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**Code: ECON-412**

**Title: International Finance**

**Credit Hours: 03**

**Prerequisite: International Trade**

**Objectives:**

The objective is to provide the students a detailed understanding of international finance

**Course Contents**

**Foreign Exchange Market and Exchange Rate Determination**

Definition of Foreign Exchange Rates. Real, Nominal and Effective Rates. Determinants of Foreign Exchange Rate. Efficient F.E.R Market. Dynamic Theory of Interest and Exchange Rate. The Theory of Spot Exchange Rate Determination. Capital Flow and Speculations. Forward Exchange Market, Interest Arbitrage, Interest Parity Theory, Speculators, Hedgers and Traders, Forward Exchange Rate Policy.

**Purchasing Power Parity, Exchange Rates and Balance of Payments (B.O.P)**

Purchasing Power Parity (PPP): Non-Trade Goods, Balance of Payment Effect. Test of Exchange Rate Instability. Impacts of F.E.R. Rate Instability. B.O.P: Income Absorption Approach to B.O.P. Elasticities of Exports and Imports and Impact on B.O.P. The Marshall-Lerner Conditions. Monetary Approach to B.O.P. Monetarist Critique to the Keynesian Closed Economy Model. B.O.P. Effects of Stabilization Policies. Empirical Tests of Monetary Approach to the B.O.P. WTO and B.O.P Support. Adjustment with Short-run capital Flow. Methods dealing with undesired Short-run Capital Flow.

**International Institution: Trade, Capital and B.O.P.**

Introduction of International Institutions, Role and Major Activities of IMF. IMF Credit Facilities. Loan Mechanism, Value of SDRs. The Optimum Quantity of Reserves, Optimum Interest Rate. Euro-Dollar, Exchange and Impacts. Role of IMF in B.O.P Support and Stabilization.

**International Movements of Factors and Welfare: Impacts / Issues**

Facts on International Capital Flow: ASEAN Crisis and Role of International Institution and Criticism. Motive for Capital Movement: Return and Risk Diversification. Why disagreement on International Movement of Labour? Welfare Impacts of Labour Movements. Factors of Production and Price Equalization Issues. Losses of National Sovereignty. Can Developing Countries Compete and Gain from Trade: Terms of Trade due to Demand Pattern and its Impacts. What Counts for wage Differential Between Primary Goods Producer and Value Added Goods Producer, Competitiveness Issue. WTO: GATT and Emergency of WTO. Why Necessary to Join WTO? WTO: Expected Impacts on Trade, Liberalization and B.O.P; Special Status of Developing Countries and Net Food Importing Countries. Protections under WTO Rules. Are Free Trade Gains more than Restricted Trade? Gains for whom; how much and how long? Centre-Periphery Theory. WTO Rules: Sanitary, Phytosanitary, Dumping, Anti-Dumping etc Rules and Emerging New Issues and Their Impacts

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## **Major Contemporary International Economic Issues**

WTO: GATT and Emergency of WTO. Why Necessary to Join WTO? WTO: Major Trade Rules and Their Expected Impacts on Trade, B.O.P Deficit. WTO and Fair Trade / Free Trade. Free Trade will it be? Issue of "Are Free Trade Gains more than Restricted Trade"? Emerging Regional Trading, Blocks, Special Preference and their Impacts. Issues relating to the Contributions of International Financial Institutions and Their Evaluations. Is there need to Reform International Institutions? Monetary Integration and Their Impacts. Terms of Trade Issue. International Debt Problem, Growth and Competitiveness. Issues of Developing Countries: Level of Development, Competitiveness and Trade Stability: World Income Distribution and Free Trade.

### **Recommended Books:**

- Caves Richard, E., and Jones Ronald W., World Trade and Payments: An Introduction, Latest Editions. Little, Brown and Company, Boston, Toronto.
- Chacholiades, Miltiades, International Trade Theory and Policy (Latest Edition). McGraw Hill Book Company, New York, London.
- Donomick Sal Vatore B., International Economics (Latest Edition), Prentice Hall.
- Grubel Herbert C., International Economics, (Latest Edition) Richard D. Irwin Inc., Homewood, Illinois.
- Sodersten B. and Geoffry Read., (1994). International Economics, MacMillan Press Ltd.
- The Global Competitiveness, Report (1999). World Economic Forum, Oxford University Press, Oxford, New York.
- World Bank. (1986). World Development Report. Oxford University Press.