



江西財經大學

JIANGXI UNIVERSITY OF FINANCE & ECONOMICS

Course Title:

Global Financial Strategy

Credits: 2

Teaching hours: 32

Prerequisites: introductory economics, basic calculus and statistics

Semester: Spring Semester

Lecturer: Dr. WEN Yi

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Course Description:

The subject matter of Global Financial Strategy is concerned with monetary and macroeconomic relations between countries, and we mainly focus on international finance theory and practice. For example we will analyze flow of capital across international borders, and the effects of these movements on exchange rates. It is a branch of international economics, and the other branch is international trade, which investigates the determinants of goods-and-services flows across international boundaries. One distinctive feature of the ongoing globalization process is increased trade in goods, services and capital between countries.

We will discuss real world issues and policy debate such as external imbalance adjustment, international policy coordination and exchange rate dynamics. It covers many theories such as the Mundell-Fleming model, the Dornbusch model, the portfolio balance model, etc, and checks their empirical relevance by statistical methods. The course mainly consists of 3 parts: the balance of payments, exchange rate determination and international financial system. The course needs to use a small set of very powerful analytical tools: dynamic analysis, equilibrium analysis, and regression analysis.

Method of Instruction

The method of instruction is mainly class meetings and group discussion. The PowerPoint presentations used in lecture will be made available to students during the term. A problem set will also be available. Answers to some of these optional problems will be discussed at the beginning of next week's lecture. Students are also encouraged to read the papers quoted in the assigned textbook.

Prerequisite

We assume that all students are familiar with basic economics, calculus and statistics. In particular, you should be able to solve differentiation problems and know the principle of liner regression. Moreover, good intuition of geometry will facilitate your understanding of the theories. Since this is an intermediate level course based on many economics concepts and theories, we recommend you to check your introductory economics textbook regularly and refresh yourself.

Aims and Objectives:

The purpose of this course is to build an open economy perspective for students and to improve their analytical ability toward financial issues. The course combines the use of financial theory, economic theory and mathematical tools to study the working of international financial markets, the mechanism of external balance and the importance of policy coordination. We hope that by the end of this course, students will be able to analyze issues related to international finance in a systematic, comprehensive and logical way, and propose their insights to real world problems such as global imbalance, exchange rate disputes, international capital flow and European sovereign debt crisis, etc.

Teaching Methods:

Teaching methods will involve a combination of formal lectures, group work, case study, and presentation. Students will be encouraged to apply what you learned to explain and forecast international financial issues.

Assessment:

| | |
|----------------------|------|
| Final Course Paper | 70% |
| Homework Assignments | 10% |
| Case Study | 20% |
| Total | 100% |

To achieve a pass grade in this course, students must obtain 60% or more as an aggregate mark on the assessment.

Final Written Examination

Final written examination is designed to cover the learning outcomes for the course and to test skill development. Questions are set not only to test students' basic comprehension of the syllabus but also their ability to apply such knowledge in particular contexts.

Homework Assignments

Homework Assignments are designed to assess the students' ability to solve some complex problems concerning international finance theory and government policy. Homework should be submitted via Email or be handed in printed copy on designated date.

Case Study and Presentation

Case study is designed to assess the students' ability to put international finance theory into application. Students are required to study some real-world international issues by using the theories and models, and present their findings in class.

Team Work

Students are required to form team to jointly finish homework and make presentation. Team members will work together to produce a joint report, and each member of a team will receive the same mark for the report. It is up to each team to allocate responsibilities between team members and organize its own work.

Your Input:

You will be expected:

1. to preview the textbook and related papers;
2. to participate in class discussion and share our understanding of current international events;
3. to finish your homework and try to write some short papers.

If you encounter any confusion or difficulty in the process, please contact the lecturers.

Text Book and Indicative Reading List:

The primary text book:

Thomas Pugal, (TP): International Finance: 18th edition.

Besides, we will recommend some interesting papers for your reference, which either provide very useful background information or give a brief review about the research frontier.

This textbook covers all the material in the course and the same notation will be used in the lectures. Other useful books include:

1. John Marthinsen (in short as **JM**): Managing in a Global Economy-Demistifying International Macroeconomics, 2nd edition, 2013.
2. Maurice Obstfeld and Kenneth Rogoff (**OR**): Foundation of International Macroeconomics, 1996, MIT press.

Calendar of Teaching Activities:

| | Schedules | Chapters |
|---|-----------|----------|
| Week 1 | Lecture | Ch.1, 2 |
| Week 2 | Lecture | Ch. 2 |
| Week 3 | Lecture | Ch.3 |
| Week 4 | Lecture | Ch.4 |
| Week 5 | Lecture | Ch.5 |
| Week 6 | Lecture | Ch.6 |
| Week 7 | Lecture | Ch.7 |
| Week 8 | Lecture | Ch. 8 |
| Final Paper Submission (time to be announced) | | |

Course Outline:

Week 1 and Week 2 : Introduction to foreign exchange market and balance of payments

We explain the concepts of exchange rate, current account and balance of payments, which are topics we focus in the whole semester. We analyze the composition of external account, and do some accounting exercises to enhance the understanding of the double-entry bookkeeping principle. Also, we will discuss current international issues such as the cause and evolution of global imbalance, as well as persistent Chinese external surplus.

Week 3: Elasticity and Absorption approach to the balance of payment

In this lecture, we explain classical approaches for current account adjustment.

Elasticity approach and absorption approach are two of typical approaches in conventional analysis, which focus on trade channel. We discuss in detail the economic intuition and mathematical derivation. Besides, we will overview recent research results that focus on financial channel, such as financial adjustment approach and valuation effect.

Week 4: Macroeconomic policy in open economy.

In an era of globalization, economic policies adopted national governments inevitably exert spillover effects on foreign countries, so we explore the international dimension of economic policy in this lecture. We cover traditional Mundell-Fleming model, i.e., IS-LM-BP framework, to study internal and external balance problems. Furthermore, we compare the Mundell-Fleming model with the latest multi-country general equilibrium approach, and discuss their merits and drawbacks.

Week 5: Monetary approach to balance of payments.

Exchange rate, by definition, is the conversion rate between different currencies. The monetarist school has proposed their concept of balance of payment and the transmission mechanism between exchange rate and external adjustment. From monetary perspective, we investigate external balance problem in this lecture. We explore adjustment under flexible and fixed exchange rate regimes, as well as under different degrees of international capital flow mobility.

Week 6: Purchasing power parity and floating exchange rate experience

In this lecture, we study the determination of exchange rate from the goods market perspective, which is very straightforward and intuitive. We cover the important no-arbitrage principle in finance, its application in international trade as the law of one price, and the frictions that lead to the failure of PPP in reality, such as consumption bundle selection and price index construction, etc. In addition, we take a look at China's exchange rate arrangement and the evolution of RMB exchange rate, discuss the statistical results on whether RMB is reasonably valued, and whether RMB depreciation can effectively reduce Chinese current account surplus.

Week 7: Modern models of exchange rate determination and empirical evidence on exchange rate

Exchange rate is not only the relative price of goods, but also the relative price of assets. Traditional approaches of exchange rate determination focus on relative goods price, but recent studies increasingly tend to explore its asset price properties. After all, it is instantly determined in the financial market, and the transaction volume of

foreign exchange market has considerably outpaced that of goods market. We discuss interest rate parity approach, sticky versus flexible price model and exchange rate overshooting phenomenon, as well as latest developments in this lecture.

This lecture continues to explore the asset price property of exchange rate. As the process of financial integration advances, people get access to foreign asset more easily, and naturally consider adding foreign assets in their investment portfolios. Therefore, the fluctuation in the supply of different asset types such as domestic and foreign monies as well as bonds will change their relative returns, which in turn lead to portfolio adjustment and asset price changes to clear the markets. We study the models of exchange rate determination in this vein, and examine the effects of relevant policy tools such as open market operation and foreign exchange operation. If time permits, we will also go through some recent results, for example global equilibrium models embedded with portfolio choice.

Week 8: Exchange rate arrangement and international monetary system

As the last lecture, we review the evolution of international monetary system, the choice of exchange rate regimes, as well as their pros and cons. Besides, we will discuss whether the exchange rate arrangement and international monetary system are responsible for the global financial crisis, and if so, as some analysts claimed, what is the direction for reform.