in further detail below. Exams will include both problems/essays and analysis of current events.

**Exams:** There will be two exams. The first is scheduled for 2/6. The second is scheduled for 3/4 in the evening. While I reserve the right to change the exam dates, I will notify you at least one week in advance if it becomes clear that an exam date needs to be moved. The final exam will be held during the final exam period. If you are going to miss an exam you must let me know IN ADVANCE, otherwise there will be no make-up exam and the missed weight will go into a specially prepared cumulative final.

**Daily Problems:**

Problems will be distributed at the end of most classes. The problem(s) will cover material gone over in that class or a previous class. They are due AT THE BEGINNING of the next class period, since we will go over the problem first. You will assign yourself a grade between 0 (“I didn’t do it”) and 4 (“I did it perfectly”) and turn each problem in to me.

- You MAY: drop your 2 lowest grades (including unexcused and excused absences).
• You MAY: come by with questions about a problem once you have made a valiant attempt on your own, as demonstrated by the reams of scribbling that you’ll have with you.

• You MAY NOT: come in late and have someone else grade your problem or send your problem with someone else.

Grade Distribution:

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<table>
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<tr>
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<tbody>
<tr>
<td>Exam 1</td>
<td>45%</td>
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<tr>
<td>Exam 2</td>
<td>45%</td>
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<tr>
<td>Problems</td>
<td>10%</td>
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Grades will be assigned according to the following scale,

93-100% = A  
90-92% = A-  
87-89% = B+  
83-86% = B   
80-82% = B-  
77-79% = C+  
73-76% = C   
70-72% = C-  
67-69% = D+  
63-66% = D   
60-62% = D-  
59 or below = F

Attendance Policy: The regular problems will make regular attendance necessary, but there will be no direct penalty for missing class. The indirect penalty is that you would receive a 0 on the homework problem. If you miss class due to illness, sports, family emergency, etc. then you need to inform me by email. Coming to the next class and explaining your absence in the previous class, while acceptable, is not a substitute for an email. You are responsible for all missed material and handouts.

Academic Dishonesty: Any evidence of academic dishonesty may result in your failure of this course. Academic dishonesty includes (1) using exams from previous semesters, (2) using problems from previous semesters, (3) working together on exams, (4) completing the problems as we are going over them in class, or (5) copying (or allowing someone else to copy) any work that is turned in for a grade. You may discuss approaches to solving the daily problems, but when it comes time to put pen to paper, the work must be entirely your own.

Office Hours: My office is 229 Buckman. I have scheduled office hours for Tuesday and Thursday 9-10 and 12-12:30. I strongly encourage you to make an appointment if you have conflicts with these times. The best way to schedule an appointment with me (or contact me for any reason) is by email: grammt@rhodes.edu.

Email: I assume you check your email at least once a day. I will use it to convey required reading in The Economist and The Wall Street Journal which we will be going over during the next class period. I will not send you “junk” or “FYI” or “Here's a nifty International article in case you have a free hour”…it will always be pertinent to material you need for class.

Course Outline:
Note that this course is not a pre-requisite for any other course. This fact gives me a bit of leeway about what material we will cover. Invariably, something of economic significance occurs during the semester and we will want to spend time discussing/analyzing it. The only way we’ll stick to this schedule is if absolutely nothing of interest occurs over the next 2 months. I will give you periodic updates on how this schedule has changed and you will receive a daily outline corresponds to the attached outline. Given that you’ve all made it this far in the major, I assume that you can look at the daily outline and look at the syllabus to determine where we are in the material and where we are in the reading.

OUTLINE OF LECTURES
INTERNATIONAL FINANCE

I. Introduction

II. Balance of payments (BOP) (Chapter 12)
   A) Terms
   B) BOP Accounts
      1) Current Acct (CA)
      2) Capital Acct (KA)
   C) Implications of the CA deficit

III. Exchange Rates
   A) Foreign Exchange Markets (Chapter 13)
      1) Spot
      2) Forward
      3) Covered and Uncovered interest arbitrage
   B) Long-Run and Short-Run exchange rate determination (Chapter 15)
      1) PPP
      2) Real interest rate
   C) Short-run exchange rate determination (Chapter 16)
      1) GDP & GDP growth
      2) CA & KA deficit & surplus
      3) Expectations

IV. BOP Adjustment Under Fixed Exchange Rates (Chapter 17)
   A) Intro
   B) Mechanics of Fixed Ex Rts
   C) BOP adjustment due to ∆P
   D) BOP adjustment due to ∆r
   E) Devaluation/revaluation

V. BOP Adjustment w/ Flexible Ex Rts (In-class Handouts)
   A) Intro
   B) Long-run Impact of ∆E on BOP
   C) “Short-run” impact of ∆E
      -The J curve
      -The Marshall-Lerner condition

VI. Exchange Rate Systems (Selected articles)
   A) Intro
   B) Pegged/Fixed
      1) Why peg
      2) How peg
      3) Dangers
   C) Floating
      1) Why float
      2) Arguments against
      3) Managed float