University of Maryland
Master of Professional Studies in Applied Economics
International Macroeconomics and Finance: ECON 683

Professor: Rehim Kilic
Lectures: Mondays 6:45 – 9:30 p.m.
(with a 15-minute break somewhere between 7:45 and 8:30)
Semester: Fall 2015
E-mail: rkilic@umd.edu
Office Hours: 30 minutes before class and by appointment
Teaching Assistant: Burak Turkgulu, email: MastersTA@econ.umd.edu

Prerequisites: ECON 642; and must have completed or be concurrently enrolled in ECON 645.


Note: The textbook provides a good organizational structure for the course, and is useful for background. But the book presents the material at a lower level than would be appropriate for ECON 683. My lectures will build on the textbook chapters by presenting the same material with the appropriate level of rigor. Students will be expected to apply what is taught in the prerequisite courses.

Overview: This course aims to introduce students to three main areas in international finance; (1) money and exchange rates, (2) the balance of payments, and (3) the role of policy. Students will be exposed to the real world data on exchange rates and monetary fundamentals that can be used to understand the behavior of exchange rates and monetary policy. We study national and international accounts and the balance of payments (BOP), and costs and benefits of financial globalization (an increasingly important topic). We also cover issues of emerging markets currency crisis, the global financial crisis of 2007-2008, and the crisis of Euro.

Course Objectives:
This course aims to introduce students three main areas in international finance; (1) money and exchange rates, (2) the balance of payments accounts, and (3) the role of economic policy. To this end, the course is designed to provide students a basic knowledge of international financial markets. It is a combination of lectures and discussions covering both theory and real-world policies and events. As indicated above, the course is broadly divided into three parts – foreign exchange markets, international financial transactions, and economic policies. In the first part, we will focus on exchange rate behavior, foreign exchange rate markets, study the determinants of the exchange rates in the short run and in the long run and explore how the exchange rate affects the economy. The second part of the course studies international financial transactions in a global macroeconomy, starting with basic accounting and measurement and then moving on to understanding the causes and consequences of imbalances in the flows and the accumulation of debts, credits, and wealth of nations. The goal of the last part of the course is to understand how the choices governments make about monetary and fiscal
policies, or about exchange rate regime and capital mobility, affect economic outcomes, and why and how crises occur.

Given the description above, the learning objectives of this course are the following:
- Apply economic theory in specific contexts related to international macroeconomics and finance
- Become familiar with the most important sources of data related to the topic
- Appropriately apply econometric techniques for the analysis of data in the field
- Use both theory and empirical skills to analyze international macroeconomic policy alternatives
- Become familiar with the most important institutional players in the field of international macroeconomics
- Gain experience writing policy analysis documents similar to the internal documents prepared by analysts at the International Monetary Fund and Moody’s Analytics.

Grading:
Exams:
- Exam 1 (25%),
- Exam 2 (25%),
- No cumulative Final Exam.

Class participation (5%):
I strongly encourage students to participate in class by answering questions that I pose and by posing questions of their own. I have the following goals in mind:
- I want class participation to be a universal experience.
- I want class participation to reflect the perspective of the typical student, and not just a small number of students who know the material inside and out.
- I want all students to be actively thinking about what is happening in lecture.
- I want students to come to class. Please don’t be afraid to ask/answer questions in class.

Project and Online Discussions (30%):
The course project involves working on four empirical puzzles/anomalies in International Macroeconomics. The objective of the project is to provide you opportunity to conduct empirical analysis of some of the concepts that we will cover during the semester. The project has four sub-components and will require you to combine these into a final project paper by the end of the semester. Each sub-component will last about 2 weeks. You will be required to read one academic paper and asked to conduct an empirical analysis on the empirical problem discussed in the paper (and also in the class). In order to be able to successfully complete the project you will be expected to be familiar with some of the econometrics tools (at a minimum linear regression and possibly some time series methods in econometrics). You will also use Stata in implementing the empirical analysis and tests. The project also involves your participation on a weekly online discussion/analysis. Usually, we will be discussing some of the issues on the paper that you will be reading (I may post even questions to ensure your understanding of the key material in the paper) and issues related to data, econometric methods, and issues related to implementation in Stata. During the second week of the mini projects, you will be required to post your results in Tables and/or Figures and provide a brief discussion of your findings. I will provide feedback on your reported results and your discussions. Although, I will check online discussions and guide and provide feedback, I expect you to be actively participating and asking and answering questions from me and your peers. Your participation as a group on online discussions worth 5% while your project worth 25% (totaling 30%) of your final course grade.
Therefore, you cannot passively follow the ongoing discussions. The online discussions should also facilitate your work and analysis in making progress towards your final group project.

You will be assigned into a group (2 or 3 people groups depending on the size of the class) and each group will have one country to work on. The project will require you to use data on the given country and the United States to investigate the empirical problem by using some relevant econometric tools. Therefore, through the project you must learn various features of the country you are assigned to. You can use various web pages and other academic or non-academic reports on the country. You may want to also follow the Economist and/or the Financial Times to gain a better understanding of the relatively recent macroeconomic issues in the country. The set of countries are Australia, Canada, Europe, Switzerland, Japan, New Zealand, and the United Kingdom. Typically, the currencies of these countries are most actively traded in FX markets. In a nutshell, below are the empirical issues/puzzles you will be analyzing in the context of the project (The cited papers will be available online):

- Uncovered Interest Rate Parity Puzzle: (Fama, 1984)
- Purchasing Power Parity Puzzle (Rogoff, 1996)
- Disconnect Puzzle (Meese and Rogoff, 1983)
- Allocation Puzzle (Gourinchas and Jeanne, 2013)

I’ll post the papers for you on our class webpage. Your final task of the project will involve (i) writing a final short paper (not longer than 15 pages including tables and figures with 11 Times News Roman font); and (ii) preparing a poster to communicate your paper to your classmates and to me. Your final paper will be graded as your project grade. Therefore, your final paper cannot be just combination of four components you will be working on. It should combine results and findings from these mini projects into a meaningful term project paper on the country you are assigned. Your poster will be graded as bonus. Depending on the quality of your work, you may obtain up to 3 points (3% of your final course grade) as bonus. On November 20th or 21st, we will be holding a one-hour poster session where you will bring your posters to present to your audience (your class). Like any scientific poster session you may expect to hear questions on your research and hence you must be ready to answer these questions.

Problems Sets (15%):
There will be 4 problem sets (PS). Each PS will worth 5% but I will use the highest 3 out 4 PS (totaling 15%) in determining your PS score. This means that you can drop your lowest graded PS! The answer keys to the problem sets will be posted on the date they are due. Each problem set will involve some analytical and empirical problems. You must submit your solutions to PS by 10pm on the day they are due. Solutions will be available after 10 pm and no late submissions will be accepted irrespective of your reason(s)!

- PS 1 due on September 18, 2015---Note this is a Friday!
- PS 2 due on September 28, 2015--- Note this is a Monday!
- PS3 due on October 23, 2015 --- Note this is a Friday!
- PS 4 due on November 2, 2015 --- Note this is a Monday!

Final Course Grades
At the end of the semester I will simply add up each student’s course points. This will be a number between 0 and 100 (0 to 25 points earned on Exam 1, 0-25 on Exam 2, etc.). I do not grade on a curve. Numerical course grades will be translated into letter grades as follows:
I might give an A+ to a student or two at the very top of the class’ grade distribution.

Outline: Topics and Schedule:*

1. The Global Macroeconomy,  
   Chapter 1
2. Introduction to Exchange Rates and the Foreign Exchange Market,  
   Chapter 2
3. Exchange Rates I: The Monetary Approach in the Long Run,  
   Chapter 3 & Chapter 11, Section 1
4. Exchange Rates II: The Asset Approach in the Short Run,  
   Chapter 4 & Chapter 11, Section 2 PS2 on Ch. 3 and Ch.11 Section 1 due on October 21st.
5. National and International Accounts: Income, Wealth, and the Balance of Payments,  
   Chapter 5

Exam 1- October 5, 2015

   Chapter 6
7. Balance of Payments II: Output, Exchange Rates, and Macroeconomic Policies in the Short Run,  
   Chapter 7
8. Fixed versus Floating: International Monetary Experience,  
   Chapter 8
9. Exchange Rate Crises: How Pegs Work and How They Break,  
   Chapter 9
10. The Euro,  
    Chapter 10

Exam 2- November 16, 2015

- Since we will be missing the class on Labor Day (September 7th), we will be holding an extra class on Friday, September 11.
**Standard Program and University Policies**

**Course Website:** Copies of the course syllabus, your grades, and other relevant links and documents will be posted on the course’s ELMS/Canvas website. You can access the site via www.elms.umd.edu. You will need to use your University of Maryland “directory ID” and password.

**Email:** Email is the primary means of communication outside the classroom, and I will use it to inform you of important announcements. Students are responsible for updating their current email address via http://www.testudo.umd.edu/apps/saddr/ AND for paying attention to messages I send to the class via ELMS. Failure to check email, errors in forwarding email, and returned email due to “mailbox full” or “user unknown” will not excuse a student from missing announcements or deadlines. I will do my best to respond to email within 36 hours.

**Contact Hours:** Three credit courses at the University of Maryland require a minimum amount of contact between instructors and students. Our courses’ 12 weekly 3-hour meetings only satisfy 80% of the university’s contact requirement. The other 20% is usually satisfied by mandatory and graded online contact. Instructors have some discretion in how they structure the online component of their course. In principle, the contact hours requirement could also be satisfied by scheduling 3 additional 3-hour meetings per term, or one additional 45-minute meeting per week. The online components of our courses are a more flexible way to ensure that our program’s courses provide the same level of student-instructor contact as a traditional 15-week, face-to-face, 3-credit course at the University of Maryland.

**Work Load:** Mastering the material covered in this course requires a significant amount of work outside of class. Students should expect to spend more time outside of class than in class – typically at least twice as much time. The courses in our program are 12-week courses that cover all the same material as a traditional semester-long 3-credit course. The compressed schedule makes it possible to complete our degree in just 15 months if you take 2 courses each term. But the compressed schedule also implies an accelerated pace. If we’re going to cover all the same material as a traditional semester-long 3-credit masters-level course, we need to cover the material quickly.

**Academic Integrity:** The University of Maryland has a nationally recognized Code of Academic Integrity, administered by the Student Honor Council. This Code sets standards applicable to all undergraduate and graduate students, and you are responsible for upholding these standards as you complete assignments and take exams in this course. Please make yourself aware of the consequences of cheating, fabrication, facilitation, and plagiarism. For more information see www.studenthonorcouncil.umd.edu.

**Student Conduct:** Students are expected to treat each other with respect. Disruptive behavior of any kind will not be tolerated. Students who are unable to show civility to one another or myself will be referred to the Office of Student Conduct. You are expected to adhere to the Code of Student Conduct.

**Medical Excuses:** If you miss any class meetings for any reason, you are still responsible for all material covered during the meeting you missed. It is your responsibility – not the instructor’s – to get yourself caught up in the course.

If you need to miss an exam or other course deadline because of illness, injury, or some other emergency: Follow doctor's orders and get documentation. Get in touch with the instructor as soon as you’re able – preferably prior to missing the exam or deadline. Communicate with the instructor to make up the course requirement as soon as possible. You are entitled to recover before you make up the course requirement, but you are not entitled to extra days to study beyond the time the doctor's note says you’re incapacitated. If you are incapacitated for more than a week or so beyond the end of the term, your grade in the course will be an “Incomplete”. Once you make up the course requirement the instructor will change your "I" to the appropriate letter grade.

**School Closings and Delays:** Information regarding official University closing and delays can be found on the campus website and the snow phone line: (301) 405-SNOW (405-7669). Since our program is an evening program in downtown Washington, DC, rather than a day program in College Park, we do not always cancel classes on the same days as the College Park campus. The program director will always announce cancellation information to the program as an announcement on the program’s ELMS/Canvas site. This will generally be done by 1:00 p.m. on days when weather or other factors are an issue.

**Students with Disabilities:** The University of Maryland does not discriminate based on differences in age, race, ethnicity, sex, religion, disability, sexual orientation, class, political affiliation, and national origin. Reasonable
accommodations will be made to students with documented disabilities. I will make every effort to accommodate students who are registered with the Disability Support Services (DSS) Office and who provide me with a University of Maryland DSS Accommodation form.

**Academic Progress:** The graduate school requires that students maintain a GPA of at least 3.0. Students whose cumulative GPA falls below 3.0 will be placed on academic probation by the graduate school. Students on academic probation must ask the program’s director to petition the graduate school if they want to remain in the program. The petition must include a plan for getting the student’s GPA up to at least 3.0. Students who do not live up to their plan can be forced to leave the program without having earned the degree.

**Building Access:** The door to the building at 1400 16th Street is unlocked on weekdays until 7:00 p.m. Students who arrive after 7:00 p.m. or on weekends will find the door locked. The building’s security guard is stationed at a desk just inside the door until 11:00 p.m. and will let you in. You can also call the phone on the security guard’s desk by dialing (202) 328-5158. If the security guard happens to be away from his or her desk when you arrive, you can pick up the black phone to the right of the door at 1400 16th Street. You will be connected to the company that handles security for our building. If you tell them you are with the University of Maryland, they should ask you for a password. The password is “Drawbridge”. When you tell them the password, they will be able to unlock the door for you.

Courses that require students to do empirical work should include the following about Stata:

**Purchasing Stata:** Our program’s curriculum is designed to use Stata as the statistical software. Other leading statistical software packages include SAS and R. We have decided to focus on one package to enhance the continuity across courses in our program. A more superficial familiarity with multiple packages might be just as good as a deep understanding of a single package. But working with multiple packages would also result in less time to learn econometrics.

Students in our program should purchase Stata. Stata offers different “flavors” and different lengths of license. Price varies according to these two factors. A description of the flavors is given here:

http://www.stata.com/products/which-stata-is-right-for-me/

Stata offers student discounts via the "Gradplan":

http://www.stata.com/order/new/edu/gradplans/

The least expensive appropriate option is $75 for a 6-month license for “Stata IC”. A one-year license is $125, and a perpetual license (which never expires) is $198. We do not recommend “Small Stata”. Small Stata is too limited for the coursework our program.

Under the Gradplan, you may install Stata on up to three different computers. You may also eventually upgrade your version of Stata and your license, at a discount, if you wish.