UNIVERSITÀ
DEGLI STUDI DI MILANO-BICOCCA

COURSE SYLLABUS

International Finance

2526-3-E3303M022-E3303M026M

Learning area

International finance

Learning objectives

At the end of the course, students will:

Develop a solid understanding of the fundamental concepts and mechanisms that govern international financial markets.

Acquire knowledge of the main theoretical models explaining the functioning of the foreign exchange market and the determinants of exchange rates.

Understand the differences between fixed and flexible exchange rate regimes, their economic implications, and real-world applications.

Be able to critically compare theoretical models with empirical evidence and historical examples.

Gain the ability to apply international finance concepts to interpret current events, policy decisions, and market fluctuations in the global economy.

Improve analytical skills necessary to assess the impact of exchange rate movements on businesses, investments, and economic policy.

The course combines theoretical frameworks with real-world data and case studies to foster both academic understanding and practical application.

Contents

This course provides an introduction to the key concepts, mechanisms, and policy issues in international finance, with a particular focus on exchange rate dynamics, international capital flows, and the functioning of global financial markets. The course combines theoretical models with real-world applications to help students understand the interactions between exchange rates, macroeconomic policy, and the international financial system.

Detailed program

The course provides an introduction to the core concepts of international finance, focusing on monetary relations, exchange rate dynamics, and policy issues in open economies. Building on theoretical models and real-world examples, students will gain analytical tools to understand the functioning of international financial markets and the impact of macroeconomic policies in a globalized context.

The course follows International Economics by Krugman, Obstfeld, and Melitz (12th edition, Pearson, 2019), with a focus on Parts III and IV of the textbook.

Topics Covered

1. National Income Accounting and Balance of Payments

Fundamental concepts of national income in open economies

Balance of payments structure: current account, capital account, financial account

Relationship between saving, investment, and the current account

2. Exchange Rates and the Foreign Exchange Market

Exchange rate definitions and quotations

The functioning of the foreign exchange market

Exchange rate determination in the short run

3. Money, Interest Rates, and Exchange Rates

Money demand and supply in open economies

Interest rate parity and its implications for exchange rates

The role of monetary policy in exchange rate dynamics

4. Price Levels and the Exchange Rate in the Long Run

Purchasing Power Parity (PPP) theory

Real exchange rates and deviations from PPP

The effects of inflation differentials on exchange rates

5. Output and the Exchange Rate in the Short Run

The DD-AA model for open economy macroeconomics

Exchange rate policy and output determination

Temporary versus permanent policy effects

6. Fixed Exchange Rates and Foreign Exchange Intervention

The mechanics of fixed exchange rate systems

Central bank interventions in currency markets

Advantages, disadvantages, and historical experiences with fixed regimes

7. International Monetary Systems: Past and Present

The Gold Standard and the interwar period

The Bretton Woods system

Contemporary floating and managed exchange rate regimes

8. Financial Globalization and Capital Markets

Integration of financial markets and capital flows

Benefits and risks of financial globalization

Currency crises and speculative attacks

9. Optimum Currency Areas and the Eurozone

The theory of optimum currency areas

The creation and functioning of the Euro

Economic and policy challenges in monetary unions

Prerequisites

It is required a solid knowledge of Macroeconomics.
The exam of Macroeconomics and Economic Policies must be registered to be able to take the exam of International Finance.
Erasmus students wishing to attend the course must be able to solve numercal exercises and use graphical methods.

Teaching methods

The course combines various teaching methods to support students in developing both a solid theoretical foundation and applied analytical skills in international finance.

Lectures
Exercises and Problem-Solving Sessions
Guided Readings: Students will be assigned selected chapters from the textbook (International Economics by Krugman, Obstfeld, and Melitz) and additional materials (e.g., policy reports or journal articles) to deepen their understanding of key topics and prepare for class discussions.
Macroeconomic Data Analysis

Assessment methods

The final assessment consists of an individual oral examination, designed to evaluate both the technical knowledge and critical thinking skills acquired during the course. The exam is structured around three main components:

Numerical Exercises

Graphical Representations

Open-Ended Theoretical Questions

Textbooks and Reading Materials

Paul Krugman, Maurice Obstfeld e Marc Melitz, International Economics, Pearson 2019, 12th edition , Part III and IV. English version
There is a course’s web page available at elearning.unimib.it that contains updated information on the syllabus and course’s materials.

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