INTERNATIONAL MONETARY ECONOMICS (first 3 cfu)

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Detailed Syllabus for Examination

Preliminary Assessment

Neoclassical Economics and Keynesian Economics: Chapters 1, 2, 3 and 8 in Lucarelli-Lunghini's book.

Balance of Payments: Vernengo's Entry, Balance of Payments, downloadable on web site, pp. 1-4.

Neoclassical Exchange Rate determination

Purchasing power parity: Harvey's book, pp. 13-16; Harvey's Entry, Exchange rates, downloadable on web site.

from Mercantilism to Hume's theory: LaHaye's Entry, Mercantilism, downloadable on web site.

the Robinson-Marshall-Lerner condition: de Vannsay's Entry, Marshall-Lerner Condition, downloadable on web site;

the J curve: Bahmani-Oskooee' Entry, J-Curve, downloadable on web site

the Monetary Model: Harvey's book, pp. 16-19; Krugman's Entry, Exchange rates, downloadable on web site interest rate parity: Harvey's book, pp. 19-21

the Dornbush Model: Harvey's book, pp. 21-33

Post-Keynesian Exchange Rate determination

Background: Harvey's book, pp. 3-9, Lucarelli-Lughini's book, pp.69-83 .

Psycology and decision making: Harvey's book, pp. 36-54.

Leakages, injections, exchange rates and trade (im)balances: Harvey's book, pp. 55-64; Vernengo's Entry, Balance of payments, downloadable on web site, pp. 7-8.

Open economy Z-D diagram: Harvey's book, pp. 65-82

The mental model: Harvey's book, pp. 82-89

Real world applications: the Dollar since 1970, the Euro since 1999: Harvey's book, pp. 103-118.

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Slides are downloadable on the web site (when the title of slides on the web presents a *, it means that the contents has been corrected).

Harvey's book is: John T. Harvey, Currencies, Capital Flows, and Crises: A Post Keynesian Analysis of Exchange Rate Determination, Routledge (2009).

Lucarelli-Lunghini's book is: The Resistible Rise of Mainstream Economics. The Dominant Theory and the Alternative Economic Theories, Sestante-Bergamo University Press (2012).

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Study Questions

These questions, prepared by the same John Harvey, are to help guide your studying. Though these exact questions may not appear on your exams, the tests will be based also on this list.

1. List the balance of payments accounts.

2. What is a floating or flexible exchange rate system.

3. Why, logically, must capital flows play a passive role in the Neoclassical explanation of exchange rate determination?

4. List the characteristics of Neoclassical economics and tell which element(s) tends to show up most in exchange rate theory and how.

5. Explain the Robinson-Marshall-Lerner condition

6. In the first few pages, what does Harvey appear tobe arguing will be the key element of the Post Keynesian view in terms of what drives exchange rates?

7. Which level of foreign currency activity essentially creates the demand for currency (while the other two accommodate)? Explain.

8. Be able to manipulate the exchange rate graph (be sure you can label the actual exchange rate, the balanced-trade exchange rate, imports, exports, capital inflows, capital outflows, the trade balance, and the capital account balance).

9. What sort of pattern has US exchange rate policy followed since WWII?

10. What did the dollar do in the early 1980s and what was the reaction of the government? Why did their attitude change in the mid-1980s and what did they do?

11. Why is the D curve sloped as it is?

12. What determines the intercept of the D curve?

13. The Z curve is simply what (you don't need the equation)?

14. Why does the Z curve get steeper? Be sure to explain in terms of sales and the payroll as well as marginal returns.

15. What are the conclusions drawn from the equations used to derive the BTFX curve and how do they affect the latter's slope?

16. What must be true when BTFX is flatter?

17. Explain how the demand for money can be broken into two distinct parts.

18. On the FXM curve, what forces are assumed to be driving net capital inflows (show by equation)?

19. Show the effect of a rise in investment or a fiscal stimulus on the open economy Z-D diagram. [graph plus schematic]

20. Show the effect of a rise in interest rates on the Post Keynesian open economy Z-D diagram. [graph plus schematic]

21. Show the effect of a fall in the expected value of the dollar in the Post Keynesian open economy ZD diagram. [graph plus schematic]

22. List and explain the five stages of decision making.

23. List and explain the three heuristics.

24. What are the forecast-construction biases introduced by the three heuristics?

25. Explain why people prefer to follow conventional wisdom. [chart with a brief statement regarding which row is preferred and why]

26. List and explain Keynes' five observations regarding the workings of asset markets (uncertainty, low confidence, convention, quick results, and animal spirits).

27. Explain how volatility is created by uncertainty, availability, representativeness, anchoring, the desire for quick results, animal spirits, and convention. What stops it?

28. Explain how bandwagons are created by availability, anchoring, representativeness, increasing confidence /forecast substantiation, and credit/blame issues.

29. Is Keynes arguing that everything depends on waves of irrational psychology? Explain.

30. At the macro level, what do neoclassical approaches to exchange rate determination typically assume? In the long run, what drives currency prices and how?

31. Explain how trading rules can be profitable.

32. What is the "mental model?

33. What is the role of realized levels of (X-M), DFI, and PFI as foci in the expectations formation process?

34. What are the "indicators" on the Mental Model diagram?

35. What is considered to be a member of the set "indicators" may evolve over time, subject to the condition that what enters and leaves meets with the social sanction of the community of market participants. What four factors are associated with that evolution?

36. During Bretton Woods Collapse and Adjustment (1970-79), what happened to the dollar (rise or fall)? What were the major factors responsible for this movement both on the mental model schematic and the open economy Z-D diagram (go as far to the left as possible when appropriate)? How did the U.S. trade balance change? Note that there will be 4 mental model factors and 2 Z-D shifts (note that the bandwagon and medium-term exchange rate bias count in this total). You need not mention "ignored" variables (though they are very interesting!)

37. During Dollar Run Up (1980-February 1985), what happened to the dollar (rise or fall)? What were the major factors responsible for this movement both on the mental model schematic and the open economy Z-D diagram (go as far to the left as possible when appropriate)? How did the U.S. trade balance change? Note that there will be 5 mental model factors and 2 Z-D shifts (note that the bandwagon and medium-term exchange rate bias count in this total). You need not mention "ignored" variables (though they are very interesting!)

38. During Dollar Reversal (March 1985-April 1995),what happened to the dollar (rise or fall)? What were the major factors responsible for this movement both on the mental model schematic and the open economy Z-D diagram (go as far to the left as possible when appropriate)? How did the U.S. trade balance change? Note that there will be 5 mental model factors and 2 Z-D shifts (note that the bandwagon and medium-term exchange rate bias count in this total). You need not mention "ignored" variables (though they are very interesting!)

39. During the Last Days of the Mark (1995-1998), what happened to the dollar (rise or fall)? What were the major factors responsible for this movement both on the mental model schematic and the open economy Z-D diagram (go as far to the left as possible when appropriate–can't quite do it on one, but you'll see)? How did the U.S. trade balance change? Note that there will be 3 mental model factors and 3 Z-D shifts (note that the bandwagon and medium-term exchange rate bias count in this total). You need not mention "ignored" variables (though they are very interesting!).

40. During the Euro Decline (1999-2001), what happened to the dollar (rise or fall)? What were the major factors responsible for this movement both on the mental model schematic and the open economy Z-D diagram (go as far to the left as possible when appropriate)? How did the U.S. trade balance change? Note that there will be 4 mental model factors and 2 Z-D shifts (note that the bandwagon and medium-term exchange rate bias count in this total). You need not mention "ignored" variables (though they are very interesting!).

41. During the Euro Recovery (2001-2007 or 8), what happened to the dollar (rise or fall)? What were the major factors responsible for this movement both on the mental model schematic and the open economy Z-D diagram (go as far to the left as possible when appropriate)? How did the U.S. trade balance change? Note that there will be 4 mental model factors and 3 Z-D shifts (note that the bandwagon and medium-term exchange rate bias count in this total). You need not mention "ignored" variables (though they are very interesting!)