

# **ECON-3633: International Finance Theory**

## **Section 001, Spring 2023**

**Department of Economics, University of Oklahoma**

### **SYLLABUS**

*Note: The syllabus is the plan. Modification of the plan may be needed during the semester. The instructor will make explicit announcements pertaining to any such changes.*

#### **General Information**

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**Lecture:** TR 12pm - 1:15pm, Room 237, Cate Center One

**Instructor:** Hewei Shen

**Email:** hewei.shen@ou.edu

**Office Hours:** 3pm - 4pm on Tuesdays, 4pm - 5pm on Wednesdays, or by appointment. Office hours will be conducted via Zoom. Zoom links are available on Canvas.

**Teaching Assistant:** Chang Gao (chang.gao@ou.edu)

**TA Office Hours:** 12 pm – 1 pm on Mondays and 1:30 pm – 2:30 pm on Thursdays. Office hours will be conducted in Room 226, Cate Center One.

**Course description:** This course is an introduction to international finance and is designed to introduce students to theoretical and empirical analysis of global financial markets. In this era of globalization (and financial crisis!) no student of economics, finance or any other field can fully understand current economic and political developments without a strong background in international finance.

Traditionally, international economics is divided into two broad subfields: the study of international trade and the study of international finance. International trade analysis focuses primarily on the real transactional economy, that is, on those transactions that involve a physical

movement of goods or a tangible commitment of economic resources. International finance focuses on the monetary side of international economy, that is, on financial transactions such as foreign purchases of U.S. dollars. Furthermore, while international trade analysis primarily uses microeconomic theory, international finance uses macroeconomic theory.

We will first study the macroeconomic accounting system in an open economy framework using the balance of-payments accounts. Next we will cover the foreign exchange market and apply no arbitrage ideas to derive parity conditions for exchange rates. We will also explore the determinants of international capital flows, foreign exchange risk and financial derivatives as well as different theories of exchange rate determination. Once these corner stones are in place we will study the past and present international monetary arrangements, issues and problems. We will conclude by visiting the current challenges and dilemmas faced by the existing international financial order, including the US current account problems and the 2008 global financial crisis. Overall, the subjects can be broken down into two sections: open economy macroeconomics (Chapters 2 through 7) and the applications of the theory to international monetary policy (Chapters 8 through 11).

**Prerequisites:** ECON-1113 (Principles Macro) and ECON-1123 (Principles Micro).

**Required Textbook:** *International Finance: Theory and Policy*, 11th edition, by Krugman, Paul R., Obstfeld, Maurice, Melitz; ISBN: 9780134542522. You will need access to MyLab Economics to complete online assignments. Other course material including lecture notes, assigned reading, and assignments will be posted on Canvas.

**Course Website:** Course material and announcements for the class will be posted through Canvas.

## Grading Policy

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Your course grade will depend on your performance in the following weighted areas.

- Assignments: 15%
- Midterm Exam 1 on Feb. 28<sup>th</sup>: 25%
- Midterm Exam 2 on Apr. 11<sup>th</sup>: 25%
- Final Exam on May 9<sup>th</sup>: 35%
- Attendance: *extra* 2%

### Grading Scale:

A : 90%	B: 80%	C: 70%	D: 60%	F: Below 60%
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**Exams:** There are two in-class midterm exams and one final exam. The dates of the midterm exams are listed above. The final exam will cover all topics discussed throughout the course and is scheduled on **Tuesday, May 9<sup>th</sup>, 2023, 1:30pm – 3:30pm**, in Room 237 Cate Center One. **Your schedule must permit you to be free to take the final exam at the time above.** Unexcused absences result in 0 for exams. If you miss a midterm and have a documented excuse, the midterm's weight will shift to the final exam. If you miss more than one midterm exam, you must take the make-up exam. It is your responsibility to coordinate with me and complete the make-up exam within one week of the missed exam. Evidence of excuse must be sent to the instructor no later than two weekdays after the exam day.

**Assignments:** Assignments are used to help you review course material and apply the tools learnt in class. There will be 8-10 online homework assignments and the lowest two scores will be dropped. Late homework will not be graded and receives a 0 automatically. No make-up or individual due extension will be given to homework. Assignments will be submitted through MyLab Economics and they will be posted at least four days before they are due. The due dates will be announced both in class and on Canvas.

**Attendance:** You are expected to positively contribute to the learning environment. Even the best textbook cannot possibly replicate a great classroom environment. **I will take attendance 15 times.** These can boost your final grade by no more than 10 course points (2% of your final grade). Adjustments are as follows: 13-15 times earns a boost of 10 points (2%), 12 times earns a boost of 5 points (1%), and 11 times or less earns 0 point.

## Tentative Course Outline

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The course outline is tentative. Some topics might be expanded or omitted to best match the students' interests. Explicit announcements of the changes will be made in class and through Canvas if these is any.

Jan. 19	Chapter 1: Introduction
Jan. 24, 26 & 31	Chapter 2: National Income Accounting and the Balance of Payments
Feb. 2 & 7	Chapter 3: Exchange Rates and the Foreign Exchange Market: An Asset Approach
Feb. 9, 14 & 16	Chapter 4: Money, Interest Rates, and Exchange Rates
Feb. 21	Chapter 5: Price Levels and the Exchange Rate in the Long Run
Feb. 23	Mop up and Review
Feb. 28	<b>Exam 1 (Chapters 1-4)</b>
Mar. 2 & 7	Chapter 5: Price Levels and the Exchange Rate in the Long Run
Mar. 9	Chapter 6: Output and the Exchange Rate in the Short Run
Mar. 14 & 16	No-Class: Spring Break
Mar. 21 & 23	Chapter 6: Output and the Exchange Rate in the Short Run
Mar. 28, 30 & Apr. 4	Chapter 7: Fixed Exchange Rates and Foreign Exchange Intervention
Apr. 6	Mop up and Review
Apr. 11	<b>Exam 2 (Chapters 5-7)</b>
Apr. 13, 18 & 20	Chapter 8: International Monetary Systems: An Historical Overview
Apr. 25 & 27	Chapter 10: Optimum Currency Areas and the Euro
May. 2	Chapter 11: Developing Countries: Growth, Crisis, and Reform
May. 4	Review
May. 9	<b>Final Exam (Cumulative)</b>

## Final Remarks

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**Any questions about the syllabus must be addressed to the instructor within the first week of class.**

**Email policy:** The best way to reach me is through email and I do **NOT** respond to canvas messages or the “ask instructor” function in MyLab Economics. I will do my best to respond to emails within 24 hours on a weekday, 48 hours on a weekend, according to the following policy:

- a) I only respond to emails posing questions that can be answered in a sentence or two. For detailed questions, please see me after class or during my office hours.
- b) I do not reply to emails that request information that can be found in the announcements or the syllabus, so you should check those places first.
- c) The university policies do not allow me discuss grades through emails – for that, please see me after class or during my office hours.

**Classroom Etiquette:** I value your presence in my class, and I want your classmates to feel the same way. Please do not use laptop or cell phone during lectures, unless otherwise explicitly asked for by the instructor. This policy prevents disruptive behaviors such as watching movies and videos, playing games, checking sports score, and chatting. If you use your cell phone/ laptop or have any other disruptive behaviors during the lecture, I may ask you to leave the classroom and count you as absent for that lecture.

**Academic Integrity:** Dishonesty of any kind is not tolerated in this course. Dishonesty includes, but is not limited to, cheating, plagiarizing, fabricating information or citations, facilitating acts of academic dishonesty by others, having unauthorized possession of examinations, submitting work of another person or work previously used without informing the instructor, or tampering with academic work of other students. Students who are found dishonest will receive the most severe

academic sanction consistent with OU policies. A minimum penalty for any breach of academic integrity is the grade of “F” for the course. In addition, I will report incidences of academic dishonesty to the Integrity Council, which may in turn administer additional punishment. The University of Oklahoma has information at its website: <https://www.ou.edu/integrity/students>. Be sure to read the contents of this site.

**Reasonable accommodation policy:** The Accessibility and Disability Resource Center is committed to supporting students with disabilities to ensure that they are able to enjoy equal access to all components of their education. This includes your academics, housing, and community events. If you are experiencing a disability, a mental/medical health condition that has a significant impact on one or more life functions, you can receive accommodations to provide equal access. Possible disabilities include, but are not limited to, learning disabilities, AD(H)D, mental health, and chronic health. Additionally, we support students with temporary medical conditions (broken wrist, shoulder surgery, etc.) and pregnancy. To discuss potential accommodations, please contact the ADRC at 730 College Avenue, (ph.) 405.325.3852, or [adrc@ou.edu](mailto:adrc@ou.edu). **Requests for accommodations must be received and authorized by your instructor in written form no less than two weeks in advance of need, in order to allow adequate time to review and make appropriate arrangements. No accommodation should be assumed until authorized by your instructor.**

**University calendar:** The last day to withdraw from the class and receive an automatic “W” is **Friday, April 14<sup>th</sup>, 2023**. After this date, you can obtain a late withdrawal from a course only by receiving special permission from the dean of the college. Such permission is VERY difficult to get. You can find information (including holidays, and last day for withdrawal) about the university calendar on webpage <https://www.ou.edu/registrar/academic-calendars/spring-2023-academic-calendar>.

**Religious observance:** It is the policy of the University to excuse the absences of students that result from religious observances and to reschedule examinations and additional required classwork that may fall on religious holidays, without penalty.

**Adjustments for Pregnancy/Childbirth Related Issues:** Should you need modifications or adjustments to your course requirements because of documented pregnancy-related or childbirth-related issues, please contact your professor or the Accessibility and Disability Resource Center at 405/325-3852 as soon as possible. Also, see the Institutional Equity Office [FAQ on Pregnant and Parenting Students' Rights](#) for answers to commonly asked questions.

**Title IX resources and reporting requirement:** Anyone who has been impacted by gender-based violence, including dating violence, domestic violence, stalking, harassment, and sexual assault, deserves access to resources so that they are supported personally and academically. The University of Oklahoma is committed to offering resources to those impacted, including: speaking with someone confidentially about your options, medical attention, counseling, reporting, academic support, and safety plans. If you would like to speak with someone confidentially, please contact [OU Advocates](#) (available 24/7 at 405-615-0013) or another confidential resource (see [“Can I make an anonymous report?”](#)). You may also choose to report gender-based violence and discrimination through other means, including by contacting the [Institutional Equity Office](#) (ieo@ou.edu, 405-325-3546) or police (911). Because the University of Oklahoma is committed to the safety of you and other students, I, as well as other faculty, Graduate Assistants, and Teaching Assistants, are mandatory reporters. This means that we are obligated to report gender-based violence that has been disclosed to us to the Institutional Equity Office. This includes disclosures that occur in: class discussion, writing assignments, discussion boards, emails and during Student/Office Hours. For more information, please visit the [Institutional Equity Office](#).

**Final Exam Preparation Period:** Pre-finals week will be defined as the seven calendar days before the first day of finals. Faculty may cover new course material throughout this week. For specific provisions of the policy please refer to OU's [Final Exam Preparation Period policy](#).



**Emergency Protocol:** During an emergency, there are official university [procedures](#) that will maximize your safety.

**Severe Weather:** If you receive an OU Alert to seek refuge or hear a tornado siren that signals severe weather.

1. Look for severe weather refuge location maps located inside most OU buildings near the entrances
2. Seek refuge inside a building. Do not leave one building to seek shelter in another building that you deem safer. If outside, get into the nearest building.
3. Go to the building's severe weather refuge location. If you do not know where that is, go to the lowest level possible and seek refuge in an innermost room. Avoid outside doors and windows.
4. Get in, Get Down, Cover Up
5. Wait for official notice to resume normal activities.

Additional [Weather Safety Information](#) is available through the Department of Campus Safety.

**Armed Subject/Campus Intruder:** If you receive an OU Alert to shelter-in-place due to an active shooter or armed intruder situation or you hear what you perceive to be gunshots:

1. Avoid: If you believe you can get out of the area WITHOUT encountering the armed individual, move quickly towards the nearest building exit, move away from the building, and call 911.
2. Deny: If you cannot flee, move to an area that can be locked or barricaded, turn off lights, silence devices, spread out, and formulate a plan of attack if the shooter enters the room.
3. Defend: As a last resort fight to defend yourself.

For more information, visit [OU's Emergency Preparedness site](#).

[Shots Fired on Campus Procedure – Video](#)

**Fire Alarm/General Emergency:** If you receive an OU Alert that there is danger inside or near the building, or the fire alarm inside the building activates: 1. LEAVE the building. Do not use the elevators. 2. KNOW at least two building exits 3. ASSIST those that may need help 4. PROCEED to the emergency assembly area 5 ONCE safely outside, NOTIFY first responders of anyone that may still be inside building due to mobility issues. 6. WAIT for official notice before attempting to re-enter the building. [OU Fire Safety on Campus](#)

**Mental Health Support Services:** If you are experiencing any mental health issues that are impacting your academic performance, counseling is available at the University Counseling Center (UCC). The Center is located on the second floor of the Goddard Health Center, at 620 Elm Rm. 201, Norman, OK 73019. To schedule an appointment call (405) 325-2911. For more information, please visit [University Counseling Center](#).