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Course Number: Macroeconomics of open economy
Semester: Spring 2013
Instructors: D-r Marjan Petreski
Credits: 4 credit hours/ 8 ECTS
Contact hours: 50 hours
Learning hours: 150 hours
Class Hours: Thu, Fri, 18-21; Sat, 09-13
Meeting hours: Mon, 12.00-13.00
Prerequisite: Macroeconomics, International economics

Required Text:

Maurice Obstfeld and Kenneth Rogoff (1996) *Foundations of International Macroeconomics*. MIT Press, October.

Required Articles:

- Calvo G. and C. Reinhart (2000) "When Capital Inflows come to a Sudden Stop: Consequences and Policy Options" (http://mp.ra.ub.uni-muenchen.de/6982/1/MPRA_paper_6982.pdf)
- Calvo G. and C. Reinhart (2002) "Fear of floating." *Quarterly Journal of Economics*, Vol. CXVII No. 2, 379-408.
- E. Mendoza (2005) "Real Exchange Rate Volatility and the price of Nontradable Goods in Economies prone to Sudden Stops", *Economia*, Fall 2005
(<http://www.econ.umd.edu/~mendoza/EconomiaFall05.pdf>)
- Feldstein, M. And Horioka, W. (1980) Domestic saving and international capital flows. *Economic Journal*, 90, p.314-329.
- Lane, Philip R and Gian Maria Milesi-Ferretti, 2008, "The Drivers of Financial Globalization" *American Economic Review (Papers and Proceedings)*, May 2008.
- Lane, Philip R., and Gian Maria Milesi-Ferretti. 2007. "The External Wealth of Nations Mark II: Revised and Extended Estimates of Foreign Assets and Liabilities, 1970–2004." *Journal of International Economics*, 73(2): 223-250.
- Mussa, Michael (1986): "Nominal Exchange Rate Regimes and the Behavior of Real Exchange Rates". *Carnegie-Rochester Conference Series on Public Policy*, 25, 117-214.
- Obstfeld, Maurice and Kenneth Rogoff, "The Unsustainable US Current Account Position Revisited," in Richard Clarida (ed.), *G7 Current Account Imbalances: Sustainability and Adjustment*, University of Chicago Press, 2007 (with revisions). (http://elsa.berkeley.edu/~obstfeld/NBER_final.pdf)
- Philip R. Lane, 1999. "What Determines the Nominal Exchange Rate? Some Cross Sectional Evidence," *Canadian Journal of Economics, Canadian Economics Association*, vol. 32(1), pages 118-138
- Reinhart, C. And Rogoff, K. (2004) The Modern History of Exchange Rate Arrangements: A Reinterpretation. *Quarterly Journal of Economics*, Vol. CXIX No. 1, p.1-48.

Course description:

The module gives an intermediate analysis of selected issues in the area of current account sustainability, financial globalization and exchange rates. In more detail, the module will analyze the intertemporal approach to the current account in a theoretical perspective. The remaining part of the module has an emphasized empirical note, by looking at issues such as fear of floating, exchange-rate regime classification, exposure to sudden stops of capital and so on. All this will be put in the context of the current global financial crisis and the macroeconomic developments in Macedonia.

Learning objectives:

- Learn the key concepts in current account sustainability;
- Learn the concept of intertemporal approach to the current account;
- Learn the concepts underlying financial globalization;
- Learn the basics of exchange rate determination;
- Learn the issues pertaining to exchange-rate behavior and its exposure to sudden stops.

Learning outcomes:

Following this course the students should:

LO1. Be able to judge if and when the current account is sustainable

LO2. Be able to argue in favour or against the intertemporal approach to the current account

LO3. Be able to critically assess the factors underlying financial globalization

LO4. Be able to critically assess the issues pertaining to the exchange-rate sustainability, vulnerability to sudden stops and fear of floating

LO5. Be able to critically assess the Feldstein-Horioka puzzle;

LO6. Be able to understand and critique a paper.

Course delivery:

Class lecture will review key themes within the suggested textbook and the required articles mainly in a form of ppt and exercises at the end of each chapter. Notes or outlines will be given to students for each lecture which should guide them in using the textbook. Real-life examples and case-studies will be examined often to help students understand the material taught better.

Instructor's expectations from students:

- Attend class regularly and take instructors notes which can be used as a guideline.
- Contribute to the interactive classes.
- Prepare and follow your own program for home reading.
- Think critically on the issues presented in the classroom.
- Avoid anti-social behavior in College and anti-academic behavior in the classroom (i.e. plagiarism, cheating, etc.)
- Try to interconnect the material taught on related modules;
- Impose a self – discipline regarding Colleges rules and procedures.

Examinations structure:

- *Presentation and critical evaluation of a paper - 50%*. Each student will be assigned a paper to present and critically evaluate by using arguments from other papers.
- *Efficient work with data 50%*. This is group assignment where each group will be given an assignment to find data, analyze the data by reliance to the mainstream statistical and econometric technique and provide assessment of the obtained results. Topics will be in the domain of the module.

L1	Introduction to open-economy macro
	Sustainability of the current account
	The Feldstein-Horioka puzzle
	Studying material: Jovanovic and Unevska (2007); Feldstein and Horioka (1980); Obstfeld and Rogoff (2007)
L2	Intertemporal approach to the current account
	Studying material: Obstfeld and Rogoff, chapters 1-2 (pages 63-72; 74-76; 79-89) and chapter 4
L3	Financial globalization
	Studying material: Lane and Milesi-Ferretti (2007, 2008)
L4	Currency Crises/Speculative Attacks on Exchange Rates: the Sudden Stop case
	Mendoza (2005); Calvo and Reinhart (2000)
L5	Nominal Exchange Rate Determination
	Mussa (1986); Lane (1999)
L6	Fear of floating
	Calvo and Reinhart (2002); Reinhart, C. And Rogoff, K. (2004)

CPC Coverage in terms of hours

- 1) Functional area
 - A Marketing – 0 hour
 - B Business finance – 1 hours
 - C Accounting – 0 hours
 - D Management – 0 hours
- 2) The Business environment
 - A) Legal environment of Business – 0 hours
 - B) Economics – 18 hours
 - C) Business ethics – 1 hour
 - D) Global dimensions of Business – 1 hours
- 3) Technical skills
 - A) MIS/IT computing – 0 hour
 - B) Statistics/Quantitative techniques – 2 hours
- 4) Integrative areas
 - A) Business policy – 1 hours
 - B) Internship – 0 hours

Assessment:

- *Presentation and critical evaluation of a paper 50%*
- *Efficient work with data 50%*

After each session students are expected to study all the relevant material, read all the associated exercises, prepare assignment for the next class (if given), identify the difficult points and pose their questions in the next session either directly to me or in the class.

Make-up tests are given in exceptional circumstances. Cheating and plagiarism in any form will result immediately in the grade F. I assign a grade of (incomplete) only when a

<u>Grading Criteria</u>		
Grading points	%	Quality
A	96-100	4.00
A-	90-95	3.67
B+	87-89	3.33
B	83-86	3.00
B-	80-82	2.67
C+	77-79	2.33
C	73-76	2.00
C-	70-72	1.67
D+	67-69	1.33
D	63-66	1.00
D-	60-62	0.67

student misses the Midterm or the Final exam due to a **College-excused absence**, and is unable to make up before final grades are due to the Record's Office. Please, consider seriously that there will be no exceptions concerning the above policy.

Class Conduct: You are responsible for everything that is announced, presented or discussed in class. The way to avoid any misunderstanding associated with this course is to attend class. You are expected to attend class and I do keep attendance records. **The class starts promptly at the scheduled time.** I find late arrivals distracting, which cause a decline in the quality of my lecture.

Importantly, it is also disruptive to your colleagues. I accept students **only up to five minutes late for the first class in a day.** Please, refrain from talking during class, it is disruptive to your colleagues and the lecture. I expect the best behavior from all of you. This is what education is all about. If you have a question about the material, please don't hesitate to ask me; answering questions is part of my job. If you are lost or confused, your question may help clarify the topic. Please, consider that **the language of instruction is English, so all our conversation into the class must be in this language.**

Class participation and an active intellectual engagement are not only expected but required. Students will deliver their class presentations on the discussion topics. As a final examination students will complete a comprehensive written test. The written test will discuss the material covered in the course readings, reading questions and case studies.

Keep in mind the following:

C- or better is required to use a course either as a prerequisite or as a major requirement.

G.P.A. (Grade Point Average): is computed for each student using the quality points earned for each course taken. A G.P.A of at least 2.0 is required for transfer and to graduate from ACS.

I wish you an interesting and creative academic semester.

Academic Honesty

The American College Skopje has its personal integrity which is presumed to be sufficient assurance in academic matters one's work is performed honestly and without unauthorized assistance. Undergraduate students, by registration, acknowledge the jurisdiction of the Honour System.

Plagiarism and cheating are serious offences and may be punished by failure on the exam, paper or project; failure in the course; and/or expulsion from the faculty. Individuals are prohibited from selling or being paid for taking notes in any form (written, electronic, or otherwise) during this course to or by any person or commercial firm without the express written permission of the professor teaching this course.

Late Work:

Many reasons are given for late work (e.g., flat tires, printer problems, illness, oversleeping, etc.). No matter what the reason, the bottom line is that either (a) the work was completed and turned in when required or (b) the assignment was not completed and turned in when required.

As specified earlier, assignments are due in class at the beginning of class on the specified due date. There is **NO PROVISION** for late work on any assignment (i.e., late work is not accepted). I also strongly recommend having backup systems in place so that you can have all work completed on schedule. Having your work completed on schedule is a key to early success in your business career.

NOTE: Late submissions are not accepted. Partial credit will **NOT** be given for late work.

Approved by: **Nikica Mojsoska**

Date: **01/2013**