International Economics II

Dr. Feride Doganer Gonel
Office Hours: Monday 13.00 – 15.00 or
e-mail me for an appointment: fgonel@superonline.com

Course Description:
In this course we will study international monetary relations and the international financial problems of countries. First, we will study the theory of international finance.
That is, after becoming familiar with the balance of payments account of nations, we will look into the international currency market to see how supply and demand for a currency give rise to the currency's rate of exchange. This enables us to examine the effects of various domestic and international factors on the currency exchange rate and balance of payments of a country. The counteractive adjustment policies of governments under the fixed and flexible currency regimes will be studied in the context of the above theoretical model.
Our theoretical study is followed by a review of the changes in the international monetary system since the gold standard. Our concentration will be on the development and collapse of the Bretton Woods Agreement that established the supremacy of the U.S. dollar in international monetary relations. We will consider the monetary system under the Bretton Woods Agreement, the role of the International Monetary Fund, and the conditions that caused the collapse of this system. Then the present international monetary system is evaluated, and the position of the U.S. dollar in the world economy is examined. Then we will study the 1997 currency crisis of Asia and 2000-2001 Turkish crises.

Text Required:
1. International Economics, 7th edition, by Dominick Salvatore, NewYork:John Wiley&Sons, 2001 (required). This course will cover Chapters 13 through 21. The textbook will be used extensively in this class. You are responsible for everything in assigned chapters, including end-of-chapter problems.
3. You will also make frequent use of the following homepages: http://www.imf.org, http://www.worldbank.org ve http://www.tcmb.gov.tr You may find the latest news in the currency market at any one of these sites: Financial Times http://globalarchive.ft.com/globalarchive/ Meanwhile, it is advisable for you to read The Economist, that contains articles and news of relevance to the course. Selected articles from, Finance and Development; A Quarterly Publication of IMF is also advisable.
Course Requirements:
Required written work will consist of two mid-terms and one final exam. Make-up exams (due to absence only) will be given at the end of the semester in response to a formal document from our department secretaria. Please be aware that only one make-up exam will be made and this will not for extra grading. Unannounced quizzes may be given. The points for quizzes may be added to the total after the class discussion.

Grading: The grades will be determined as weighted averages of exams. The final grade will be calculated using the following weights: (without any grade for the unannounced quizzes) 30% midterm-I, 30% midterm-II, 40% final exam.

Class participation: Not required, but strongly recommended. As I will come to class on time, I expect that you will do the same thing.

Recommendation for success: 1) Come to class regularly, 2) Do keep up with the text, 3) Do regularly read your chapters in the text book and the current financial press, both in Turkish and English. Especially, I strongly recommend reading beyond the required material on a regular basis.

Course Outline and Tentative Schedule:
Week 1 – Introduction to course
Week 2 – Theory of International Finance - Balance of Payments Accounts
Week 3 – Foreign Exchange Markets, Exchange Rates, Demand and supply of foreign currencies
Week 4 – Exchange Rate Determination and different approaches, an asset approach
Week 5 – Price levels and exchange rate, Output and exchange rate – short and long run analysis
Week 6 – Prices and output in an open economy with the help of fixed and flexible exchange rates
Week 7 - Mid-term I*
Week 8 – The International Monetary System
Week 9 – Optimum Currency Area and the European Monetary System, The Euro Area and The World Economy
Week 10 – The Global Capital Market: Performance and Policy Problems - How Successful are IMF-Supported Adjustment Programs
Week 11 – Mid-term II*
Week 12 – Mundell-Fleming Model
Week 13 – Developing Countries: Growth, Crisis, and Reform: 1997 Asian crisis, Russian crisis, Turkey and Argentina
Week 14 - Developing Countries: Growth, Crisis, and Reform: 1997 Asian crisis, Russian crisis, Turkey and Argentina

* The exact date of these midterm examinations will be given by department.