Instructor: Dr. Aaron Smallwood

Office Location: COBA 327
Phone: (817) 272-3062
Email: smallwood@uta.edu
Course Webpage: http://www.uta.edu/faculty/smallwood/ECON4322spring13.html

Time and Location: M, W 5:30 - 6:50 p.m., COBA 150.

Office Hours:
Monday 4:15 - 5:15 (p.m.)
Wednesday 4:15 - 5:15 (p.m.)
And by appointment.

Textbook: The recommended textbook for the course is:


It is also highly recommended that the students read *The Wall Street Journal* and other periodicals that emphasize current events in international finance, such as *The Economist.* A direct link to the online version of *The Wall Street Journal* can be found on the course website.

Additionally, you may find the following textbook useful as a supplement to class notes and the above textbook:

*International Money and Finance, 7th edition.* Melvin. (not required)

Course Description and objectives:

Despite its title, this is an upper division level course in economics, although there is a tilt toward financial issues. The course deals with issues in international macroeconomics that emerge as a result of trade in goods and services and financial assets. International transactions are often complicated by the existence of an exchange rate, the price of one country’s currency relative to another. Thus the course begins with an introduction of the exchange rate market, a discussion of balance of payments, and a discussion of various exchange rate regimes. A discussion of the euro and the current debt crisis in Europe will conclude the first half of the course. The second phase of the course includes a discussion of hedging and exchange rate risk. We will discuss how traders can use derivative assets to both hedge against risk and to speculate. Time permitting, the final phase of the course will include a discussion of theories related to exchange rate determination. By the end of the course, the successful student should be able to do each of the following:

1. The student will have mastered an understanding of the exchange rate market. In addition, the student will be able to assess the importance of this global market.
2. The student will gain a general understanding of the modern empirical theories of international finance.
3. The student will gain insight into the areas where empirical international finance and theoretical international finance sometimes differ.
4. The student will be able to access the importance of international finance and its relationship with the “real world.”

Grading: Course grades will be based on the following:

- Assignments (5 pts each) 30%
- Exam 1 35%
- Exam 2 35%
I. Exams:

Exam 1: Tentatively scheduled for March 4, 2013
Exam coverage: determined by pace of the course.

Final Exam: May 6, 2013: 5:30-8 pm.
Exam coverage: Again determined by the pace of the course.

II. Assignments:

There will be 6 assignments based on the lectures. After each class period, I will post review questions to my website. At the very beginning of roughly every 4th class period, I will randomly collect one of the previous assignments. Please note the assignments are due at the very beginning of the class period. The assignments will be carefully graded and must be completed individually without any group effort. Therefore, you must complete every assignment. I can not accept late assignments. The dates upon which the assignments will be collected are as follows:

Assignment #1: January 28
Assignment #2: February 11
Assignment #3: February 25
Assignment #4: March 27
Assignment #5: April 10
Assignment #6: April 24

Your lowest problem set score will be replaced. Otherwise, late problem sets will not be collected and there are no makeups. Please note that problem sets are collected at the beginning of the class on the dates listed above. Typically, I will review the collected problem sets, and thus I cannot accept problem sets from students that arrive late to class on the dates listed above. If you are unable to arrive on time for any of the dates listed above, then you have the option of turning in all of the eligible assignments either via email or in person before the start of class.

III. Attendance:

Formally, attendance is not mandatory. You may have been successful in previous courses with intermittent attendance supplemented by reading the textbook. Unfortunately, this course will not lend itself well to that strategy. Due to the dynamic nature of the course and concentration on current events, the best resource for class material will be the lectures. I understand the complexities that go along with a college schedule, especially for those that have significant responsibilities outside the classroom. However, if you feel that you miss class occasionally, then I suspect you will find yourself struggling accordingly. Please feel free to discuss any specific concerns you may have.
Course Outline: Please note that the course is very dynamic and thus will be skewed heavily toward current events. Please note that topics can and will likely change and that the following may also change due to the pace of the course.

Week 1 (Jan 14-16): Exchange rate markets, the spot rate, and arbitrage (chapter 5).

Week 2 (Jan 23): Exchange rate markets (bid-ask spread, triangular arbitrage, etc) (chapter 5).

Week 3 (Jan 28-30): The balance of payments: current account, financial account, and the role of official reserves (chapter 3). Collection of problem set #1

Week 4 (Feb 4-6): Balance of payments, twin deficits, and the history of monetary institutions (chapter 3 and chapter 2).


Week 7 (Feb 25-27): The case for fixed and the case for flexible exchange rate systems (IMF classifications). The euro. Anatomy of major currency crises in the last 20 years (chapter 2). Collection of third problem sets.

Week 8 (March 4-6): EXAM #1. Return EXAM #1.

Week 9 (March 18-20): A history of economic integration in Europe. Optimum currency areas and the euro continued (chapter 2).


Week 11 (April 1-3): The forward market continued. The forward premium. Risk aversion and swap contracts. (chapter 5).

Week 12 (April 8-10): Currency derivative asset markets, the forward market concluded. Introduction to covered interest rate parity (chapter 5). Collection of problem set #5.

Week 13 (April 15-17): Covered interest rate parity concluded. Exploiting profitable deviations from covered interest rate parity. Monetary policy and covered interest rate parity. (chapter 6)


TIME PERMITTING: Uncovered interest rate parity and market efficiency. Purchasing power parity and the monetary approach to exchange rate determination. (chapter 6).
Drop Policy: It is the student’s responsibility to complete the course or withdraw from the course in accordance with University regulations. Students are strongly encouraged to verify their grade status before dropping a course after their first withdrawal date. A student who drops a course after the first withdrawal date may receive an “F” in the course if the student is failing at the time the course is dropped.

Grade Grievances: You have one calendar year from the date the grade is assigned to initiate any grievance. The normal academic channels are department chair, academic dean, and the Provost.

Non-payment of fees policy: Students who have not paid their fees by the census date and are dropped for non-payment cannot receive a grade for the course under any circumstances. Emergency loans are available from the Financial aid Office.

Academic Dishonesty: The UTA Student Handbook contains the following statement on academic dishonesty:

“It is the philosophy of The University of Texas at Arlington that academic dishonesty is a completely unacceptable mode of conduct and will not be tolerated in any form. All persons involved in academic dishonesty will be disciplined in accordance with University regulations and procedures.”

“Scholastic dishonesty includes but is not limited to cheating, plagiarism, collusions, the submission for credit of any work or materials that are attributable in whole or in part to another person, taking an examination for another person, any act designed to give unfair advantage to a student or the attempt to commit such acts.” (Regents' Rules and Regulations, Part One, Chapter VI, Section 3, Subsection 3.2 Subdivision 3.22)

Reasonable Accommodations: Students with academic disabilities needing accommodations should make an appointment to meet with me in my office during the first week of class. I will do my best to make the necessary accommodations to insure that no student is at a disadvantage because of his/her disability.

Bomb Threats: Effective April 8, 1997, the College of Business Administration has adopted a policy to deal with the classroom disruption caused by bomb threats in the building. (A) Section 22.07 of the Texas Criminal Law Statutes governs terrorist threats and classifies bomb threats as Class A misdemeanors. Section 12.21 of the Texas Criminal Law Statutes states that a Class A misdemeanor is punishable by (1) a fine not to exceed $4,000, (2) a jail term of not more than one year, or (3) both such a fine and confinement. (B) If anyone is tempted to call in a bomb threat, be aware that UTA will soon have technology to trace phone calls. (C) Every effort will be made to avoid cancellation of presentation/tests caused by bomb threats to the Business Building. Unannounced alternate sites will be available for these classes. If a student who has a class with a scheduled test or presentation arrives and the building has been closed due to a bomb threat, the student should immediately check for the alternate class site notice which will be posted on/near the main doors on the south side of the Business Building. If the bomb threat is received while class is in session, your instructor will ask you to leave the building and reconvene at another location. (D) Students who provide information leading to the successful prosecution of anyone making a bomb threat will receive one semester’s free parking in the Maverick Garage across from the Business Building. UTA’s Crimestoppers will provide a reward to anyone providing information leading to an arrest. To make an anonymous report, call 817-272-5245.