



STELLENBOSCH UNIVERSITY

DEPARTMENT OF ECONOMICS

ECONOMICS 244
INTERNATIONAL FINANCE

2018

**MODULE FRAMEWORK –
INTERNATIONAL FINANCE**

“ ... One of the things that make economics graduates so employable is that the subject teaches you to think in a **careful** and **precise** way. The fundamental economic issue is how society decides to allocate its resources: how the costs and benefits of a course of action can be evaluated and compared, and how appropriate choices can be made. A degree in economics gives training in decision making principles, providing a skill applicable to a very wide range of careers. ”

The Royal Economic Society

LECTURER

Mrs. O Ezeobi

INTERNAL MODERATOR: Mrs L Nieuwoudt

MODULE CONVENOR: Prof RCC Jafta

“International Economics is an exciting and dynamic subject that equips students with the tools with which to tackle important real-world issues in this age of globalisation and financial integration.” Dr Petropoulou, University of Oxford

International Finance examines the effects of financial flows between countries. It looks at the effect of such flows on the balance of payments and the exchange rate. It also evaluates the implications of different exchange rate regimes and considers the appropriate role of international institutions such as the International Monetary Fund (IMF).

Students of International Economics can make use of the skills and tools learned in a wide range of career paths, such as journalism, consultancy, government agencies and international institutions, while at the same time enjoying the ability to make sense of some of the most important and complex issues of our times.¹

Learning Outcomes

After completion of this module students should have a good understanding of the following three broad themes and have the necessary competencies to critically debate the related issues:

Problem 1: What role does International Finance play in economic growth?

Problem 2: Financial flows to and from African countries – strengths and challenges.

Problem 3: What are South Africa's exchange rate policy options?

¹ Excerpt from <http://studyingeconomics.ac.uk/module-options/international-economics/>

This course will contribute to developing the following skills in students:

- The ability to work effectively in a team to solve problems and answer questions.
- The ability to lead a team when necessary.
- The ability to effectively use technology to communicate and complete group assignments.
- The ability to read a financial article and differentiate between fact and opinion, and to critically analyse such articles.

The following Graduate Attributes are developed in this course through in class activities and out of class activities:

- Critical and creative thinker
- Exercises responsibility for learning and using knowledge
- Leader and collaborator
- Problem solver
- Uses sustainable and effective technology

Literature

A reader for the module is made available, but all literature will also be available on SUNLearn.

Students will also be required to read current news articles related to exchange rate changes during the course of the 5-week duration of International Finance.

Approach

The module follows a student-centred, **continuous** learning approach. This means that we make it possible for students to **learn by doing**, whether on their own or in groups. The module is structured around crucial issues that an intermediate International Economics student should have a **well-reasoned** opinion about.

100% class attendance is required and a significant portion of the class mark is obtained through class exercises and tests. (In the event of legitimate absence, lecturers will deal with each case on merit—details of these to follow in class.)

The module is structured to enable a systematic learning process. Each of the problems in International Economics that we have identified can be addressed with the aid of the knowledge you already have and the new knowledge that you will gain.

Before-class activities

1. Read an article(s) or section from the reader or watch a short video(s) before class.
2. Answer clicker questions on pre-class reading or video

In-class activities

1. Discuss readings/video content with group members.
2. Example questions are broken down into smaller questions by lecturer, to be answered by students in groups.
3. Formulate group answer to example questions based on in-class discussions.

After-class activity

1. Electronically submit group answer to questions as per lecturer's instructions (once a week).

NB. Group members are *not* required to meet out of class to discuss work. Group discussions will take place in class with the guidance of the lecturer. Students are encouraged to use technology – WhatsApp or email, for example, to communicate outside of class where necessary.

LANGUAGE OF INSTRUCTION:

For this module where both Afrikaans and English are used in the same class group, the combination of facilitated learning opportunities is as follows:

During each lecture, all information is conveyed at least in English and summaries or emphasis on content are also given in Afrikaans. Questions in Afrikaans and English are, at the least, answered in the language of the question.

Students are supported in Afrikaans and English during a combination of appropriate, facilitated learning opportunities (e.g. consultations during office hours, or scheduled tutorials and Practicals).

For first-year modules, SU makes simultaneous interpreting available during each lecture. During the second and subsequent years of study, simultaneous interpreting is made available by SU upon request by a faculty, if the needs of the students warrant the service and SU has the resources to provide it. If two weeks have passed with no students making use of the interpreting service, it may be discontinued.

Part II: INTERNATIONAL FINANCE

Problem 1: What role does International Finance play in economic growth?

Main Issues	Prior Knowledge	Literature	Example questions
<p>Global outlook for financial flows –</p> <ul style="list-style-type: none"> • What are the current global growth forecasts per region? • How do regions interact financially? <p>“Global imbalances”</p> <ul style="list-style-type: none"> • Which countries have current account surpluses and which have financial account surpluses? • Which countries are vulnerable financially? 	<p>Economic growth</p> <ol style="list-style-type: none"> 1. What is it? 2. How is it measured? 3. What are the sources of economic growth? <p><u>Source: Arnold, ch.12</u></p> <p>International finance</p> <p>The balance of payments current account: financial account: The foreign exchange market floating exchange rates the current IMS Globalisation and the international impacts on the economy</p> <p><u>Source: Arnold, ch. 17 & 18</u></p>	<p>SARB Quarterly economic review – June 2018 and September 2018.</p> <p>OECD Economic Outlook - June 2018 - Policy challenges from closer international trade and financial integration: Dealing with economic shocks and spillovers.</p> <p>IMF Global financial stability report - April 2018</p>	<ol style="list-style-type: none"> 1.1. How does economic growth in one country affect economic growth in another country? What are the implications for the current account and the financial account in the balance of payments? 1.2. Briefly discuss how economic shocks in one country spill over to other countries. Provide specific examples from 2017 and the first half of 2018. 1.3. Describe the global financial stability outlook for 2018. 1.4. Describe the financial vulnerabilities currently facing emerging markets and low-income countries.

Problem 2: Financial flows to and from African countries –strengths and challenges.

Main Issues	Prior Knowledge	Literature	Example questions
<p>What is the current picture of global financial interaction with Africa?</p> <p>What is the position regarding increasing financial flows?</p> <ul style="list-style-type: none"> • What are the actual flows to and from Africa in reality (in contrast to general perceptions)? 	<p>International finance</p> <p>The balance of payments current account: financial account:</p> <p>The foreign exchange market floating exchange rates the current IMS</p> <p>Globalisation and the international impacts on the economy</p> <p>Source: Arnold, ch. 17 & 18</p>	<p>World Bank Group & KNOMAD (2018) - Migration and remittances.</p> <p>OECD (2018) – Illicit Financial Flows – The economy of illicit trade in West Africa</p> <p>Class notes – FDI, ODA and portfolio investment to Africa</p>	<p>2.1 Discuss the importance of remittances as financial flows to Africa.</p> <p>2.2 Briefly discuss the nature and impact of illicit financial flows to West Africa.</p>

Problem 3: What are South Africa's exchange rate policy options?

Main Issues	Prior Knowledge	Literature	Example questions
<p>Evolution of the IMS</p> <ul style="list-style-type: none"> • The Gold Standard • Bretton Woods system • Balance of payments adjustment mechanism in in the current system <p>What is the theoretical underpinning for policy options?</p> <ul style="list-style-type: none"> • Indicate analytically? <ul style="list-style-type: none"> ○ IS/LM/BP • The effectiveness of monetary policy and fiscal policy under floating exchange rates in an open economy. <p>Choice of exchange rate system.</p> <p>What should be an appropriate exchange rate policy that will promote economic growth and wealth creation in South Africa?</p>	<p>IS-LM analyses</p> <p><u>Source:</u> 214 Blanchard</p> <p>Monetary Policy in SA</p> <p><u>Source:</u> 244 Monetary Policy notes</p>	<p>Ingham, B. (2010) International Economics: A European Focus – Chapter 10: The exchange rate and economic policy</p> <p>Class notes on IS/LM/BP.</p> <p>Carbaugh, R. (2017) International Economics – Chapter 15: Exchange Rate Systems and Currency Crises</p> <p>SARB Quarterly economic review – June 2018 and September 2018.</p>	<p>3.1 Would a return to the Gold Standard or Bretton Woods System be feasible today? Motivate.</p> <p>3.2 Use IS/LM analyses (you know this from Economics 214) to explain the South African fiscal and monetary policy options in an open economy. (Clearly describe the BP curve in your answer.)</p> <p>3.3 Describe the different exchange rate systems, and provide the advantages and disadvantages of each.</p> <p>3.4 The South African government should implement capital controls to protect the external value of the rand. Do you agree? Motivate.</p> <p>3.5 Briefly discuss South Africa's exchange rate policy options, with specific references to constraints faced by SARB in this regard.</p>