International Macroeconomics II

Course Language:

While the language of instruction for the course will be English, course participants may satisfy all course requirements either in English or in German.

Class Time and Location:

Tuesday, 12:15 pm – 1:45 pm, Room: 120B (weekly); Thursday, 10:15 am – 11:45 am, Room: 120B (bi-weekly). Some of the classes will be held in the PC laboratory and some will be used for discussion sessions.

Course Description:

This course provides (i) a thorough yet accessible presentation of the methods that econometrics currently has to offer to analyze time series and panel data in international money and finance and (ii) a discussion of models of exchange rate determination that are at the core of the open economy macroeconomics literature. The course emphasizes the hands-on application of the methods and models discussed to empirically study the dynamics and determination of exchange rates.

A number of classes will therefore take place in the PC laboratory (using STATA), and course participants are expected to complete assignments in STATA. At the end of the course participants should feel comfortable to do independent, economic theory based empirical work using time series and panel data as arising in many areas of macroeconomics and finance.

Course Website:

http://www.wiwi.uni-frankfurt.de/binder/teaching/im206

The course website will contain further updates of this syllabus, course news/administrative announcements, class notes and STATA files, assignments, help for your work with STATA and data sets. We encourage you to check the website regularly. Some material on the website will be password protected. The password will be announced in class, and must not be passed on to anybody not attending the course this semester.

A word of caution regarding the web site: Do not view the course website as a substitute for attending class. In particular, the class notes are not meant for self study, but are rather distributed to make it easier to follow the classes. On occasion we will discuss additional material in class that is not covered in the class notes.
**Course Requirements:**

Grading will be based on two empirical take-home projects (20%) and a course final examination (80%). The date and time of the final examination will be set by the board of examinations. You will need to register for the final exam following the procedure set out by the board of examinations.

**Course Prerequisites:**

Knowledge of the linear regression model as covered, for example, in
or in
or in

will be very helpful for this course. Nevertheless, a compact review of this material will be provided as part of the course.

**Course Logistics:**

First Class: Tuesday, October 17th, 2006.

Office Hours: Michael Binder, 115B, Tuesday, 3:00 pm – 4:00 pm
Susanne Bröck, 102B, Tuesday, 9:00 am – 10:00 am
Texts:

**Econometrics:**


**STATA:**


**International Money and Finance:**

Course Outline:

1. Characteristics of Foreign Exchange Log Return Distributions
   Applications: Log Returns on Foreign Exchange

2. Linear Regression
   • Ordinary Least Squares
   • Model Selection
   • Non-Spherical Disturbances
   • Instrumental Variables
   • Introduction to STATA
   Applications: Equity Parity
      Risk Premia in Foreign Exchange Markets
      Fundamental Determinants of Foreign Exchange Rates: Monetary Theory and Purchasing Power Parity

   • ARMA Models
   • Conditional Heteroskedasticity
   • Unit Root Tests
   • ARDL Models and Cointegration
   Applications: Forecasting Nominal and Real Exchange Rate Dynamics
      Interest, Equity and Purchasing Power Parities

4. Multi Equation Time Series Models
   • Vector Autoregressions
   • Cointegrated Vector Autoregressions/Error Correction Models
   Applications: International Capital Flows and Their Determinants
      Interest, Equity and Purchasing Power Parities

5. Panel Data Models
   • Static Homogenous Slope Panel Models
   • Dynamic Homogenous Slope Panel Models
   • Dynamic Heterogeneous Slope Panel Models
   Applications: Forecasting Nominal and Real Exchange Rate Dynamics
      Interest, Equity and Purchasing Power Parities