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 (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

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

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

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


B. GLOBAL CURRENT ACCOUNT IMBALANCES


C. INTERNATIONAL FINANCIAL ADJUSTMENT


II. FINANCIAL GLOBALIZATION (5 lectures)

A. INTERNATIONAL ASSET POSITIONS: THEORY AND EVIDENCE

* OR, Chapter 5: Frictionless international financial markets.


B. SOVEREIGN DEBT AND DEFAULT

OR, Chapter 6, pp. 349-378.

* OR, Chapter 6, pp. 379-400.

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


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.

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

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

B. INTERNATIONAL RELATIVE PRICES AND REAL EXCHANGE RATE: EVIDENCE


C. NOMINAL EXCHANGE RATE

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


Link: [http://www.ssc.wisc.edu/~cengel/published_papers.htm](http://www.ssc.wisc.edu/~cengel/published_papers.htm).


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

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


D. EXCHANGE RATE REGIMES AND CURRENCY CRISSES

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


E. CURRENCY UNIONS AND INTERNATIONAL CURRENCIES


IV. MONETARY AND EXCHANGE RATE POLICY (2 lectures)

* OR, Chapter 10.


POLICY BRIEFS (4 lectures)

References to be provided.

1. GLOBAL IMBALANCES AND FINANCIAL CRISIS
2. DEBT CRISIS IN THE EUROPEAN 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