

WWS 544: INTERNATIONAL MACROECONOMICS

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Lectures: MW 10:40am-12:10pm in Robertson 035

Course overview:

It is a topics class on macroeconomics for open economies and international finance. The course lays out macroeconomic models used for the analysis of international issues and discusses recent global macro developments through the prism of these models. The objective of the course is to enable students to analyze international macroeconomic issues, in order to follow and participate in current policy debates, using the modern tools of economics.

The prerequisites for the class are a basic knowledge of calculus and statistics/econometrics, and comfort with an intermediate macroeconomics class. A formal requirement is WWS 512c: Macroeconomic Analysis (Advanced).

Course requirements:

There will be two problem sets (15% of the grade each), a late semester mid-term (30% of the grade), and no final exam. Instead, you will be asked to work (individually or in groups depending on the class size) on a short paper on a policy issues related to the topics discussed in class. You will present your finding in class in the end of the semester and the paper must be turned in on January 10 (30% of the grade). Class participation accounts for the remaining 10% of the grade.

Readings:

There are no required textbooks. Some of the lectures will be based on

[OR] Obstfeld, Maurice, and Kenneth Rogoff *“Foundation of International Macroeconomics”*, 1996, MIT Press: Cambridge, MA; and

[KO] Krugman, Paul R., and Maurice Obstfeld *“International Economics: Theory and Policy”*, 2009, 8-th Edition, Pearson.

KO (Parts 3 and 4) is an undergraduate-level text and is useful for a background reading. OR is a graduate-level text and requires certain knowledge of economics and calculus. Most readings will be based on research and policy papers available through the Princeton network (the links are provided below).

I. INTERTEMPORAL TRADE AND CURRENT ACCOUNT (9 Lectures)

A. BASELINE THEORY: INTERTEMPORAL APPROACH TO CURRENT ACCOUNT

^b KO, Chapter 12, pp. 288-312: National Income Accounting and the Balance of Payment

OR, Chapter 1, pp. 1-39: Two-period model and Current Account balance

OR, Chapter 2, pp. 59-70 and 74-78: Multiperiod model and dynamics of Current Account

^a OR, Chapter 2, pp. 79-96: Stochastic model

^a OR, Chapter 3, pp. 129-164: Life-cycle and Ricardian Equivalence

* Blanchard, Olivier, and Francesco Giavazzi (2002) "Current Account Deficits in the Euro Area: The End of the Feldstein-Horioka Puzzle?" *Brookings Papers on Economic Activity*, No. 2 (2002), pp. 147-186.

Link: <http://www.jstor.org/stable/1209205>.

Olivier Blanchard (2007) "Adjustment within the euro. The difficult case of Portugal," *Portuguese Economic Journal*, 6(1), pp. 1-21.

* Ventura, Jaume (2003) "Towards a Theory of Current Accounts," *World Economy*, 26 (4), pp. 483-512.

Link: <http://www.crei.cat/people/jventura/publications.html>.

B. GLOBAL CURRENT ACCOUNT IMBALANCES

* Lawrence H. Summers (2006) "Reflections on Global Account Imbalances and Emerging Markets Reserve Accumulation," L.K. Jha Memorial Lecture, Reserve Bank of India.

Link: http://www.hks.harvard.edu/fs/lsummer/speeches/2006/0324_rbi.html.

* Obstfeld, Maurice (2005) "America's Deficit, the World's Problem," *Monetary and Economic Studies*, Vol. 23 (S-1), pp. 25-35. Link: <http://elsa.berkeley.edu/~obstfeld/>.

Obstfeld, Maurice, and Kenneth Rogoff (2005) "Global Current Account Imbalances and Exchange Rate Adjustment," *Brookings Papers on Economic Activity*, No. 1 (2005), pp. 67-123.

Link: <http://www.jstor.org/stable/3805083>.

* Dooley, Michael P., David Folkerts-Landau, and Peter Garber (2004) "The Revived Bretton Woods system," *International Journal of Finance and Economics*, 9 (4), pp. 307-313.

Link: <http://www.nber.org/papers/w10332>. See other papers by these authors.

Obstfeld, Maurice, Jay Shambaugh, and Alan Taylor (2009) "Financial Stability, the Trilemma, and International Reserves," NBER Working Paper 14217. Link: <http://www.nber.org/papers/w14217>.

C. INTERNATIONAL FINANCIAL ADJUSTMENT

* Tille, Cédric (2003) "The impact of exchange rate movements on U.S. foreign debt," *Current Issues in Economics and Finance*, 9 (1), Federal Reserve Bank of New York.

Link: http://www.newyorkfed.org/research/current_issues/ci9-1.pdf.

* Gourinchas, Pierre-Olivier "Valuation Effects and External Adjustment: a Review," in "Current Account and External Financing," Cowan, Edwards and Valdes eds., *Series on Central Banking, Analysis and Economic Policy*, Vol. XII, Banco Central de Chile, pp. 195-236.

Link: <http://socrates.berkeley.edu/~pog/content.html>.

* Blanchard, Olivier, Francesco Giavazzi, and Filipa Sa (2005) "International Investors, the U.S. Current Account, and the Dollar," *Brookings Papers on Economic Activity*, No. 1 (2005), pp. 1-49.

Link: <http://www.jstor.org/stable/3805081>.

II. **FINANCIAL GLOBALIZATION** (5 lectures)

A. INTERNATIONAL ASSET POSITIONS: THEORY AND EVIDENCE

^a OR, Chapter 5: Frictionless international financial markets.

French, Kenneth, and James Poterba (1991) "Investor Diversification and International Equity Markets," *American Economic Review Papers and Proceedings*, 81 (2), pp. 222-226.

Link: <http://www.jstor.org/stable/2006858>.

Lucas, Robert (1982) "Interest rates and currency prices in a two-country world," *Journal of Monetary Economics*, 10 (3), pp. 335-359. Link: <http://www.sciencedirect.com/science/journal/03043932>.

Cole and Obstfeld (1991) "Commodity trade and international risk sharing: How much do financial markets matter?" *Journal of Monetary Economics*, 28 (1), pp. 3-24. [Link](#).

* Lewis, Karen (1999) "Trying to Explain Home Bias in Equities and Consumption," *Journal of Economic Literature*, 37 (2), pp. 571-608. Link: <http://www.jstor.org/stable/2565213>.

B. SOVEREIGN DEBT AND DEFAULT

OR, Chapter 6, pp. 349-378.

^a OR, Chapter 6, pp. 379-400.

* Reinhart, Carmen, and Kenneth Rogoff (2008) "This Time is Different: A Panoramic View of Eight Centuries of Financial Crises," *NBER Working Paper 13882*. Link: <http://www.nber.org/papers/w13882>.

* Cochrane, John (2010) "Greek Myths and the Euro Tragedy" Wall Street Journal, May 18, 2010.
Link: <http://faculty.chicagobooth.edu/john.cochrane/research/Papers/>.

C. WHY DOESN'T CAPITAL FLOW FROM RICH TO POOR COUNTRIES?

* Lucas, Robert (1990) "Why Doesn't Capital Flow from Rich to Poor Countries?" *American Economic Review Papers and Proceedings*, 80 (2), pp. 92-96. Link: <http://www.jstor.org/stable/2006549>.

* Matsuyama, Kiminori (2005) "Credit Market Imperfections and Patterns of International Trade and Capital Flows," *Journal of the European Economic Association Papers and Proceedings*, 3(2-3), pp. 714-723. Link: <http://www.mitpressjournals.org/doi/abs/10.1162/jeea.2005.3.2-3.714>.

* Hsieh, Chang-Tai, and Peter Klenow (2010) "Development Accounting," *American Economic Journal: Macroeconomics*, 2(1), pp. 207-223. Link: <http://www.aeaweb.org/articles.php?doi=10.1257/mac.2.1.207>.

III. **EXCHANGE RATES, INTEREST RATES, AND PRICES** (6 lectures)

A. INTERNATIONAL RELATIVE PRICES AND REAL EXCHANGE RATE: THEORY

OR, Chapter 4, pp. 199-216: Non-traded goods and real exchange rate.

^a OR, Chapter 4, pp. 216-225 and 225-235: short-run and long-run price level and interest rate.

^a OR, Chapter 4, pp. 235-257: terms of trade in a dynamic Ricardian model.

B. INTERNATIONAL RELATIVE PRICES AND REAL EXCHANGE RATE: EVIDENCE

* Rogoff, Kenneth (1996) "The Purchasing Power Parity Puzzle," *Journal of Economic Literature*, 34, pp. 647-668. Link: <http://www.jstor.org/stable/2729217>.

* Engel, Charles (1999) "Accounting for U.S. Real Exchange Rate Changes," *Journal of Political Economy*, 107(3), pp. 507-538. Link: http://www.ssc.wisc.edu/~cengel/published_papers.htm.

* Engel, Charles, and John Rogers (1996) "How Wide is the Border?" *American Economic Review*, 86(5), pp. 1112-1125. Link: http://www.ssc.wisc.edu/~cengel/published_papers.htm.

Goldberg, Pinelopi, and Michael Knetter (1997) "Goods Prices and Exchange Rates: What Have We Learned?" *Journal of Economic Literature*, 35(3), pp. 1243-1272.
Link: <http://www.jstor.org/stable/2729977>.

Atkeson, Andrew, and Ariel Burstein (2008) "Pricing to Market, Trade Costs, and International Relative Prices," *American Economic Review*, 98(5), pp. 1998-2031.
Link: <http://www.aeaweb.org/articles.php?doi=10.1257/aer.98.5.1998>.

C. NOMINAL EXCHANGE RATE

OR, Chapter 8, pp. 513-530: A simple monetary model of the exchange rate.

Meese, Richard, and Kenneth Rogoff (1983) "Empirical Exchange Rate Models of the Seventies: Do They Fit Out of Sample?" *Journal of International Economics*, 14 (1), pp. 3-24.

Link: <http://www.economics.harvard.edu/faculty/rogoff/files/JIE1983.htm>.

* Engel, Charles, Nelson C. Mark, and Kenneth D. West (2007) "Exchange Rate Models Are Not as Bad as You Think," *NBER Macroeconomics Annual 2007*, pp. 381-441.

Link: http://www.ssc.wisc.edu/~cengel/published_papers.htm.

* Evans, Martin, and Richard Lyons (2005) "Meese-Rogoff Redux: Micro-Based Exchange Rate Forecasting," *American Economic Review Papers and Proceedings*, 95 (2), pp. 405-416.

Link: <http://www.aeaweb.org/articles.php?doi=10.1257/000282805774669934>.

OR, Chapter 8, pp. 585-593: Forward Premium Puzzle.

OR, Chapter 9, pp. 605-634: Dornbusch's Overshooting Model.

* Rogoff, Kenneth (2002) "Dornbusch's Overshooting Model After Twenty-Five Years," The Mundell-Fleming Lecture, IMF Working Paper 02/39.

Link: <http://www.imf.org/external/pubs/ft/wp/2002/wp0239.pdf>.

D. EXCHANGE RATE REGIMES AND CURRENCY CRISES

OR, Chapter 8, pp. 554-569, 648-653: Exchange rate regimes and currency attacks.

* Reinhart, Carment, and Kenneth Rogoff (2004) "The Modern History of Exchange Rate Arrangements: A Reinterpretation," *Quarterly Journal of Economics*, 119 (1), pp. 1-48.

Link: <http://www.economics.harvard.edu/faculty/rogoff/files/QJE2004.htm>.

* Krugman, Paul (1996) "Are Currency Crises Self-Fulfilling?" in Ben Bernanke and Julio Rotemberg eds. *NBER Macroeconomic Annual 1996*; with comments by Maurice Obstfeld.

* Jeanne, Olivier (2000) "Currency Crises: A Perspective on Recent Theoretical Developments," *Special Papers in International Economics*, 20, IES, Princeton University.

Link: http://www.princeton.edu/~ies/IES_Special_Papers/SP20.pdf.

Morris, Stephen, and Hyun Song Shin (1998) "Unique Equilibrium in a Model of Self-fulfilling Currency Attacks," *American Economic Review*, 88 (3), 587-597. Link: <http://www.jstor.org/stable/116850>.

E. CURRENCY UNIONS AND INTERNATIONAL CURRENCIES

* Santos Silva, J.M.C., and Silvana Tenreyro (2010) "Currency Unions in Prospect and Retrospect," *Annual Review of Economics*, 2, pp. 51-74. Link: <https://www.annualreviews.org/toc/economics/2/1>.

* Goldberg, Linda (2010) "Is the International Role of the Dollar Changing?" *Current Issues in Economics and Finance*, 16 (1), Federal Reserve Bank of New York.

Link: http://www.newyorkfed.org/research/current_issues/ci16-1.html.

IV. **MONETARY AND EXCHANGE RATE POLICY** (2 lectures)

^a OR, Chapter 10.

* Lane, Philip (2001) "The New Open Economy Macroeconomics: A Survey," *Journal of International Economics*, 54, pp. 235-266. [Link](#).

* Corsetti, Giancarlo, and Paolo Pesenti (2007) "The Simple Geometry of Transmission and Stabilization in Closed and Open Economies," *NBER International Macroeconomic Annual 2007*, pp. 65-116.

Link: <http://www.newyorkfed.org/research/economists/pesenti/pub.html>.

POLICY BRIEFS (4 lectures)

References to be provided.

1. GLOBAL IMBALANCES AND FINANCIAL CRISIS
2. DEBT CRISIS IN THE EUROPIAN CURRENCY UNION
3. WHY DOES NOT CAPITAL FLOW FROM RICH TO POOR COUNTRIES?
4. CHINESE RESERVES ACCUMULATION
5. GREAT TRADE COLLAPSE DURING 2008 RECESSION
6. THE FUTURE ROLE OF THE DOLLAR
7. INTERNATIONAL POLICY COORDINATION