Course Descriptions None 2018-2019

Course Title	Open Macroeconomics in a Global Society
Course Code	EBC4029
ECTS Credits	6,5
Assessment	None

Period

Period	Start	End	Mon	Tue	Wed	Thu	Fri
2	29-10-2018	21-12-2018	X			X	

Level	Advanced
Coordinator	Clemens Kool For more information:c.kool@maastrichtuniversity.nl
Language of instruction	English

Goals

At the end of the course the students should be able to:
* Understand and discuss causes and consequences of international financial integration;
* Understand and apply the consumption CAPM to discuss and analyze macroeconomic consumption smoothing in an open economy;
* Understand and discuss current account models to analyze intertemporal consumption smoothing in an open economy;
* Understand and discuss the role of the real exchange rate in macroeconomic adjustment;
* Analyze and discuss the arguments for a particular exchange rate regime;
* Understand and use different fixed exchange rate crisis models;
* Understand and apply the concept of contagion to analyze financial crises.

Description

Since the early 1990s global financial integration has exponentially increased. This is especially true for developed countries but increasingly also for a group of emerging economies. In this course, we focus on the opportunities international financial integration offers for diversification and risk sharing on the one hand and its potential to contribute to increased (systemic) risk on the other from a macroeconomic perspective. The course is split in four parts.
First, we observe that more easily accessible international capital markets allow for larger and more persistent current account imbalances through international financing. On the positive side, it offers a useful adjustment mechanism to cope with asymmetric macro-economic shocks and to optimally use intertemporal consumption smoothing. . On the other hand, it may lead to growing and potentially risky net foreign asset positions.
Second, financial integration provides scope for macroeconomic consumption smoothing through international portfolio diversification. Here, the consumption CAPM is the main model of analysis. Optimal diversification implies the build-up of large stocks of foreign assets and liabilities. While offering protection against idiosyncratic shocks, leverage and valuation effects in combination with substantial gross foreign asset and liabilities positions can also lead to large shifts in international wealth positions with potentially adverse effects on consumption.
Third, we focus on the choice of exchange rate regime and the role of the real exchange rate in macroeconomic adjustment. Especially small and open economies tend to prefer a fixed to a floating exchange rate regime, sometimes for good reasons. However, a fixed exchange rate imposes strong constraints on an economy. In case of permanent real shocks, the real exchange rate needs to adjust through costly internal devaluation. And in a world of perfect capital mobility, the next speculative attack may be waiting around the corner even if fundamentals are sustainable.
Finally, we turn to the issue of contagion. Financial integration increases a country's sensitivity to common (global) shocks and the potential speed and severity of contagion effects. In relation to this, we discuss the optimal degree and speed at which a country should try to integrate in the global financial system and liberalize its financial markets. Here, its level of economic development and the quality of domestic institutional characteristics plays an important role.

Literature	Selected chapters and articles.
Prerequisites	Second-year International Monetary Economics course (level book Krugman and Obstfeld), 'International Economics: Theory and Policy'. Exchange students need to have obtained a Bachelor degree with a major in Economics or in Econometrics/Quantitative Economics. an advanced level of English
Teaching methods	PBL / Presentation
Assessment methods	Participation / Written Exam
Evaluation in previous academic year	For the complete evaluation of this course please click http://iwio-sbe.maastrichtuniversity.nl/rapporten.asp?referrer=codeUM

This course belongs to the following programme / specialisation

Master Econometrics and Operations Research	Free Electives
Master Financial Economics	Electives
Master Fiscal Economics	Economics Electives
SBE Exchange Master	Master Exchange Courses
SBE Non Degree Courses	Master Courses