

Economics 246 — Fall 2004

International Macroeconomics

October 25, 2004

Instructor:	Marc-Andreas Muendler
Office:	Economics 312
Office hours:	TueWed 12:30p - 1:30p
Phone:	(858) 534-4799
E-mail:	muendler@ucsd.edu
Class Time:	MonWed 1:30p - 2:50p
Classroom:	Econ 210
Class Web Page:	econ.ucsd.edu/muendler/teach/04f/246

1 Course Objectives

This course examines open-economy macroeconomics and international finance. Topics include theories of the exchange rate, foreign exchange regimes, current account adjustments, and international portfolio investments. The course investigates real and monetary explanations, and implications of international capital market integration.

2 Prerequisites

Instructor's consent.

3 Readings

Textbook: Obstfeld and Rogoff (1996)

Further readings: Goldberg and Knetter (1997), Bernanke and Gertler (1990), Obstfeld and Rogoff (2000b), Neely and Sarno (2002), Froot and Obstfeld (1991), Driffill and Sola (1998), Dornbusch (1976), Diamond and Dybvig (1983), Obstfeld (1996), Morris and Shin (1998), Obstfeld and Rogoff (1995), Tirole (2003), Céspedes, Chang, and Velasco (2000), Obstfeld and Rogoff (2000a), Lane (2001)

The additional readings are available through the class web page (see link above) and the UCSD electronic library. They are also available as printed custom materials from AS Soft Reserves (copyright fees apply).

4 Problem Sets

There will be three problem sets, due on scheduled dates throughout the quarter. You are encouraged to work on the problems with your classmates. Your solutions to the problem sets will be checked (check/no check) but your performance on them does not become a formal part of the final grade.

5 Research Paper Proposal

You may choose to submit a research paper proposal as part of your course work. I strongly encourage this.

The detailed proposal should be 5 to 10 pages in length. A proposal includes a thorough review of the related literature, and a detailed outline of a theoretical model along with its conjectured implications *or* a detailed discussion of a data set and an estimation procedure along with its identifying assumptions. A draft of the paper proposal is due on Wednesday, Nov 24, 5:00p and the final proposal is due on Thursday, Dec 2, 5:00p.

6 Assessment

There will be a final exam during finals week, but no midterm exam. The problem sets help you prepare for the final exam. The exam will take 180 minutes (180 points). You have two options for your assessment.

1. You can take the final exam only (180 points; score multiplied by 5/3.)
2. You can choose to submit a detailed research paper proposal. (A draft of the paper proposal is due on Nov 24, 5:00p and the final proposal is due on Dec 2, 5:00p.) Under this option, the final paper proposal counts for 40 percent of your grade (120 points) and the final exam for 60 percent (180 points).

7 Class Schedule

I. Microfoundations of International Macroeconomics

1. **Mon, Sept 27:** Intertemporal Trade in a Small Open Economy
(Obstfeld and Rogoff 1996/Ch. 1)
2. **Wed, Sep 29:** Intertemporal Trade in a Two-Region World
(Obstfeld and Rogoff 1996/Ch. 1)
PROBLEM SET 1 OUT
3. **Mon, Oct 4:** Current Account Dynamics
(Obstfeld and Rogoff 1996/Ch. 2)
4. **Wed, Oct 6:** Firms, Investment and the Current Account
(Obstfeld and Rogoff 1996/Ch. 2)
5. **Mon, Oct 11:** The Real Exchange Rate, Nontradable Goods and Productivity
(Obstfeld and Rogoff 1996/Ch. 4; Goldberg and Knetter 1997)
6. **Wed, Oct 13:** The Terms of Trade and International Specialization
(Obstfeld and Rogoff 1996/Ch. 4)
7. **Mon, Oct 18:** International Risk Sharing in a Small Open Economy
(Obstfeld and Rogoff 1996/Ch. 5)
PROBLEM SET 1 DUE
- Wed, Oct 20:** *(cancelled)*
8. **Mon, Oct 25:** International Risk Sharing in a World Economy
(Obstfeld and Rogoff 1996/Ch. 5)
PROBLEM SET 2 OUT
9. **Wed, Oct 27:** Sovereign Risk and Borrowing under Sanctions or Commitments
(Obstfeld and Rogoff 1996/Ch. 6)
10. **Mon, Nov 1:** International Macroeconomic Puzzles and Trade Frictions
(Obstfeld and Rogoff 2000b)

II. Monetary Foundations of International Macroeconomics

11. **Wed, Nov 3:** Exchange Rates under Flexible Prices
(Obstfeld and Rogoff 1996/Ch. 8; Neely and Sarno 2002)
12. **Mon, Nov 8:** Exchange Rates, Inflation and Bubbles
(Obstfeld and Rogoff 1996/Ch. 8; Froot and Obstfeld 1991, Driffill and Sola 1998)
PROBLEM SET 2 DUE

- 13. Wed, Nov 10:** Exchange Rate Interventions and First-generation Currency Attacks (Obstfeld and Rogoff 1996/Ch. 8)
PROBLEM SET 3 OUT
- 14. Mon, Nov 15:** Price Rigidities and Exchange Rate Overshooting
(Dornbusch 1976; Obstfeld and Rogoff 1996/Ch. 9)
- 15. Wed, Nov 17:** Bank Runs and Second-generation Crisis Models
(Diamond and Dybvig 1983, Obstfeld 1996, Morris and Shin 1998)
- 16. Mon, Nov 22:** Price Rigidities and World-Economy Redux
(Obstfeld and Rogoff 1996/Ch. 10; Obstfeld and Rogoff 1995)
- 17. Wed, Nov 24:** Currency Mismatch and Third-generation Crisis Models
(Tirole 2003, Céspedes, Chang, and Velasco 2000)
DRAFT OF PAPER PROPOSAL DUE
- 18. Mon, Nov 29:** Variations in Price Rigidities and Extensions of the Redux
(Obstfeld and Rogoff 1996/Ch. 10; Obstfeld and Rogoff 2000a, Lane 2001)
- 19. Wed, Dec 1:** Summary and Review
PROBLEM SET 3 DUE
- Thu, Dec 2:** FINAL PAPER PROPOSAL DUE
- Mon, Dec 6, 11:30a - 2:30p:** FINAL EXAM. Room: Econ 210

DORNBUSCH, R. (1976): "Expectations and Exchange Rate Dynamics," *Journal of Political Economy*, 84(6), 1161-76.