

Econ 246: International Macroeconomics

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Tues, Thurs 9.30-10.50, Econ 200

OH: Weds, 1.30-3.30, RBC 1311

This course is intended for PhD students interested in the fields of macroeconomics and international finance. We will cover topics such as the determination of the current account and international financial flows, frictions in international capital markets, determination of the exchange rate, the choice of exchange rate regime and its impact on trade, and exchange rate crises.

Prerequisites: Permission of the instructor

The course will use as a textbook Obstfeld and Rogoff, “Foundations of International Macroeconomics”, 1996, supplemented by the readings set out below.

Assignments:

- 20% Referee Report
- 30% Replication exercise
- 50% Final exam (take home)

There will be two assignments during the quarter. One is to write a 3-5 page response in the style of a referee report on a current working paper in the field of international macro of the student's choice (subject to approval). The second is to attempt to replicate the findings of a published paper in the field, of the student's choice (subject to approval), and ideally exploring additional results. This could involve collecting a similar data set but extending it in time, and running similar regression analysis, or verifying original regression results and trying additional specifications, or re-calibrating a model. The final exam will be a take-home, given out on March 13th, and due March 18th.

Topics

1. Introduction to Intertemporal Trade and the Current Account
Obstfeld and Rogoff Ch.1
2. Current Account Dynamics
Obstfeld and Rogoff Ch.2
Backus, Kehoe and Kydland (1992), “International Real Business Cycles”, *Journal of Political Economy*, 100(4), 745-775
Nason, James and Rogers (2006), “The present-value model of the current account has been rejected: Round up the usual suspects”, *Journal of International Economics*, 68, 159-187
3. Fiscal Policy and the Current Account
Obstfeld and Rogoff Ch.3
4. The Real Exchange Rate and the Terms of Trade
Obstfeld and Rogoff Ch.4
Backus and Smith (1993), “Consumption and Real Exchange Rates in Dynamic Economies with Non-Traded Goods,” *Journal of International Economics*, 35(3-4), 297-316
Goldberg and Knetter (1997), “Goods Prices and Exchange Rates: What Have We Learned?” *Journal of Economic Literature*, 35(3), 1243-1272

5. International Risk Sharing
Obstfeld and Rogoff Ch.5
Cole and Obstfeld (1991), "Commodity Trade and International Risk Sharing: How Much Do Financial Markets Matter?" *Journal of International Economics*, 63(2), 263-291
6. Sovereign Risk and International Lending
Obstfeld and Rogoff Ch.6
Bulow and Rogoff (1989), "Sovereign debt: Is to forgive to forget?" *American Economic Review*, 79 (March) 43-50
7. Nominal Exchange Rates under Flexible Prices
Obstfeld and Rogoff Ch.8
8. Nominal Exchange Rates under Sticky Prices
Obstfeld and Rogoff Ch.9
9. General Equilibrium International Macro Models
Obstfeld and Rogoff Ch.10
Obstfeld and Rogoff (1995), "Exchange Rate Dynamics Redux", *Journal of Political Economy*, 103(3), 624-660
Chari, Kehoe and McGrattan (2002), "Can Sticky Price Models Generate Volatile and Persistent Real Exchange Rates?", *Review of Economic Studies*, 69(3), 533-563
10. Open Economy Puzzles
Obstfeld and Rogoff (2001), "The Six Major Puzzles in International Macroeconomics: Is there a Common Cause?", *NBER Macroeconomics Annual 2000*
Lewis (1995), "Puzzles in International Financial Markets", in *Handbook of International Economics*, vol.3
11. Choice of Exchange Rate Regime
Bacchetta and van Wincoop (2000), "Does Exchange-Rate Stability Increase Trade and Welfare?" *American Economic Review*, 90(5), 1093-1109
Giavazzi and Pagano (1988), "The Advantages of Tying One's Hands: EMS Discipline and Central Bank Credibility," *European Economic Review*, 32(5) 1055-1082
12. Exchange Rate Regimes and Trade
Rose (2000), "One Money, One Market: Estimating the Effects of Common Currencies on Trade", *Economic Policy*, 15(3) 7-45
Baranga (2010), "Estimating the Effects of Fixed Exchange Rate Regimes on Trade: Evidence from the Formation of the Euro," working paper
13. Exchange Rate Crises
Obstfeld and Rogoff Ch.8
Krugman (1979), "A Model of Balance-of-Payments Crises," *Journal of Money, Credit and Banking*, 11(3) 311-325
Obstfeld (1996), "Models of Currency Crises with Self-Fulfilling Features," *European Economic Review*, 40(3-5), 1037-47
Morris and Shin (1998), "Unique Equilibrium in a Model of Self-Fulfilling Currency Attacks," *American Economic Review*, 88(3) 587-597
Aghion, Bacchetta + Banerjee (2001), "Currency Crises and Monetary Policy in an Economy with Credit Constraints," *European Economic Review*, 45(7), 1121-1150

14. Global Imbalances

Obstfeld and Rogoff (2004), "The Unsustainable US Current Account Position Revisited," NBER Working Paper no.10869

Kraay and Ventura (2000), "Current Accounts in Debtor and Creditor Countries," *Quarterly Journal of Economics*, 115(4) 1137-1166

Gourinchas and Rey (2007), "International Financial Adjustment," *Journal of Political Economy*, 115(4)

15. Exchange Rates and Asset Pricing

Brandt, Cochrane and Santa-Clara (2006), "International risk-sharing is better than you think, or exchange rates are too smooth," *Journal of Monetary Economics*, 53 671-698

Farhi, Fraiberger, Gabaix, Ranciere and Verdelhan (2009), "Crash Risk in Currency Markets," working paper

Martin (2010), "The Forward Premium Puzzle in a Two Country World", working paper