

ECON 666: Global Capital Markets and the Macroeconomy

Professor: Javier Bianchi

Lectures: Monday-Wednesday 02:30 PM - 03:45 PM, SOC SCI 6102

Office hours: Wednesday 1:00-2:30 PM. You can also contact me by e-mail to arrange another time if that time does not suit you.

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Course Description: This is an undergraduate course that covers basic elements of open-economy macroeconomics needed to understand the role of international financial markets on the economy. Some of the topics covered are balance of payments, international financial markets, exchange rate determination, international monetary system, financial crises, and capital flows. We will develop a theoretical framework for understanding how saving, investment, the current account, international capital flows, and the demand for money are determined in the equilibrium by modeling how households, firms and the government make their individual decisions. The final lectures will be devoted to study the role of international financial markets in the global financial crisis. In particular, we discuss the policy issues related to global imbalances, currency unions and sovereign debt crises.

Math and Econ Prerequisites: Students must have completed the following: Econ 301 or Econ 311; and Econ 302 or Econ 312; and received a grade of B or higher in either Math 221 or Math 275 Basic mathematical background is important. In particular, students are expected to be familiar with simple constrained optimization problems with equality constraints. I will briefly review these concepts.

Class Participation: Students are expected to be prepared for each lecture by studying the relevant textbook chapters. Furthermore, you are expected to follow regular financial news (e.g. Financial Times, The Economist, WSJ) to help connect the theoretical concepts to real world events. I will occasionally assign readings of specific news.

Grading: The course is graded based on problem sets (10%), a midterm (30%) and a final exam (60%). Homeworks will be submitted the week after the problem set is posted. No late problem sets will be accepted. You may miss one problem set. There is no make-up examination for the mid-term exams: in case of (justified) absence, the final exam will count for 90%. Make-up examination for the final exam only in extreme cases (personal or medical emergencies).

Midterm: Wednesday, March 20

Final: Sunday, May 12: 2:45PM - 4:45PM

Textbook: The official textbook is *International Macroeconomics*, by Stephanie Schmitt Grohe and Martin Uribe <http://www.columbia.edu/~mu2166/UIM/notes.pdf>.

Policy on joint work: I encourage you to work together on homeworks. However, I ask that each person write up his or her own answers separately. However, you should feel free to discuss the questions and answers. Also, if you do work with other people, please list who you worked with on the first page of the homework.

Outline:

1. Accounting of International Capital Flows
2. Two period model of current account determination
3. Twin Deficits
4. Debt Crises
5. Interest Parity Condition
6. Exchange Rate Determination

Grievance Procedure The Department of Economics has developed a grievance procedure through which you may register comments or complaints about a course, an instructor, or a teaching assistant. Before utilizing the formal steps of this procedure, we ask that you utilize two other means of addressing your comments: our regular course evaluations, anonymous and confidential commentaries solicited at the end of each semester in every Economics class, and also by direct communication with the instructor or teaching assistant involved. The formal grievance procedure is designed for situations where neither of these channels is appropriate and where one or both of these have been tried.

If you wish to file a grievance, you should go to Room 7238 Social Science and request a Course Comment Sheet. When completing the comment sheet, you will need to provide a detailed statement that describes what aspects of the course you find unsatisfactory. You will need to sign the sheet and provide your student identification number, your addresses, and a phone where you can be reached. The Department will investigate comments fully and respond in writing to complaints.

Your name, address, phone number, and student ID number will not be revealed to the instructor or teaching assistant involved and will be treated as confidential. The Department needs this information because it may become necessary for a commenting student to have a meeting with the department chair or a nominee to gather additional information. Your street and e-mail addresses are necessary for providing a written response.

Misconduct Statement Academic integrity is critical to maintaining fair and knowledge based learning at UW Madison. Academic dishonesty is a serious violation; it undermines the bonds of trust and honesty between members of our academic community, degrades the value of your degree and defrauds those who may eventually depend upon your knowledge and integrity. Examples of academic misconduct include but are not limited to: cheating on an examination (copying from another student's paper, referring to materials on the exam other than those explicitly permitted, continuing to work on an exam after the time has expired, turning in an exam for re-grading after making changes to the exam), copying the homework of someone else, submitting for credit work done by someone else, stealing examinations or course materials, tampering with the grade records or with another student's work, or knowingly and intentionally assisting another student in any of the above.

The Dept. of Economics will deal with these offenses harshly following UWS14 procedures (<http://students.wisc.edu/saja/misconduct/UWS14.html>):

1. The penalty for misconduct in most cases will be removal from the course and a failing grade.
2. The department will inform the Dean of Students as required and additional sanctions may be applied.
3. The department will keep an internal record of misconduct incidents. This information will be made available to teaching faculty writing recommendation letters and to admission offices of the School of Business and Engineering.

If you think you see incidents of misconduct, you should tell your instructor about them, in which case they will take appropriate action and protect your identity. You could also choose to contact our administrator (Mary Beth Ellis: mellis@ssc.wisc.edu) and your identity will be kept confidential.