# International Monetary Economics

## Prof. Catalin Dragomirescu-Gaina

***COURSE AIMS AND INTENDED LEARNING OUTCOMES***

The course aims to introduce students to the main stylised facts of international macroeconomics. It also addresses the policy challenges inherent to small open economies, as well as the main aspects that pertain to a Monetary Union, such as the Euro-Area. A special emphasis will go to analysing trade and financial flows, with an accent on financial intermediaries’ behaviour, in the short and long term. The course tackles the main themes of the international policy debate: monetary policy in a small open economy, international competitiveness, technological innovation and economic convergence (i.e. *catching-up*). A tentative analysis of the recent (health, financial and economic) crises, involving trade sanctions and geopolitical tensions will also be presented.

The course consists of lectures complemented by practical exercises where policy analysis is demonstrated; these allow students to work with the models discussed during lectures and gain some hands-on experience in the field.

Upon completion of the course, the student should be familiar with international macroeconomics concepts, models and with their practical use for policy-making. The student should be able to evaluate the effects of international developments (including policies) on the choices of economic agents, and of financial intermediaries in particular. The student will also acquire the capacity to identify the sources of main policy challenges today and to select the essential data needed for a correct interpretation.

***COURSE CONTENT***

Instructional objectives that the student should have achieved before taking the course

Before enrolling in the course, the student should

– have a good understanding of the main Macroeconomics concepts;

– know how to use the basic concepts of descriptive statistics (mean values, variance and covariance for time series);

– know elementary series and successions; know how to calculate the derivative of functions with two or more variables and of compound functions; know how to calculate the total differential; know how to execute the logarithmic transformation of elementary functions and know how to apply the fundamental properties of logarithms.

Whoever has not met the aforementioned instructional objectives in prior years will need to do so before taking the course.

Instructional objectives of the course

*1. Balance of Payments (BoP) and the Exchange Rate*

In completing this part of the course, the student is expected to be able to:

– understand national accounting/BoP and its components;

– analyse the degree of openness and external competitiveness;

– understand how public spending affects competitiveness/external equilibrium;

– analyse domestic/external borrowing and their implications for sovereign risk;

– know the theoretical drivers of exchange rates in the short and the long term;

– know the difference between exchange rate regimes and the policy implications.

*2. Financial markets and expectations*

In completing this part of the course, the student is expected to be able to:

– understand how asset prices form, and the yield curve;

– make a distinction between risk and uncertainty;

– understand *arbitraging* and the functions of financial markets and intermediaries;

– understand the role of expectations in financial markets;

– understand and anticipate *herding* behaviour and financial bubbles;

– know how leverage works in international banking.

*3. Small Open Economy (SOE) models and policies*

In completing this part of the course, the student is expected to be able to:

– know the inner mechanisms of a small open economy model;

– know how monetary and fiscal policy are constrained in SOE models;

– draw policy implications from simulations with a SOE model;

– understand the policy *spillover* effects within a Monetary Union;

*4. Long term economic convergence and the Monetary Union*

In completing this part of the course, the student is expected to be able to:

– understand the Solow model and its working mechanisms;

– know the role of technological change and its determinants;

– know how to analyse indicators of economic convergence/divergence, particularly for the Euro Area.

***READING LIST***

A. Boitani, *Macroeconomics,* Il Mulino, Bologna, 2023 (ch. 3, 9, 12, 15, 17).

O. Blanchard, A. Amighini, F. Giavazzi, *Macroeconomis: A European Perspective,* Prentice Hall 2010 (ch. 14-19, 23-24).

C. Walsh, *Monetary theory and policy,* MIT press 2010 (ch. 9-10).

Supplemental material will be made available on the Blackboard platform.

***TEACHING METHOD***

Lectures will include theory and some practical examples, including a simulated exercise of monetary policy analysis with an actual SOE model.

***ASSESSMENT METHOD AND CRITERIA***

Learning is assessed in regular exam sessions. A regular exam is a fully written test divided into three parts - adding to a total of 30 points. Part A is composed of *true/false* questions. Part B consists of exercises, which require calculus and derivation of formulas and/or equilibrium analysis. Part C consists of open questions where the student must provide a comprehensive discussion of some major topic.

***NOTES AND PREREQUISITES***

This syllabus is also valid for students who graduated with the old system, who are however invited to contact the lecturer before starting the exam preparation.

According to what the Faculty has established, the preliminary exams are: Mathematics, and Macroeconomics.

Further information can be found on the lecturer's webpage or on the Faculty notice board/ Blackboard platform.

***Office hours***: Students are invited to via Necchi 5 (4th floor) after first scheduling a meeting via email.