I. The International Financial System: An Overview

(i) The market for foreign exchange introduced: spot, forward and futures
(ii) The central role of the banking system in the foreign exchange market
(iii) The balance of international payments: current account, and capital plus financial accounts

Text: Chapter 14, pp. 320-328; Chapter 13
Canada’s Balance of International Payments

II. Determination of Equilibrium Foreign Exchange Rates

(i) Determination of equilibrium exchange rates in the spot market, over the long run – the theory of Purchasing Power Parity, and the concept of the “Real” Exchange Rate.
(ii) Determination of equilibrium exchange rates in the spot market in the short run – an Interest Parity approach
(iii) Determination of equilibrium exchange rates in forward markets – another Interest Parity approach
(iv) Systems of exchange rates: fixed, floating and managed
(v) Government intervention in the spot market, and the impact upon the money supply: unsterilized and sterilized interventions
(vi) The Trilemma

Text: Chapter 16; Chapter 14, pp. 328-353

III. Monetary Policy in an Open Economy: An Introduction
(i) A review of the nature of money, and the control of the money supply by the central bank
(ii) The two schools of thought in macroeconomics and the “Great Recession”: 2008 to the present.
(iii) A review of the components of the demand for money: transactions demand; precautionary demand; asset demand and the liquidity trap
(iv) The money supply and the exchange rate in the short run

Text: Chapter 15, pp. 354-368

IV. The Theory of Monetary Policy: A Short Run Keynesian Approach
(i) Determinants of aggregate demand in an open economy
(ii) Output market equilibrium in the short run: The DD schedule
(iii) Asset market equilibrium in the short run: The AA schedule
(iv) Equilibrium for an open economy in the short run: DD and AA schedules combined
(v) Monetary policy under fixed and flexible exchange rate regimes in the short run. The Trilemma once again.
(vi) The fiscal policy alternative and the Flemming – Mundell model

Text: Chapter 17, pp. 421-442