

DEPARTMENT OF ECONOMICS
DELHI SCHOOL OF ECONOMICS
UNIVERSITY OF DELHI

Minutes of Meeting

Subject: B.A. (Hons) Economics – 5th

Semester Course: Open Economy Macroeconomics (ECON042) (DSE)

Credits: 4

Date of Meeting: 13th May 2024 & 29th May 2024 (Online)

Room No. 107 & Online (<https://meet.google.com/zdo-xmvw-ipy>).

Chair: Prof. Dibyendu Maiti, Department of Economics

Dr. Swati Saini, Department of Economics

The following Teachers were present.

Sl. No.	Name	College
1	Dr. S. Krishna Kumar	Sri Venkateswara College
2	D. Brahma Reddy	Sri Venkateswara College
3	Swati Malik	JDMC
4	Divya Singh	St. Stephens College
5	Pallavi Manchanda	SBSC
6	Hanish Pal	Bharti College
7	Dr. Dipak Prakash	Satyawati College

The pre-requisite for the Course is as Follows:

Sl. No.	Programme	Course	Course Code	Semester
1	Economics Honours	Intermediate Macroeconomics II: Policy Issues	ECON011	IV
2	B.A (Programme) with Economics Major	Intermediate Macroeconomics II: Policy Issues	ECON011	VI

1. The course outline :

UNIT I: Introduction to Open Economy Macroeconomics (10 hours)

Intertemporal long run budget constraint, how much can a country borrow, external wealth, external assets and liabilities, net international investment position, financial flows and valuation effects, Feldstein Horioka Puzzle, Harberger-Laursen- Metzler effect, Foreign Exchange Market. An overview of the spot and forward markets, swaps, options and derivatives. Uncovered and Covered Interest Parity. Covered Interest Arbitrage.

UNIT II: Macro-modelling of the Open Economy (20 hours)

Mundell-Fleming model (with Flexible Prices). Dornbusch's exchange rate overshooting model with stability conditions. Monetary Approach to Balance of Payments. PPP and long run monetary approach, Balassa –Samuleson effect and non-tradables, Fisher effect. Portfolio and macroeconomic equilibrium in an open economy. 3 equation model for the open economy. Currency crises (first, second and third generation models). Optimum currency areas and monetary union.

UNIT III: International Monetary System and Policy Co-ordination (15 hours)

Classic specie price flow mechanism and the Gold Standard. Fixed exchange rate system under Bretton Woods. Triffin dilemma and the collapse of the Bretton Woods, SDRs, international consistency condition. Financial trilemma. International liquidity and demand for international reserves. Government policies towards capital market, exchange and capital controls. Central bank intervention, sterilization. Prospects of Macroeconomic policy co-ordination in an open economy, Policy reaction function, Hamada diagram

2. The following decisions were taken:

- i. It was decided that for the Four Credits course on Open Economy Macroeconomics offered for the students in Semester V/ VII, the textbook on **International Economics** by Feenstra, R., Taylor, A. (2014), Worth Publishers is adopted as the primary text.
- ii. Chapter 12 & 13 shall be preliminaries and not part of the Course.

The following Units and corresponding Chapters from International Economics by Feenstra, R., Taylor, A. (2014), Worth Publishers shall be the syllabus for the course.

Unit -1: Exchange Rates (20 Lectures)

CHAPTER 13 Introductions to Exchange Rates and the Foreign Exchange Market
CHAPTER 14 Exchange Rates I: The Monetary Approach in the Long Run
CHAPTER 15 Exchange Rates II: The Asset Approach in the Short Run

Unit- 2: The Balance of Payments (5 Lectures)

CHAPTER 18 Balance of Payments II: Output, Exchange Rates, and Macroeconomic Policies in the Short Run

Unit- 3: Applications and Policy Issues (20 Lectures)

CHAPTER 19 Fixed Versus Floating: International Monetary Experience (PP 733- 738)
CHAPTER 20 Exchange Rate Crises: How Pegs Work and How They Break
CHAPTER 22 Topics in International Macroeconomics

3. Internal Assessment and Continuous Assessment:

IA: There shall be one Class test for 12 Marks, One assignment for 12 Marks and 6 Marks for Lecture Attendance

CA: There shall be any one or a combination of the following activities: Project activity (group)/ Research cum presentation /Creative Writing/Paper writing and Problem Solving exercises for 35 Marks and 5 Marks for Tutorial Attendance

4. End Semester Examination

There shall be seven questions of eighteen marks each out of which students have to answer any five Questions.

Main Reading:

1. Feenstra, R., Taylor, A. (2014), International Economics, Worth Publishers

Additional Readings:

1. Gandolfo, Giancarlo (2016) International Finance and Open Economy Macroeconomics, Springer.
2. Krugman, P., Obstfeld, M. and Melitz (2018) International Economics - Theory and Policy, 11th ed., Pearson Education.
3. Carlin, Wendy and Soskice, David (2015) Macroeconomics: Institutions, Instability and the Financial System
4. Wickens, Michael(2012) Macroeconomic Theory. Princeton University Press.
5. Sorenson, Peter B and Whitta-Jacobson, Hans Jorgen(2010) Introducing Advanced Macroeconomics: Growth and Business Cycles. McGraw Hill Education