

UC San Diego Econ 246, Winter 2024

Instructor: Steve Pak Yeung Wu

Class time: Tu, Th 2pm-3:20pm

Classroom: SSB 506

Objective

This is a ten-week second-year PhD course to introduce tools and topics in international macro field. The main goal is to learn about some basic tools and recent debates in the literature to equip and motivate students for further research.

We will split the course into three sections.

- 1) Introduction to small open economy models and recent topics (4-4.5 weeks)
- 2) Introduction to two-country economy models and recent topics (4 weeks)
- 3) Recent topics (1.5-2 weeks)

In the first section, we will learn some basics of small open economy models which aims to understand emerging economies. These include understanding their business cycles, sudden stops, sovereign debt crisis, macroprudential policy, etc. In the second section, we will learn some basics of two-country economy models, which is often used to describe the international dimension of advanced economies (e.g. the US and Eurozone). These include understanding international portfolios, exchange rate dynamics, international monetary system. We will look at both empirical patterns and also real and nominal models of these economies.

In the last section, we will look at topics that do not rely on the two class of models. Tentative topics include using IO technique in international macro context.

Reference textbook

Martin Uribe Stephanie Schmitt-Grohe, "Open Economy Macro"

Homework

Write two referee reports for job market candidates in the field of international macro or macro this cycle.

Two voluntary coding exercises

Timeline

Small open economy Week1 (1/9, 1/11)	International Real Business Cycle models Uribe, Schmitt-Grohe Ch1-Ch4
Week2 (1/16,18)	Sovereign debt Arellano (2008)
Week3 (1/23,1/25)	Financial dollarization Céspedes, Chang, Velasco (2004)
Week4 (1/30, 2/1)	Private debt, externality, and macro-prudential policies Bianchi (2011)
Two-country economy Week5 (2/6, 2/8)	Exchange rates puzzles Itskhoki, Mukhin (2021), Obstfeld Rogoff (2000)
Week6 (2/13, 2/15)	Financial intermediary and exchange rates Maggiore (2021) handbook
Week7 (2/20, 2/22)	Convenience yield and exchange rates Engel and Wu (2023), Jiang et al (2021)
Week8 (2/27, 2/29)	Dominant currency paradigm Gopinath et al (2020)
Recent topics Week9	IO in international macro (Kojen and Yogo 2020), Redrawing capita flows (Coppola et al 2021), Country risk (Hassan et al 2021)
Week10	

Academic Integrity

I deeply value creating a fair and safe community among students in my classes. I am committed to uphold academic integrity as a fundamental principle behind our interactions. You, as student, are expected to do your own work. Cheating, plagiarism, fabrication, lying, bribery, threatening behavior and assistance to acts of academic dishonesty are examples of behaviors that violate academic integrity. All students of UC San Diego are responsible for knowing and adhering to the UCSD policy on Academic Integrity. Ordinarily, a student engaged in any act of academic dishonesty will receive a failing grade for the course. In addition, all incidents of academic misconduct shall be reported to the Academic Integrity Office. Depending on its findings, students who are found to be in violation of the academic integrity policy will be subject to non-academic sanctions, including but not limited to university probation, suspension, or expulsion. The Academic Integrity Office can be contacted by email at aio@ucsd.edu or by telephone at 858-822-2163. Additional information regarding the University Academic Integrity policy is available at <https://academicintegrity.ucsd.edu/>.

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Disability Accommodations. Campus policy regarding disabilities requires that faculty adhere to the recommendations of the Office for Students with Disabilities (OSD). Any student eligible for and needing academic adjustments or accommodations because of disability should submit to me a letter from OSD describing appropriate adjustments or accommodations and should arrange to meet with me as soon as possible so that arrangements can be made in a timely manner. University policies regarding disabilities are available at <http://disabilities.ucsd.edu/students/>. Appointments with OSD (phone or in-person) can be made by calling 858.534.4382 or by email at osd@ucsd.edu. More information can also be found here.

Religious Observance. Campus policy regarding religious observances requires that faculty make every effort to reasonably and fairly accommodate all students who, because of religious obligations, have conflicts with scheduled examinations, assignments or required attendance. See full details of policies on examinations here. If you have scheduling conflict covered by this policy, please let me know as soon as possible so that we can reschedule the relevant assignment/examination.

Harassment Policy. The University Policy on Discrimination and Harassment applies to all students, staff and faculty. Any student, staff member or faculty member who believes (s)he has been the subject of discrimination or harassment based on race, color, national origin, sex, pregnancy, age, disability, creed, religion, sexual orientation, gender identity, gender expression, veteran status, political affiliation, or political philosophy, should contact the Office for the Prevention of Harassment and Discrimination (OPHD) at (858) 534-8298, ophd@ucsd.edu, or reportbias.ucsd.edu.

Data Privacy. The University adheres to the standards for student privacy rights and requirements as stipulated in the Federal Rights and Privacy Act (FERPA) of 1974, see <http://ucsd.edu/catalog/front/ferpa.html>.

Counseling. Managing the many challenges of being a graduate student can be very stressful. Always remember that talking to somebody that is professionally trained to help is just an email, or short walk, away: <https://caps.ucsd.edu/>.

Incomplete reference List

International RBC model

Martin Uribe Stephanie Schmitt-Grohe, "Open Economy Macro" Ch1-Ch4

Arezki, R., Ramey, V. A., & Sheng, L. (2017). News shocks in open economies: Evidence from giant oil discoveries. *The quarterly journal of economics*, 132(1), 103-155.

Public debt

Arellano, C. (2008). Default risk and income fluctuations in emerging economies. *American economic review*, 98(3), 690-712.

Aguiar, M., & Gopinath, G. (2006). Defaultable debt, interest rates and the current account. *Journal of international Economics*, 69(1), 64-83.

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Du, Wenxin, and Jesse Schreger, "Sovereign Risk, Currency Risk, and Corporate Balance Sheets," Harvard University, May 22, 2015

Hatchondo, Juan Carlos, and Leonardo Martinez, "Long-duration bonds and sovereign defaults," *Journal of International Economics* 79, September 2009, 117-125.

Mendoza, Enrique G., and Vivian Z. Yue, "A General Equilibrium model of sovereign default and business cycles," *Quarterly Journal of Economics* 127, 2012, 889-946.

Tomz, Michael and Mark Wright, "Do Countries Default in Bad Times?," *Journal of the European Economic Association* 5, April-May 2007, 352-360

Private debt and dollarization

Céspedes, L. F., Chang, R., & Velasco, A. (2004). Balance sheets and exchange rate policy. *American Economic Review*, 94(4), 1183-1193.

Bocola, L., & Lorenzoni, G. (2020). Financial crises, dollarization, and lending of last resort in open economies. *American Economic Review*, 110(8), 2524-57.

Private debt and externality

Bianchi, J. (2011). Overborrowing and systemic externalities in the business cycle. *American Economic Review*, 101(7), 3400-3426.

Jeanne, Olivier, and Anton Korinek. "Excessive volatility in capital flows: A pigouvian taxation approach." *American Economic Review* 100.2 (2010): 403-07.

Korinek, A. (2010). Excessive dollar borrowing in emerging markets: Balance sheet effects and macroeconomic externalities. *Available at SSRN 967524*.

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Davis, J. S., Devereux, M. B., & Yu, C. (2020). Sudden stops and optimal foreign exchange intervention (No. w28079). National Bureau of Economic Research.

Fanelli, S., & Straub, L. (2020). A theory of foreign exchange interventions (No. w27872). National Bureau of Economic Research.

Exchange rates

Itskhoki, O., & Mukhin, D. (2021). Exchange rate disconnect in general equilibrium. *Journal of Political Economy*, 129(8), 2183-2232.

Gabaix, X., & Maggiori, M. (2015). International liquidity and exchange rate dynamics. *The Quarterly Journal of Economics*, 130(3), 1369-1420.

Maggiori, M. (2021). International macroeconomics with imperfect financial markets.

Hassan, T. A., Mertens, T. M., & Zhang, T. (2023). A risk-based theory of exchange rate stabilization. *The Review of Economic Studies*, 90(2), 879-911.

Kekre, R., & Lenel, M. (2023). The flight to safety and international risk sharing Forthcoming AER

Dominant currency paradigm

Gopinath, G., Boz, E., Casas, C., Díez, F. J., Gourinchas, P. O., & Plagborg-Møller, M. (2020). Dominant currency paradigm. *American Economic Review*, 110(3), 677-719.

Mukhin, D. (2018). An equilibrium model of the International Price System. In *2018 Meeting Papers* (No. 89). Society for Economic Dynamics.

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Convenience yield

Engel, C., & Wu, S. P. Y. (2023). Liquidity and exchange rates: An empirical investigation. *The Review of Economic Studies* 90 (5), 2395-2438

Bianchi, J., Bigio, S., & Engel, C. (2020). Banks, Dollar Liquidity, and Exchange Rates. *Federal Reserve Bank of Minneapolis, working paper*.

Jiang, Z., Krishnamurthy, A., & Lustig, H. (2021). Foreign safe asset demand and the dollar exchange rate. *The Journal of Finance*, 76(3), 1049-1089.

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