Part A Outline  
Ecn 233-01

Part A, International Finance

I. Balance of Payments Statistics - Quantifying Supply and Demand Factors  
   A. Accounting practices  
      1. Double-entry accounting conventions  
         a. Debits - acquiring goods, assets, and IOU's, create greater supply of a country's currency  
         b. Credits - disposing of goods, assets, and IOU's, create greater demand for a country's currency  
      2. Calculating and interpreting a balance  
         a. Add up all positive and negative entries "above the line"  
   B. What does a current account deficit or an overall deficit imply?  
      1. Is a country living beyond its means, how does it use the additional goods acquired?  
      2. What central bank intervention occurs, how can this be interpreted in a world of fixed exchange rates, immobile capital v. flexible exchange rates, mobile capital?  
      3. Why do U.S. BP conventions differ from those of the IMF?  
   C. The relationship between international transactions and the domestic money supply  
      1. Check involvement of the country's central bank

II. Predicting a Country's Exchange Rate  
   A. Purchasing power parity - a long-run view based on trade in goods and relative rates of inflation  
   B. Asset market approach - the short-run role of relative rates of return and shifting portfolios internationally

III. Adjustments in the Trade Balance When Income Varies, but Prices, Interest Rates and Exchange Rates are Fixed  
   A. Income adjustments, changes in imports, and the marginal propensity to import

IV. Adjustments in the Trade Balance when Exchange Rates (Prices) Vary  
   A. Some basic concepts  
      1. How price changes alter quantities traded - supply and demand elasticities  
      2. how price changes alter total revenue  
   B. Special cases relating currency depreciation to the balance of trade (calculated in foreign currency)  
      1. No price responsiveness of demand in export or import markets - trade balance worsens  
      2. Small country case where international prices are fixed - trade balance improves  
      3. Prices fixed in buyer's currency - a short-run or noncompetitive market story  
      4. Prices fixed in seller's currency - a common approach applied to industrialized countries
C. Recognize the relevant time horizon
   1. Short-run adjustment - If quantities traded change little initially, trade balance may worsen before new contracts are signed or domestic output expands; yields J curve effect.
   2. Long-run adjustment - Rising income likely attracts more imports. also, where do resources come from to produce more exports and import-competing goods? If hiring unemployed, prices may not rise much, but bidding away from non-traded industries means costs rise throughout economy, any trade advantage erodes.

D. Structuralist interpretations of currency depreciation in developing countries, a key role for income distribution

V. General Models of Balance of Payments Adjustment and Macroeconomic Policy
   A. Monetary policy under fixed and flexible exchange rates
      1. Are real interest rates positive?
      2. Should Central Banks target prices of goods, prices of assets, or the exchange rate?
   B. Fiscal policy under fixed and flexible exchange rates
      1. Is the budget deficit as a share of GDP large and rising?

VI. Policy Coordination in the European Community and the Reality of a Single Currency
   A. The goal of common inflation rates, interest rates and fiscal limits
   B. Concerns over unemployment and uneven growth
   C. How are these principles related to dollarization of Guatemala?

VII. IMF Lending and Financial Crises
   A. Conditionality and the costs of economic adjustment
   B. Should the IMF be abolished or expanded?