

# ***ECONOMICS 5333: FOREIGN EXCHANGE MARKETS AND INTERNATIONAL MONETARY INSTITUTIONS***

FALL 2011, MWF 11:15-12:05, HCB 309

INSTRUCTOR: David VanHoose      OFFICE HOURS:  
 OFFICE: 339 Hankamer              MWF 8:00-9:00 & 12:15-1:15;  
 OFFICE PHONE: 710-6206          or by appointment, or when I am  
 E-MAIL: [David\\_VanHoose@baylor.edu](mailto:David_VanHoose@baylor.edu)      in my office and have time.

COURSE DESCRIPTION: Three hours. Description and analysis of currency markets, emphasizing their roles in the business environment. Topics include spot, forward, futures, and options markets, currency and interest rate swaps, models of exchange rate determination, the operation and relative merits of fixed and flexible exchange rate systems, and the management of exchange rate risk by business. Prerequisite(s): Economics 2306 and 2307, or Economics 1305 and junior standing.

TEXT: Joseph Daniels and David VanHoose, *International Monetary and Financial Economics*, 3<sup>rd</sup> Edition, 2005.

## I. COURSE OVERVIEW AND OBJECTIVES:

The goal of this course is to help students develop a concrete understanding of international monetary and financial economics, which encompass the spot market for foreign exchange, exchange rate arrangements, forward currency markets, foreign currency derivatives, international financial integration, international banking and payment arrangements, central banking, balance-of-payments determination, and open-economy macroeconomic theory and policy.

## II. GRADES AND GRADING POLICIES

### A. Examinations

1. Administered in a short answer-essay format.
2. "Make-up" policy:
  - a. Midterm exams:
    - 1) There are NO "make-up" midterm exams. NO EXCEPTIONS
    - 2) There are NO "early" midterm exams. NO EXCEPTIONS
    - 3) The weight of a missed midterm exam is *automatically* dropped; if all three midterm examinations are taken, the lowest score is automatically dropped. If two midterm examinations are missed, the weight of one midterm examination is placed on the final exam, which then is worth 250 points. If all midterm examinations are missed, the final exam counts 350 points. NO EXCEPTIONS
  - b. Quizzes: There are no makeup quizzes. NO EXCEPTIONS
3. Every student must take the final exam. There are NO "early" final exams. "Make-up" finals are given only if the student provides acceptable written documentation of circumstances that prevented the student's presence at the scheduled time. NO EXCEPTIONS
4. The final exam date and time appears in the schedule of classes and this syllabus, so it is your responsibility to know it. If you miss the final exam

simply because you did not know the date and time of the exam, you will earn a score of zero for the exam.

#### B. Quizzes

1. At least four quizzes will be given on dates to be announced in class.
2. Each quiz will count 50 points; the best three scores will be counted in your final point total.

#### C. Grading

1. Each student's final grade is based on his/her total points earned on exams and quizzes, distributed as follows:

Midterm Exam #1	(September 16, in class)	100 Points
Midterm Exam #2	(October 12, in class)	100 Points
Midterm Exam #3	(November 18, in class)	100 Points
<b>Top Two Midterm Scores</b>		<b>200 Points</b>
Quizzes	(Dates to be announced; best three scores)	150 Points
Final Examination	(December 8, 2:00-4:00 P.M.)	150 Points
<b>Course Total</b>		<b>500 Points</b>

2. Determination of a final course grade is based on the following scale. I do not plan to deviate from this scale.

460 - 500 (92 - 100%) A	360 - 379 (72 - 75.99%) C+
440 - 459 (88 - 91.99%) A-	320 - 359 (64 - 71.99%) C
420 - 439 (84 - 87.99%) B+	300 - 319 (60 - 63.99%) C-
400 - 419 (80 - 83.99%) B	250 - 299 (50 - 59.99%) D
380 - 399 (76 - 79.99%) B-	0 - 249 ( 0 - 49.99%) F

3. Attendance: I take attendance and follow Hankamer's attendance policies. This means that if you are absent from more than 12 class meetings, you will fail this course. Sometimes students seem to regard this limit as a target. Pursuing this strategy typically results in a low grade in the course.
  - a. It is every student's obligation to be in class. Class meeting time is the single best opportunity for me to teach you the course material *and* to communicate to you important facts about exams, class assignments, etc. A seating chart will be constructed within one or two class meetings. You will have the opportunity to help determine which seat you are assigned, and you will be *required* to sit in that seat for the entire semester. (See me, however, if a problem develops.)
  - b. Special note to students who plan to miss a large number of classes: It is Hankamer's policy that both officially approved and unapproved absences count toward the 25 percent attendance limit for passing this course. Thus, if participation in a university-sponsored organization causes you miss several classes, those are absences that count toward Hankamer's 25 percent limit.
4. "Incomplete" Policy:
  - a. A student who misses the final exam will be awarded a temporary grade of incomplete only if a letter is received from a health care provider (or

other source I deem acceptable) attesting to an illness or personal or family emergency. In the absence of such proof, the student will be awarded a grade based on his/her point total leading up to the final exam, including the zero earned on the final exam.

- b. A student who misses the final exam and has an excused absence must take a make-up final exam as soon as possible after the conclusion of the semester and no later than the deadline specified by University policy.
  - c. Special note to students who plan to miss a large number of classes: It is Baylor's policy that both officially approved and unapproved absences count toward the 25 percent attendance limit for passing this course. Thus, if participation in a university-sponsored organization causes you miss several classes, those are absences that count toward Baylor's 25 percent limit.
5. Note to students who "need" a particular minimum grade in this course to meet graduation requirements: It is your responsibility to earn the grade that you wish to obtain to meet graduation requirements.
  6. Note to students qualifying for support through Baylor's Office of Access and Learning Accommodation: To utilize OALA facilities for purposes of this course, you must do the following:
    - a. See me within the first week of classes to notify me of your OALA qualification and to discuss addressing your specific qualifications for OALA coverage within the context of this course.
    - b. Turn in each form requesting to take quizzes and examinations with OALA at least one week before the scheduled date of the quiz or examination. (In some circumstances, I may be willing to relax this requirement, but only if doing so is feasible.) I generally do not allow OALA quizzes or tests to begin earlier than the scheduled time for the rest of the class.

## 7. Official Baylor Honor Code Statement:

### **Students and Academic Integrity**

Baylor University policies require that students, staff, and faculty act in academic matters with utmost honesty and integrity. *It is the responsibility of each student to be familiar with the Honor Code and other university policies and procedures affecting academic integrity.* Students are also encouraged to consider these suggestions:

- Review each class syllabus for expectations your professor may have regarding course work and class attendance that go beyond those stated in university policies and guidelines and the Honor Code.
- Be familiar with the importance of academic integrity in class. Understand how citations show respect for other scholars.
- Talk with your professor if you are confused about citation practices or other research standards.
- Make sure you understand not only what counts as plagiarism and cheating, but also how to avoid engaging in these practices. Manage your time, take notes correctly, and use the Internet appropriately.
- Make sure you understand your professor's guidelines about working with other students on assignments, receiving assistance from other students on assignments, citing sources, using notes or exams from previous or other classes, and accessing information during an examination. If in doubt – ASK YOUR PROFESSOR!

- Understand that penalties can result from dishonest conduct, ranging from failure of the assignment to immediate expulsion from the university.

For more information see the Baylor University Honor Code on the Academic Integrity Web page or contact the Office of Academic Integrity at 710-8882 or [Academic\\_Integrity@baylor.edu](mailto:Academic_Integrity@baylor.edu).

8. Note: Although my intention is to follow all policies laid out in this syllabus, I reserve the right to make changes in response to unanticipated events.

### III. COURSE OUTLINE (Dates subject to some alterations.)

<u>Date</u>	<u>Assignment</u>	<u>Topic</u>
August 22	Attend class Read Chapter 1	Introduction and overview
Aug. 24	Chapter 1	The balance of payments
Aug. 26-29	Chapter 2	Exchange rates and the spot market for foreign exchange
Aug. 31	Chapter 2 (Cont'd)	Purchasing power parity
Sept. 2	Chapter 3	Exchange rate arrangements
Sept. 5	Review Ch. 1	Labor Day—No class meeting
Sept. 7	Chapter 4	Foreign exchange risks and the forward currency market
Sept. 9	Chapter 4	Interest parity conditions
Sept. 12	Chapter 5	Currency futures
Sept. 14	Chapter 5 (Cont'd)	Currency options and swaps
<b>Sept. 16</b>	<b>Midterm Exam #1</b>	<b>Chapters 1-4</b>
Sept. 19-21	Chapter 6	International banking, payments, & central banks
Sept. 23-26	Chapter 8	The Marshall-Lerner condition and the J-curve
Sept. 28	Chapter 8 (Cont'd)	The absorption approach to the balance of payments
Sept. 30	Chapter 9	The monetary approach in a small country
Oct 3	Chapter 9 (Cont'd)	The monetary approach in two countries
Oct. 5	Chapter 9 (Cont'd)	The portfolio approach
Oct. 7-10	Chapter 10	<i>IS-LM-BP</i> model

<u>Date</u>	<u>Assignment</u>	<u>Topic</u>
<b>Oct. 12</b>	<b>Midterm Exam #2</b>	<b>Chapters 5-10</b>
Oct. 14	No class	Fall Break
Oct. 17-19	Chapter 11	Fixed exchange rates and economic performance: small open economies and interdependent nations
Oct. 21	No class	Study Chapter 11
Oct. 24-26	Chapter 12	Floating exchange rates and economic performance: small open economies and interdependent nations
Oct. 28	No class	Study Chapter 12
Oct. 31	Chapter 12	Fixed versus floating exchange rates
Nov. 2-7	Chapter 13	Aggregate demand, aggregate supply, and policymaking in open economies
Nov. 9	Chapter 14	The assignment problem
Nov. 11	Chapter 14 (Cont'd)	Exchange-rate overshooting
Nov. 14-16	Chapter 14 (Cont'd)	Globalization, policymaking, and new directions in open economy policy analysis
<b>Nov. 18</b>	<b>Midterm Exam #3</b>	<b>Chapters 11-14</b>
Nov. 21	Chapter 15	International policy coordination
Nov. 23-25	Thanksgiving Holiday—No class meetings	
Nov. 28- Dec. 2	Chapter 15 (Cont'd)	International policy coordination, monetary union, and target zones
Dec. 5`	Final Q&A	Review
<b>Dec. 8</b>	<b>2:00-4:00 PM</b>	<b>Final examination: the course</b>