

**ECONOMICS 86200:  
INTERNATIONAL MACROECONOMICS  
AND FINANCE  
Th: 3:00 PM- 5:00 PM  
Room: 3310B**

**Spring 2020  
CUNY Graduate Center**

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This course will cover recent topics in international finance, and international macroeconomics. The reading list is intended to give a general overview of possible empirical issues in the field and encompasses more topics than can be covered in a single semester. The lectures will go through selective recent papers or book chapters, which are mostly provided below or will be added to the list as we go along. The goals of this course are: (i) to provide an overview of the field and issues, and give you the tools to analyze the impact of real and financial international linkages on the national economies; and (ii) to prepare you to do original research in the field. The emphasis of the course is empirical. Readings and lecture notes will be posted on Black Board.

*Field Requirement:* This course can be combined with Econ 81100 (Monetary Theory and Policy) or Econ 81500 (Topics in Macroeconomics) or Econ 86100 (International Trade) or Econ 84100 (Economic Development I) to make a field.

*Prerequisites:* First year courses in macro, micro and econometrics. Knowledge of applied macroeconometrics is strongly desirable. Good references are J. Cochrane's time series lecture notes [https://faculty.chicagobooth.edu/john.cochrane/research/papers/time\\_series\\_book.pdf](https://faculty.chicagobooth.edu/john.cochrane/research/papers/time_series_book.pdf) , and *Applied Econometric Time Series* by W. Enders, which is also available as pdf online. Among the time series methods frequently used in the lecture will be unrestricted vector autoregression, structural vector autoregression, unit roots, vector-error-correction models, cointegration, panel unit-root tests, dynamic panel models (GMM).

### **Student Learning Objectives/Outcomes**

In this course students will develop the following skills:

- In-depth knowledge and a broad overview of the field of international macroeconomics and finance
- Application of their statistical and quantitative knowledge to the theory learned in class
- Presentation skills through the oral presentation of their research idea
- Writing skills by completing a paper by the end of the semester

## EVALUATION

The final grade for this course will be determined as follows:

Exam	:	35 percent
Class work/assignment	:	30 percent
Term paper	:	35 percent (oral presentation and written paper)

## REFERENCE BOOKS

- (E) Evans, Martin, *Exchange Rate Dynamics*, Princeton and Oxford, 2011
- (US) Uribe, Martin and Stephanie Schmitt-Grohe, *Open Economy Macroeconomics*, 2015  
<http://www.columbia.edu/~mu2166/book/oem.pdf>
- (NM) Mark, Nelson, *International Macroeconomics and Finance: Theory and Econometric Methods*, Blackwell Publishers, Oxford, 2001
- (OR) Obstfeld, Maurice, and Kenneth Rogoff , *Foundations of International Macroeconomics*, the MIT Press, 1996.
- (ST) Sarno, Lucio and Mark Taylor, *The Economics of Exchange Rates*, Cambridge, 2003

### Handbooks

- (JK) Jones, R. and P. Kenen (eds.), *Handbook of International Economics, Vol. II*, North Holland, 1985.
- (GR) Grossman, Gene and Kenneth Rogoff (eds.), *Handbook of International Economics, Vol. III*, Amsterdam, North Holland, 1995.
- (FH) Friedman, B.M. and FH. Hahn (eds), *Handbook of Monetary Economics, Volume II*, North Holland, 1990.
- (VP) Van Der Ploeg (ed.), *The Handbook of International Macroeconomics*, Basil Blackwell, 1994.

### Others:

- (D) Dornbusch, Rudiger., *Open Economy Macroeconomics*, NY, Basic Books, 1989.
- (BF) Blanchard, O. and S. Fischer, *Lectures on Macroeconomics*, MIT Press, 1989.
- (M) Mundell, Robert, *International Economics*, New York: Macmillan, 1968  
<http://www.columbia.edu/~ram15/ie/ietoc.html>

## COURSE OUTLINE

### I. INTRODUCTION: INTERNATIONAL FINANCIAL MARKETS, PARITY CONDITIONS AND NATIONAL ACCOUNTING IDENTITIES

## Basic Relations

### Lecture Notes

Dornbusch, Rudiger (D), “Some Basic Relations,” Chapter 2.

\*Krugman-Obstfeld (KO), “National Income Accounting and the Balance of Payments”, Ch. 12.

Eichengreen, B. (1994) “History of the International Monetary System: implications for research in international macroeconomics and finance”, van der Ploeg (VP) Chapter 6.

R. Levich (2017), “CIP Then and Now,” the BIS symposium on covered interest parity

[https://www.bis.org/events/bissymposium0517/symposium0517\\_open2.pdf](https://www.bis.org/events/bissymposium0517/symposium0517_open2.pdf)

## II. CURRENT ACCOUNT AND CAPITAL FLOWS

### A. Intertemporal Approach

*One good models: the role of output and government spending shocks.*

\*Obstfeld and Rogoff (OR), Chapter 1;

Sachs, J. (1982) “The current account in the macroeconomic adjustment process”, *Scandinavian Journal of Economics*, vol. 84, pp.147-159. <http://library.gc.cuny.edu/>

*Capital Accumulation, Investment and the Current Account*

\*Obstfeld and Rogoff (OR), Chapter 2;

Obstfeld, M.; K. Rogoff (2000) “New Directions for Stochastic Open Economy Models”, *Journal of International Economics. Vol. 50 (1). p 117-53.*

Blanchard, O., F. Giavazzi, F. Sa (2005) « International investors, the US current account and the dollar », *Brookings Papers on Economic Activity*, 1, 1-49.

### Assignment 1 Two-period model

*Empirical approaches to tests of intertemporal models*

\* Uribe and Schmidt (US), Chapter 2 and 3

\*Obstfeld and Rogoff (OR), Chapters 1-3;

Grossman and Rogoff (GR), Chapter 34;

?\*Arezki, R., L. Sheng and V. Ramey (2017) “News shocks in open economies: evidence from giant oil discoveries”, *Quarterly Journal of Economics*, 132(1).

\*Corsetti, G; P. T. Konstantinou (2012) “What drives US foreign borrowing? evidence on the external adjustment to transitory and permanent shocks”, *American Economic Review*, 102, 2, 1062-92.

\*Bergin, P. and S.M. Sheffrin (2000), “Interest rates, exchange rates and the present value models of the current account”, *Economic Journal*, 110(463), 535-58.

\*Campbell, J. Y., R. Shiller (1987), “Cointegration tests of present value models”, *Journal of Political Economy*, 95, 5, 1062-88. <http://library.gc.cuny.edu/>

Corsetti, G. and P.T. Konstantinou (2005) “Current account theory and the dynamics of US net

foreign liabilities”, CEPR DP#4920.

- \*Ghosh, A. (1995) “International capital mobility amongst the major industrialized countries: too little too much?”, *The Economic Journal*, 105, 428, 107-128.
- \*Campa, Jose Manuel; Gavilan, Angel (2011) “Current accounts in the euro area: an intertemporal approach” *Journal of International Money and Finance*, v. 30, iss. 1, pp. 205-28
- Camarero, M., Carrion-i-Silvestre, J. and Tamarit, C. (2013) “Global imbalances and the intertemporal external budget constraint: a multicointegration approach”, *Journal of Banking and Finance*, 37, 12, 5357-72.
- \*Sheffrin, S.M. and W.T. Woo (1990), “Present value tests of an intertemporal model of the current account”, *Journal of International Economics*.
- Wickens, M.R. and M. Uctum (1993), “The sustainability of current account deficits: a test of the U.S. intertemporal budget constraint”, *Journal of Economic Dynamics and Control*, 17, 423-441.

## Assignment 2: Optimal Intertemporal Current Account

### C. The Feldstein-Horioka Puzzle: why are savings and investment highly correlated in open economies?

\*Obstfeld and Rogoff (Ch.3)

\*Feldstein, M. and C. Horioka (1980), “Domestic Savings and international capital flows”, *Economic Journal*. <http://library.gc.cuny.edu/>

\*Coakley, Jerry; Kulasi, Farida; Smith, Ron (1998) “The Feldstein-Horioka puzzle and capital mobility: a review”, *International Journal of Finance & Economics*, Vol. 3 (2). p 169-88. <http://www3.interscience.wiley.com/cgi-bin/fulltext/10006872/PDFSTART>

Bai, Y. and J. Zhang (2010), “Solving the Feldstein-Horioka puzzle with financial frictions”, *Econometrica*, 78, 2, 603-32.

\*Giannone, D. and M. Lenza (2010) “The Feldstein-Horioka fact”, NBER International Seminar on Macroeconomics, University of Chicago Press.

\*Apergis, N., and C. Tsoumas. 2009. “A Survey of the Feldstein-Horioka Puzzle: What has been Done and Where We Stand.” *Research in Economics* 63: 64–76.

\*Dzhumashev and Cooray 2017, “The Feldstein-Horioka hypothesis revisited” *The BE Journal of Macroeconomics*, 17 (1)

### D. International imbalances and new approaches to external adjustment

(\*)Gourinchas and Rey, 2014 "External Adjustment, Global Imbalances, Valuation Effects Handbook of International Economics, vol. 4, ch. 10, G. Gopinath, H. Helpmann and K. Rogoff eds. Elsevier, 2014. Sections 1, 2 and 4

#### *Low interest rates:*

(\*) Bernanke, B., “The Global Saving Glut and the U.S. Current Account Deficit (<http://www.federalreserve.gov/boarddocs/speeches/2005/200503102/>) ,” Sandridge Lecture. Virginia Association of Economics, Richmond, Virginia, Federal Reserve Board, March 2005

(\*) Caballero, Fahri and Gourinchas, P. “Global imbalances and low real interest rates”, *AER*

2007

- R. Caballero, E. Farhi, and P. Gourinchas, "The Safe Assets Shortage Conundrum," *Journal of Economic Perspectives* 31 (Summer 2017): 29-46.
- M. Del Negro, D. Giannone, M. Giannoni, and A. Tambalotti, "Global Trends in Real Interest Rates," *Journal of International Economics* 118 (May 2019): 248- 62
- P. Gourinchas and H. Rey, "Global Real Interest Rates: A Secular Approach," BIS Working Papers 793, June 2019.  
URL: <https://www.bis.org/publ/work793.pdf>
- K. Holston, T. Laubach, and J. Williams, "Measuring the Natural Rate of Interest: International Trends and Determinants," *Journal of International Economics* 108 (S1, May 2017): S59-S75.
- L. Rachel and T. Smith, "Are Low Real Interest Rates Here to Stay?" *International Journal of Central Banking* 13 (September 2017): 1-42.
- L. Rachel and L. Summers, "On Falling Neutral Real Rates, Fiscal Policy, and the Risk of Secular Stagnation," *Brookings Papers on Economic Activity* (1:2019): 1-76.

### C. Capital flows: the financial account of the balance of payments

#### *Marginal Product of capital and Lucas puzzle*

- \*Lucas, R.E. (1990), "Why does not capital flow from rich to poor countries?," *American Economic Review*, 80, 92-96.
- Rognlie, M. (2015) "Deciphering the fall and rise in the net capital share", *Brooking Papers on Economic Activity*.
- Alfaro, L., S. Kalemli-Ozcan, and V. Volosovych (2008) "Why doesn't capital flow from rich to poor countries? An empirical investigation", *The Review of Economics and Statistics* 90, 2, 347-368.
- \*Forbes, K. (2010) "Why do foreigners invest in the United States?," *Journal of International Economics*, 80, 3-21
- Yan, C., Phylaktis, K. and Fuertes A.-M. (2016) "On cross-border bank credit and the US financial crisis transmission to equity markets", *Journal of International Money and Finance*, 69, 108-34

Karabarbounis, L. & B. Neiman, 2013 "The Global Decline in the Labor Share, *Quarterly Journal of Economics*, vol. 129(1), 2013

#### *FDI*

- Doytch, N. and M. Uctum (2011) "Does the world-wide shift of FDI from manufacturing to services accelerate economic growth? A GMM estimation study", *Journal of International Money and Finance*.
- Crespo, N. and Fontoura M. P., 2007. Determinant Factors of FDI Spillovers- What do we really know? *World Development*. 35, No 3, 410-425.

#### *Allocation Puzzle*

Gourinchas, P.-O. and Jeanne, O. (2013) "Capital flows to developing countries: the allocation puzzle", *Review of Economic Studies*, 80, 1484-1515.

#### *Safe asset scarcity and secular stagnation*

Caballero, R. and E. Farhi, "The Safety Trap (<https://doi.org/10.1093/restud/rdx013>)", *Review of*

Economic Studies, Feb. 2017

(\* Caballero R., E. Farhi and P.O. Gourinchas, "Global Imbalances and Currency Wars at the ZLB (<http://www.nber.org/papers/w21670>)", NBER Working Paper March 2016.

Caballero R., E. Farhi and P.O. Gourinchas, "Safe Asset Scarcity and Aggregate Demand (<http://dx.doi.org/10.1257/aer.p20161108>)", American Economic Review Papers & Proceedings, May 2016

Caballero R., E. Farhi and P.O. Gourinchas, "The Safe Asset Shortage Conundrum (<http://10.1257/jep.31.3.29>)", Journal of Economic Perspectives, Summer 2017, 31(3)

#### IV. EXCHANGE RATES AND EXCHANGE RATE DYNAMICS

A. Exchange rate building blocks: Monetary approach, sticky prices, modelling the real exchange rates, portfolio balance models

??Dornbusch, Rudiger (D) "Money, Prices, and Payments Adjustment," Chapter 7.

Obstfeld and Rogoff (OR), Chapter 8;

??Roubini, Nouriel, and Vittorio Grilli (1995) "Liquidity Models in Open Economies: Theory and Empirical Evidence," NBER Working Paper No. 5313.

\*Obstfeld and Rogoff (OR), Chapter 9;

\*Dornbusch, R. (1976), "Expectations and exchange rate dynamics", *Journal of Political Economy*;

Rogoff, K. (2002), "Dornbusch's overshooting model after 25 years" *IMF Staff Papers*, Vol. 49, Special Issue. <http://www.imf.org/external/pubs/ft/wp/2002/wp0239.pdf>

#### B. NKOE Models

\*Obstfeld, M. and K. Rogoff (1995), "Exchange Rate Dynamics Redux," *Journal of Political Economy*, Vol. 102.

G. Corsetti, L. Dedola, and S. Leduc. "Optimal Monetary Policy in Open Economies," in Handbook of Monetary Economics, volume 3, edited by B. Friedman and M. Woodford (Elsevier, 2010).

R. Clarida, "Reflections on Monetary Policy in the Open Economy," in International Seminar on Macroeconomics 2008, edited by J. Frankel and C. Pissarides (University of Chicago Press, 2009).

G. Benigno and P. Benigno, "Exchange Rate Determination under Interest Rate Rules," *Journal of International Money and Finance* (2009).

J. Galí and T. Monacelli, "Monetary Policy and Exchange Rate Volatility in a Small Open Economy," *Review of Economic Studies* 72 (2005): 707–34. M. Obstfeld and K. Rogoff, "New Directions for Stochastic Open Economy Models," *Journal of International Economics* 50 (Feb. 2000): 117-53

??Branson, W. and D. Henderson (1985), "The specification and influence of asset markets", Jones and Kennen (JK), Chapter 15;

\*Heathcote, J. and F. Perri, (2013) "The International Diversification Puzzle is not as bad as you think", *Journal of Political Economy*, 121, 6, 1108-59.

Baxter, M. and U. Jermann (1997) "The international diversification puzzle is worse than you think, *AER*, vol 87, No.1.

Engel and K. West, "Taylor Rules and the Deutschmark-Dollar Real Exchange Rate," *Journal of Money, Credit, and Banking* 38 (August 2006): 1175-94.

## B. Empirical evidence on exchange rates

- M. Bussière, M. Chinn, L. Ferrara, and J. Heipertz, “The New Fama Puzzle,” NBER Working Paper 24342, February 2018.
- W. Du, A. Tepper, and A. Verdelhan, “Deviations from Covered Interest Rate Parity,” *Journal of Finance* 73 (2018): 915-57.
- C. Engel, “Exchange Rates and Interest Parity,” in *Handbook of International Economics*, volume 4, edited by G. Gopinath, E. Helpman, and K. Rogoff (Elsevier, 2014).
- E. Fama, “Forward and Spot Exchange Rates,” *Journal of Monetary Economics* 14 (1984): 319-338.
- Z. Jiang, A. Krishnamurthy, and H. Lustig, “Foreign Safe Asset Demand and the Dollar Exchange Rate,” manuscript, March 2018. URL: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3142280](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3142280)
- D. Rime, A. Schrimpf, and O. Syrstad, “Covered Interest Parity Arbitrage,” manuscript, March 2019. URL: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2879904](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2879904)

### (i) *Nominal exchange rates:*

- Clarida, Richard H., and Mark P. Taylor, 1997, “The Term Structure of Forward Exchange Premia and the Forecastability of Spot Exchange Rates: Correcting the Errors” *Review of Economics and Statistics* 353-361.
- Clarida, Richard H., Lucio Sarno, Mark P. Taylor, and Giorgio Valente, 2003, “The Out-of-Sample Success of Term Structure Models as Exchange Rate Predictors: A Step Beyond,” *Journal of International Economics* 60, 61-83.
- \*Meese, R. and K. Rogoff, “Empirical exchange rate models of the Seventies: are any fit to survive?,” *Journal of International Economics*, 14, 1983.
- \*Frankel, J. and A. Rose, “Empirical research on nominal exchange rates,” (GR), chapter 33.
- CaZorzi, M., J. Muck and M. Rubaszek (2016) “Real exchange rate forecasting and PPP: this time the random walk loses” *Open Economies Review*.
- Kohlscheen, E. (2014) “The impact of monetary policy on the exchange rate: a high frequency exchange rate puzzle in emerging economies”, *Journal of International Money and Finance*, 44, 69-96.
- Ince, O., Molodtsova, T. and Papell, D. (2016) Taylor rule deviations and out-of-sample exchange rate predictability, *Journal of International Money and Finance*, 69, 22-4.
- Rossi, B. (2013) “Exchange rate predictability” *Journal of Economic Literature*, 51(4), 1063-1119.
- \*Bjornland, H. (2009) “Monetary policy and exchange rate overshooting: Dornbusch was right after all”, *Journal of International Economics*, 79, 64-77.
- \*Mark, N. (1995), “Exchange rates and fundamentals: evidence on long-horizon predictability”, *American Economic Review*.
- Taylor, M. (1995) "Exchange Rate Behavior", *Journal of Economic Literature*, March
- Mark, N.C. and D. Sul (2001), “Nominal exchange rates and monetary fundamentals: evidence from a small post-Bretton Woods panel”, *Journal of International Economics*, 53, 29-52.
- \*Faust, J., J. Rogers, J Wright (2003), “Exchange rate forecasting: the errors we’ve really made”, *Journal of International Economics*, 60 35-59.

- \*Cheung, Y.-W., M. Chinn, A. Pascual (2005) "Empirical exchange rate models of the nineties: are any fit to survive?" *Journal of International Money and Finance*, 24, 1150-1175.
- \*Cheung, Yin-Wong & Chinn, Menzie D. & Pascual, Antonio Garcia & Zhang, Yi, (2019) "Exchange rate prediction redux: New models, new data, new currencies," *Journal of International Money and Finance*, 95(C), 332-362.
- \*Blomberg, S. and G. Hess (1997) "Politics and exchange rate forecasts" *Journal of International Economics* 43, 189-205.
- \*MacDonald, R. and I.W. Marsh (2004) "Currency spillovers and tri-polarity: a simultaneous model of the US dollar, German mark and Japanese yen" *Journal of International Money and Finance*, 23, 99-111.
- Rogoff, K. and V. Stavrageva (2008) "The continuing puzzle of short horizon exchange rate forecasting", NBER WP14071.
- Wickens, M. (2014) "How useful are DSGE macroeconomic models for forecasting?" *Open Economies Review*, 25(1), 171-93.

### **Assignment 3: Exchange rate model and overshooting**

#### (ii) The Microstructure Approach to Exchange Rates

- \*Evans M. and R. Lyons, (2002) "Order Flow and Exchange Rate Dynamics", *Journal of Political Economy*
- \*Evans M. and R. Lyons, (2005), "Meese-Rogoff Redux: Micro-Based Exchange Rate Forecasting", *American Economic Review*, 95, 2, 405-414.
- \*Evans, M. (2010) "Order flows and exchange rate disconnect puzzle", *Journal of International Economics*, 80, 58-71.
- \*Rime, D., L. Sarno and E. Sojli (2010) Exchange rate forecasting, order flow and macroeconomic information", *Journal of International Economics*. 80, 72-88.
- Vitale, P. (2007) "A Guided Tour of the Market Micro Structure Approach to Exchange Rate Determination", *Journal of Economic Surveys*, 21, 5, 903-934.
- \*Evans, M. NS Rime, D. (2016) "Order flow information and spot rate dynamics", *Journal of International Money and Finance*, 69, 45-68.

#### (iii) Real exchange rates and PPP:

- Obstfeld and Rogoff (OR) Chapter 4 (sections 1 and 2).
- \*K. Froot and K. Rogoff (1995) "Perspectives on PPP and Long-Run Real Exchange Rates", NBER W.P. No. 4952, December; also Chapter in (GR) volume, 1996.
- Rogoff, K. (1996) "The purchasing power parity puzzle", *Journal of Economic Literature*, 34, 647-688.
- \*Clarida, R. and J. Gali (1994) "Sources of Real Exchange-Rate Fluctuations: How Important Are Nominal Shocks?" *Carnegie-Rochester Conference Series on Public Policy*. Vol. 41 (0) 1-56 <http://papers.nber.org/papers/w4658>
- \*Eichenbaum, M. and C. Evans (1995) "Some empirical evidence on the effects of shocks to monetary policy on exchange rates", *The Quarterly Journal of Economics*, 110, 4, 975-1009.



- \*Kim, S. and N. Roubini (2000) “Exchange rate anomalies in the industrial countries: a solution with a structural VAR approach”, *Journal of Monetary Economics* 45, 561-586.
- Coakley, J., R. Flood, A. Fuertes, and M. Taylor (2005) “Purchasing power parity and the theory of general relativity: the first tests” *Journal of International Money and Finance*, 24, 293-316.
- \*Engel, C. (2000), “Long-run PPP may not hold after all”, *Journal of International Economics*, 57 243-273.
- \*Lothian, J. and M. P. Taylor (1996) “Real exchange rate behavior: the recent float from the perspective of the past two centuries”, *The Journal of Political Economy* 104, 3, 488-509.
- Taylor, A. (2002) “A century of purchasing power parity”, *Review of Economics and Statistics* 84, 139-150.
- Lothian, J. R. (2007) “The behavior of prices and nominal exchange rates across exchange rate regimes: three natural experiments (manuscript).
- \*Kilian, L. and M.P. Taylor (2003) “Why is it so difficult to beat the random walk forecast of exchange rates?”, *Journal of International Economics* 60, 85-107.
- \*Imbs, J. H. Mumtaz, M. Ravn, H. Rey (2005):”PPP strikes back: aggregation and the real exchange rate”, *Quarterly Journal of Economics* 120:1-43.
- Burstein, A. and N. Jaimovich (2012): “Understanding movements in aggregate and product level real exchange rates”, mimeo, UCLA and Stanford

(\*)Engel, Charles, and Kenneth D. West, 2005, “Exchange Rates and Fundamentals,” *Journal of Political Economy* 113, 485-517.

(\*)Engel, C., M. Nelson, K. West (2007) “Exchange rate models are not as bad as you think”, *NBER Macroeconomics Annual*, Vol.22, 381-441

(\*)Rossi, Barbara, 2007, “Comment on Engel, Mark, and West,” *NBER Macroeconomics Annual* 2007, 453-470.

(iii) *Pricing-to-market and exchange rate pass-through*

\*Marston, R. (1990) “Pricing to market in Japanese manufacturing”, *Journal of International Economics*, 29, 271-36.

\*Atkeson, A. and A. T. Burstein (2008) “Pricing to market, trade costs and international relative prices”, *American Economic Review*, v.98, 5, 1998-2031.

Goldberg, P. and M. Knetter (1997) “Goods prices and exchange rates: what have we learned?”, *JEL* 35: 1243-1272

\*Goldberg, L. and J. Campa (2010) “the sensitivity of the CPI to exchange rates: distribution margins, imported inputs and trade exposure”, *REStat*

??Burstein, A., M. Eichenbaum and S. Rebelo (2007) Modeling exchange rate pass-through after large devaluations”, *Journal of Monetary Economics*, 54, 2, 346-68.

A. Burstein and G. Gopinath, “International Prices and Exchange Rates,” in *Handbook of International Economics*, volume 4, edited by G. Gopinath, E. Helpman, and K. Rogoff (Elsevier, 2014).

G. Gopinath and J. Stein, “Banking, Trade, and the Making of a Dominant Currency,” manuscript, March 2018.

Corsetti, G., L. Dedola and S. Leduc (2008) “High exchange rate volatility and low pass-through”, *Journal of Monetary Economics* 55: 1113-28.

(iv) Speculation and the Forward Market: FX Carry trades

(\*) Jorda, O. and Taylor, A. (2012) “Carry-trade and fundamentals: nothing to fear but the FEER itself”, *Journal of International Economics*, 88, 1, 74-90.

Goss, B. and G. Avsar (2016) “Can economists forecast exchange rates? The debate revisited: the case of the USD/GBD market” *Australian Economic Papers*, 55(1), 14-28.

Brunnermerier, M., Nagel, S. and Pedersen, L.H. (2008) “Carry trades and currency crashes”, NBER WP.

MacDonald, R. and Nagayasu, J. (2015) “Currency forecast errors and carry trades at times of low interest rates: evidence from survey data on the yen/\$ exchange rate”, *Journal of International Money and Finance*, 53, 1-19.

Breedon, F., Rime, D. and P. Vitale (2016) “Carry trades, order flows and the forward bias puzzle”, *Journal of Money, Credit and Banking*, 48, 6, 1113-34.

\*\*\*Burnside, C. 2018 “Exchange rates, interest parity and the CT”, manusc.

Brunnermeier, Markus K., Stefan Nagel, and Lasse Pedersen, 2009, “Carry Trades and Currency Crashes,” *Macroeconomics Annual* 2008, Chapter 5.

Burnside, Craig, 2009, “Carry Trades and Currency Crashes: A Comment,” *Macroeconomics Annual* 2008.

Baek, Seungho, Kwan Y. Lee, and Mina Glamboisky (2019) "Dynamic Risk Factors in Carry Trades," *Journal of Fixed Income*, 29, 55-75.

Chen, Yu-chin and Dongwon Lee (2018) “Market power, inflation targeting, and commodity currencies” *Journal of International Money and Finance* 88, 122–139

#### **Assignment 4: Purchasing Power Parity**

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Plan for Econ 86200		
30-Jan	BOP	
6-Feb	2-pd model	
13-Feb	Inf-horiz model	
20-Feb	FP OG model	
27-Feb	empirical opt CA	
5-Mar	FH	
12-Mar	int imbalances	
19-Mar	K flows	
26-Mar	FDI Alloc puzzle	
2-Apr	e.r. models	
9-Apr	sp brk	
16-Apr	sp brk	
23-Apr	empiric. e.r	
30-Apr	empiric.er.	
7-May	empiric er	
14-May	empiric er	last class
21-May	exam	

## IX. CURRENCY CRISES, FINANCIAL AND BALANCE OF PAYMENTS CRISES

### Earlier Literature

O&R Ch. 8.4, 9.5.

Jeanne, O. (1997) "Are currency crises self-fulfilling? a test", *Journal of International Economics*, 43, 1997, 263-286.

Flood, R. and N. Marion (1998) "Perspectives on the recent currency crisis literature", IMF WP/98/130, NBER WP #6380.

Obstfeld, M. (1998) "The global capital market: benefactor or menace? *Journal of Economic Perspectives*, vol.12 (4), 9-30.

Eichengreen, B., Andy K. Rose, and Charles Wyplosz (1995) "Exchange Market Mayhem: The Antecedents and Aftermath of speculative attacks," *Economic Policy*, 10, 21, 249-312.

Kaminsky, G. and C. M. Reinhart (1999), "The Twin Crises: The Causes of Banking and Balance of Payments Problems," *American Economic Review*. Vol. 89 (3). p 473-500.

Eichengreen, Barry and Andrew K. Rose, (2000) "Staying Afloat When the Wind Shifts: External Factors and Emerging-Market Banking Crises," *Wirtschaftspolitische Blatter*, 47 (4) 395-402.

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### [The Long-Run Effects of Monetary Policy](#)

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Sanjay R. Singh, University of California, Davis  
Alan M. Taylor, University of California, Davis - Department of Economics,  
National Bureau of Economic Research (NB

## TERM PAPER

The paper should be around 8 to 10 type-written pages, double-spaced, normal sized fonts (10-12 points), and margins (1 inch all around). It will be on a relevant topic in international economics, which may or may not be covered in class. The paper should be preferably an empirical examination of a subject relevant to this class. Think of your paper as the primary ingredient for your dissertation. It may be in either of the following forms (i) An attempt for replication of the results of a published paper; (ii) application of the methodology in a published paper to another data; (iii) a critical review of a collection of articles, and analysis of the issues using data. However, you are more likely to get a better grade if you attempt options (i) and (ii).

The subject you choose must be approved by me in advance. The preparation of your paper requires three steps: (i) A brief proposal: about a page, stating what you plan to write about, motivation, what you expect to find, references and the data you will use; (ii) Presentation: you will present your paper in class; (iii) Final version of the paper.

### Possible topics:

- *Financial Crises*: what were the common causes and differences of the financial crises in the 1990s, beginning 2000 in Asia, Latin America, Europe and the 2008? Is there a relation between asset price inflation and financial crises. The role of fiscal policy. Are economies worsened by more integrated (open) financial or goods markets? Why are current accounts countercyclical? do global imbalances lead to crises? Global financial crisis: European debt and financial crisis (how do the sovereign and banking crises feed each other);
- *Income inequality and crises*: what role did the worsening of income distribution play in the business cycles and in particular in the 2008 crises? Is there a connection between: International capital markets and inequality; fiscal/monetary policy and inequality? Does increased inequality lead to increased asset prices? To global imbalances?
- *Macro-Financial Linkages*: Does monetary policy affect banks' risk taking? Does lax monetary policy lead to crises and if so how?; does globalization (e.g., international banking) weaken the effectiveness of monetary policy? Are highly indebted households more fragile financially (default more)? Does financial fragility vary across countries? Does higher international liquidity increase international imbalances? Do credit ratings affect volatility of private and/or sovereign assets? How does deleveraging (private and public debt) affect long-term growth, how does it correlate with crises? How do balance sheet position of financial intermediaries can generate contagion in sovereign debt markets?



- *Asset Price Volatility*: What distinguishes asset price bubbles from financial instability? What is financial instability? Is it related to asset bubbles and currency crises? How does it affect growth? Which indicators of financial instability should Central Banks monitor and how should they react to them? How does liquidity in secondary markets affect volatility?
- *Capital markets and macroeconomic volatility*: Procyclical capital flows prevent consumption smoothing. What does this imply for the relation between capital flows and aggregate volatility in developing countries? In developed countries?
- *Capital Flows*: How do short-term vs. long-term capital flows affect the macroeconomic management? Capital flows and business cycles. Capital flows and the political economy variables. Do capital controls control capital flows? Do they affect the economy? Does portfolio investment (hot money) behave differently than foreign direct investment? role of monetary and fiscal policies in managing the volatility of asset markets and capital flows. What is the connection between components of capital flows and exchange rates? How are flows related to the home bias phenomenon? Do demographic changes affect the composition and the direction of capital flows?
- *International Integration and business cycles*: Currency union in Asia? Do countries benefit from international integration (international trade and international capital flows) compared to a take-off in the domestic productivity? Does international integration synchronize international business cycles? Does it make them worse or better?
  - Old perception: synchronization of business cycles came from trade. Among developed countries not much synchronization, except in Europe after EMU. More evidence that monetary and financial conditions lead to more synchronization: what is the international transmission mechanism of business cycles?
- *Fiscal Policy*: Effect of fiscal policy on consumption and savings: a comparative analysis between Europe and the US or Asia. Are increases in the international synchronization in fiscal impulses responsible for the increase in international business cycles? Are external imbalances due to fiscal policy? What is the effect of public deficits on sovereign bond ratings? What is the effect of sovereign debt on growth and business cycles? Fiscal policy and fiscal consolidation and financial stability; is the conduct of fiscal policy in a low interest environment different? Is there a causal effect between unemployment (hours worked) and fiscal policy? Is Ricardian equivalence supported by the data? How is it affected when tax payers' concern about future unemployment prospects worsen? Does the budget deficit/surplus in the US, Germany and China affect the current account deficit in developing countries?
- *Europe*: Did the European financial integration change the financial linkages with the

United States and Japan? Did the mechanisms and magnitude of the international transmission of shocks via the trade channel change over time? Why is European unemployment high and persistent? What is the future for fiscal policy in the European Monetary Union? Enlargement problems.

- *Trade and macroeconomics*: Does trade depress wages? How does trade affect business cycles? Income distribution? Which sectors benefit from trade and which sectors lose to it? Do the initial conditions matter?
- *Foreign Aid*: Various sources of help are proposed to help poor countries, such as debt forgiveness, grants, loans, access to international financial markets, access to trade. Which of these possibilities are better for development? Compare for least developed, low income, lower and upper middle income countries.

Useful web sites:

- Peterson Institute for International Economics <http://www.piie.com/>
- Nouriel Roubini's global macroeconomics and financial website <http://www.stern.nyu.edu/globalmacro> (look at "recent academic research")
- Economics resources for students <http://www.ncat.edu/~simkinss/studentres.html>
- World Bank's economic growth research center <http://econ.worldbank.org/external/default/main?menuPK=477883&pagePK=64168176&piPK=64168140&theSitePK=477872>
- On Euro : <http://www.econ.yale.edu/~corsetti/euro/>
- IMF World Economic Outlook and Data: <https://www.imf.org/en/Publications/WEO/Issues/2017/09/19/world-economic-outlook-october-2017>
- 

On-line data relevant for the course:

[http://www.macrohistory.net/data/\[macrohistory.net\]](http://www.macrohistory.net/data/[macrohistory.net])

<https://www.measuringworth.com/index.php>

- Political data sources <http://africa.gov.harvard.edu/links/politlnk.htm>
- US data

- <http://www.usc.edu/schools/sppd/research/casden/research>
  - Penn World Tables  
<http://pwt.econ.upenn.edu/>
  - Real-time data  
<http://www.phil.frb.org/econ/forecast/readow.html>
  - International data  
<http://www.imf.org/external/pubs/ft/weo/2006/01/data/index.htm>  
<https://data.oecd.org/>  
<https://www.bis.org/statistics/index.htm?m=6%7C37>
  - European data  
<http://ec.europa.eu/eurostat/data/database>
  - US Economic Accounts (at the national, regional, industrial and international levels):  
<http://www.bea.gov/bea>
  - US International investment positions, balance of payments  
<http://www.bea.gov/bea/di1.htm>
- Data links at
- <http://pages.stern.nyu.edu/~nroubini/WEBLINKS.HTM>