



Study-Unit Description

CODE	BKF3031
TITLE	International Finance
LEVEL	03 - Years 2, 3, 4 in Modular Undergraduate Course
ECTS CREDITS	4
DEPARTMENT	Banking and Finance

DESCRIPTION

The study-unit deals with the theory and analysis of the basic theories of exchange rate behaviour in International Economics. It covers the theoretical and policy implications of such topics as exchange rate overshooting, purchasing power parity, the relationship between output and the exchange rate in the short run, fixed exchange rates, global capital markets, market efficiency and International macroeconomic co-ordination.

Study-unit Outline

1. Balance of Payments and National Income Accounting

- National Income Identity for an open Economy.
- Current Account and foreign Indebtness.
- Saving, Government Budget Deficits, and the Current Account.
- Capital Account.
- Official Reserve Transactions.

KO: ch 12

R: ch 14

G: ch 4

GR: ch 9

M: ch 1, 2

2. The Foreign Exchange Market

- Exchange Rates and International Transactions.
- Characteristics of the Foreign Exchange Market.
- Interest Rate Parity.
- Expectations and Equilibrium Exchange Rate.

KO: ch 13

G: ch 1, 2, 3

GR: ch 3, 4

M: ch 3, 4

3. Money, Interest Rates and Exchange Rates

- Linking Money, the Interest Rate and the Pricing Level.
- Money Supply and the Exchange Rate.
- Exchange rate Dynamics.
- Overshooting.

KO: ch 14

R: ch 6

4. The Price Level and the Exchange Rate in the Long Run

- Law of one price.
- Purchasing Power Parity.
- Problems with Purchasing Power Parity.
- The Real Exchange Rate.
- The Long-run Nominal and real exchange rate.

KO: ch 15

R: ch 2, 3

G: ch 5

GR: ch 8

M: ch 5

5. Output and the Exchange Rate in the short run

- Aggregate demand in an open economy.
- Output and asset markets equilibrium.
- Temporary and permanent shifts in monetary and fiscal policies.
- The Marshall-lerner condition.
- Current Account Dynamics.

KO: ch 16

R: ch 5

6. Fixed Exchange Rates

- Foreign Exchange Intervention.
- Sterilisation.
- Equilibrium under a fixed exchange rate.
- Stabilisation Policies.
- Managed Floating.

KO: ch 17

M: ch 6, 7, 8

7. Macroeconomic Policy Goals and co-ordination

- International External Balance.
- The Gold Standard.
- The Bretton Woods system.
- Floating Exchange Rates.
- Lessons since 1973.

KO: ch 18, 19

GR: ch 1, 2

M: ch 9, 10

8. Optimum Currency Area

- Theory of Optimum Currency Areas
- Economic Integration
- Benefits and Costs of a Fixed Exchange Rate
- European Economic and Monetary Union.

KO: ch 20

9. Global Capital Markets

- The International Capital Market
- Offshore Currency Trading.
- Offshore Banking
- The Eurodollar and Eurocurrency Market.
- Regulating International Banking.

KO: ch 21

G: ch 9, 10, 12

GR: ch 12

M: ch 11

10. Currency Forecasting and Market Efficiency

- Theories of Exchange-Rate Determination.
- Fundamental versus Technical Forecasting.
- Tests of Market Efficiency.

R: ch 12

G: ch 6

GR: ch 7, 10

Main Text/s and any supplementary readings:

Basic textbook

- Paul KRUGMAN, Maurice OBSFELD and Marc MELITZ, International Economics; Theory and Policy, 2011, Ninth Edition, ADDISON-WESLEY (KO).

Supplementary Textbooks

- Michael R. ROSENBERG, Currency Forecasting: A guide to Fundamental and Technical Models of Exchange Rate Determination, 1996, IRWIN (R).

- Ian H. GIDDY, Global Financial Markets, 1994, D.C. Heath and Company, (G).

- J. Orlin GRABBE, International Financial Markets, Third Edition, 1995, Prentice Hall (GR).

Other useful texts

- Michael MELVIN, International Money and Finance, Seventh Edition, 2003, Harper & Row, (M).

- Richard E. CAVES, Jeffrey A. FRANKEL and Ronald W. JONES, World Trade and Payments: An Introduction, 10th Edition, 2007, Little, Brown (CJ).

- Peter B. KENEN, The International Economy, 2000, Prentice Mail, (K).

Readings

- Robert E, BALDWIN and J. DAVID RICHARDSON, International Trade and Finance Readings, 1984, Little, Brown, (BR).
- The Economist. Excellent source of useful weekly analysis and information on world economics, politics and finance. Highly recommended.

STUDY-UNIT TYPE Lecture and Tutorial

METHOD OF ASSESSMENT	Assessment Component/s	Assessment Due	Sept. Asst Session	Weighting
	Examination (2 Hours)	SEM2	Yes	100%

LECTURER/S Joseph Falzon

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The University reserves the right to make changes in case errors are detected after publication.

The availability of optional units may be subject to timetabling constraints.

Units not attracting a sufficient number of registrations may be withdrawn without notice.

It should be noted that all the information in the description above applies to study-units available during the academic year 2022/3. It may be subject to change in subsequent years.

<https://www.um.edu.mt/course/studyunit>