Economics 246 — Fall 2006 International Macroeconomics

October 4, 2006

Instructor: Office:	Marc-Andreas Muendler Economics 312
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E-mail:	muendler@ucsd.edu
Class Time:	MonWed 12:30p - 1:50p
Classroom:	Econ 210
Class Web Page:	econ.ucsd.edu/muendler/teach/06f/246

1 Course Objectives

This course examines open-economy macroeconomics and international finance. Topics include theories of the current account, international portfolio investments, the exchange rate, foreign exchange regimes, causes and potential remedies of financial crises. 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)

Readings: Nason and Rogers (2006); Goldberg and Knetter (1997); Navaretti and Venables (2004, Ch. 3); Antras (2003); Obstfeld and Rogoff (2001); Burstein, Eichenbaum, and Rebelo (2005); Neely and Sarno (2002); Cheung, Chinn, and Pascual (2005); Dornbusch (1976); Obstfeld (1996); Morris and Shin (1998); Diamond and Dybvig (1983); Aghion, Bacchetta, and Banerjee (2001); Tirole (2003); Morris and Shin (2002); Obstfeld and Rogoff (1995); Lane (2001)

The readings will become available through the class web page.

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 short research paper proposal as part of your course work. I strongly encourage this.

The proposal should be around four to eight pages in length. The proposal can take many forms: you can use a model from class, alter a crucial assumption, and show how it leads to different implications; you can take a model from class and propose a novel estimation procedure on available data sets; you can construct a little sample economy from scratch to address an overlooked issue and explore its effects; you can explore new data sources and document how previously unaddressed issues could be brought closer to an answer. The proposal includes a brief review of the related literature, and a sketch of a theoretical model along with its conjectured implications *or* a discussion of an available data set and an estimation procedure along with its identifying assumptions. A draft of the paper proposal is due on Tuesday, Nov 28, 5:00p and the final proposal is due on Friday, Dec 1, 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 (12 points; score multiplied by 5/2 to 30.)
- 2. You can choose to submit a short research paper proposal. (A draft of the paper proposal is due on Tuesday, Nov 28, 5:00p and the final proposal is due on Friday, Dec 1, 5:00p.) Under this option, the final paper proposal counts for 60 percent of your grade (18 points) and the final exam for 40 percent (12 points).

The minimum standard of performance for a grade of Satisfactory is the same as the minimum for a grade of B-.

There will be a review section in the last week of classes.

7 Class Schedule

- I. Microfoundations of International Macroeconomics
- **1. Mon, Sep 25:** Intertemporal Trade in a Small Open Economy (Obstfeld and Rogoff 1996/Ch. 1) *No class on Wed, Sep 27. Instead, there will be a review section during last week.*
- 2. Mon, Oct 2: Intertemporal Trade in a Two-Region World (Obstfeld and Rogoff 1996/Ch. 1) PROBLEM SET 1 OUT
- 3. Wed, Oct 4: Current Account Dynamics (Obstfeld and Rogoff 1996/Ch. 2; Nason and Rogers 2006)
- 4. Mon, Oct 9: Firms, Investment and the Current Account (Obstfeld and Rogoff 1996/Ch. 2)
- 5. Wed, Oct 11: The Real Exchange Rate, Nontraded Goods and Productivity (Obstfeld and Rogoff 1996/Ch. 4; Goldberg and Knetter 1997)
- 6. Mon, Oct 16: The Terms of Trade and International Specialization (Obstfeld and Rogoff 1996/Ch. 4)
- 7. Wed, Oct 18: International Risk Sharing with Complete Asset Markets (Obstfeld and Rogoff 1996/Ch. 5) PROBLEM SET 1 DUE
- 8. Mon, Oct 23: International Risk Sharing with Incomplete Asset Markets (Obstfeld and Rogoff 1996/Ch. 5) PROBLEM SET 2 OUT
- 9. Wed, Oct 25: Sovereign Risk and Foreign Lending (Obstfeld and Rogoff 1996/Ch. 6)
- **10. Mon, Oct 30:** Foreign Direct Investment and the Multinational Enterprise (Antras 2003; Navaretti and Venables 2004/Ch. 3)
- **11. Wed, Nov 1:** Puzzles, Trade Frictions, and Exchange Rate Pass-Through (Obstfeld and Rogoff 2001; Burstein, Eichenbaum, and Rebelo 2005)
- II. Monetary Foundations and Debt Denomination
- **12. Mon, Nov 6:** Exchange Rates under Flexible Prices (Obstfeld and Rogoff 1996/Ch. 8; Neely and Sarno 2002)
- **13. Wed, Nov 8:** Exchange Rates, Inflation and Bubbles (Obstfeld and Rogoff 1996/Ch. 8; Cheung, Chinn, and Pascual 2005)

- 14. Mon, Nov 13: Price Rigidities and Exchange Rate Overshooting (Dornbusch 1976; Obstfeld and Rogoff 1996/Ch. 9)
- **15. Wed, Nov 15:** Exchange Rate Intervention and First-generation Crisis Models (Obstfeld and Rogoff 1996/Ch. 8) PROBLEM SET 2 DUE, PROBLEM SET 3 OUT
- **16. Mon, Nov 20:** Self-fulfilling Equilibria and Second-generation Crisis Models (Obstfeld 1996, Morris and Shin 1998)
- **17. Wed, Nov 22:** Bank Runs, Balance Sheet Effects, and Third-generation Crisis Models (Diamond and Dybvig 1983, Aghion, Bacchetta, and Banerjee 2001)
- **18. Mon, Nov 27:** Contract Design and Transparency (Tirole 2003, Morris and Shin 2002)
- Tue, Nov 28: DRAFT OF PAPER PROPOSAL DUE
- 19. Wed, Nov 29: Price Rigidities and World Economy Redux (Obstfeld and Rogoff 1996/Ch. 10; Obstfeld and Rogoff 1995; Lane 2001) PROBLEM SET 3 DUE

Fri, Dec 1: FINAL PAPER PROPOSAL DUE

Mon, Dec 4: FINAL EXAM, 2:00 - 5:00p. Room: Econ 210

References

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- CHEUNG, Y. W., M. D. CHINN, AND A. G. PASCUAL (2005): "Empirical Exchange Rate Models of the Nineties: Are Any Fit to Survive?," *Journal of International Money and Finance*, 24(7), 1150–75.
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