

Syllabus
Economics 861: International Monetary Economics
Spring 2018

General information

Time and place: TBD
Instructor: Anusha Chari
E-mail: achari@unc.edu
Phone: 919-966-5346
Office: 306B Gardner Hall
Office hours: By appointment

Course Description

Overview: This is a second-year Ph.D. course in International Macroeconomics and Finance. The objective of this course is twofold: (1) introduce students to the modern models, tools and methods in International Macroeconomics and (2) discuss areas of active research in the field and help students navigate among possible topics for dissertation research.

Reference Books:

USG: Martín Uribe and Schmitt-Grohe, Stephanie,. Open Economy Macroeconomics, Princeton University Press, 2017.

GHR: Gopinath, Gita, Elhanan Helpman, and Kenneth Rogoff, eds. Handbook of International Economics.Vol. 4. Elsevier, 2014.

M: Mark, Nelson. International Macroeconomics and Finance. Blackwell Publishers, 2001.

OR: Foundations of International Macroeconomics, by Maurice Obstfeld and Kenneth Rogoff, Cambridge, MA, MIT Press, 1996.

V: Vegh, Carlos. Open Economy Macroeconomics in Developing Countries. MIT Press, 2013.

Articles can be downloaded from journal websites (link from University of Michigan Library eJournals),from JSTOR, Science Direct, ProQuest or from the NBER Working papers site (<http://www.nber.org/>). If you have trouble locating a particular article, please let me know and I will make copies available.

Readings

Below is an extensive reading list in International Macroeconomics. We will be able to cover only a part of it and you are advised to keep reading on your own should you choose to specialize in International Macro. All readings are based on journal articles. Most of the readings are available online. NBER (National Bureau of Economic Research) working papers can be downloaded at <http://www.nber.org> and CEPR (Centre for Economic Policy Research) discussion papers can be downloaded at <http://www.cepr.org>. Journal articles can be downloaded from JSTOR, Science Direct and ProQuest. If you have trouble locating a particular article, please let me know and I will make copies available. I will also post articles on Sakai.

Please check for the updates to the reading list during the semester.

The international/macro seminar will be held on Fridays at 3:30pm after Spring break. If your schedule permits, please plan to attend. This is a great way to get exposure to research in the field. Please check the schedule at <http://www.unc.edu/depts/econ/workshops.htm> for updates to the schedule.

Evaluation

1. Referee Report. We need to discuss and select the research paper that you will work on before end-February (15%)
2. Replicate and extend one paper. This assignment will be due on the date of the final exam. (50%)
3. Presentation of replication exercise/referee report (15%)
4. Class participation. You are expected to attend the class regularly, read papers before class, and participate actively in class discussion. (10%)
5. Journal article presentations (10%)

Any changes to the course requirements will be communicated via email.

Replication Exercise Example:

Original Paper:

“Growth in a Time of Debt” American Economic Review Papers and Proceedings, Vol. 100, No. 2
May, 573-578.

Data:

http://www.carmenreinhardt.com/user_uploads/data/36_data.pdf

Replication and critique:

Thomas Herndon, Michael Ash, and Robert Pollin "Does High Public Debt Consistently Stifle Economic Growth? A Critique of Reinhart and Rogoff" PERI Working Paper Series, Number 322.

Extensive List of Topics and Readings (Take this as an initial bibliography). We will cover a subset.

1. Small Open Economy Models

USG Chapters 1 – 4.

OR, chapters 1 – 3. Intertemporal trade (pp. 1-27, 59-70)

Mendoza, E., “Real Business Cycles in a Small Open Economy: The Canadian Case,” AER 1991.

Obstfeld, M. and K. Rogoff, “The Intertemporal Approach to the Current Account,” Handbook of International Economics, vol. 3, Ch. 1, Sections 1 – 3.1. Also available at <http://www.nber.org/papers/w4893>.

P. Lane (2001). “The New Open Economy Macroeconomics: A Survey,” JIE 54: 235-266.

Gourinchas, Pierre-Olivier and Helene Rey, “International Financial Adjustment,” Journal of Political Economy, 115(4), August 2007.

Obstfeld, M. and K. Rogoff, “The Intertemporal Approach to the Current Account,” *Handbook of International Economics* Ch. 1, Sections 1 – 3.1.

2. Business Cycles in Emerging Markets

USG: Chapters 5 and 6

Aguiar, M. and G. Gopinath, “Emerging Market Business Cycles: The Cycle is the Trend,” Journal of Political Economy 115.1 (2007): 69-102.

Boz, Emine, Christian Daude, and C. Bora Durdu. “Emerging Market Business Cycles: Learning About the Trend.” JME 58.6 (2011): 616-631.

Chang, Roberto, and Andres Fernandez. “On the Sources of Aggregate Fluctuations in Emerging Economies.” International Economic Review 54.4 (2013): 1265-1293.

Uribe, M. and V. Yue, “Country Spreads and Emerging Markets: Who drives Whom?” JIE 2006.

E. Mendoza (1991). “Real Business Cycles in a Small Open Economy,” AER, 81(4).

Neumayer and Perri, “Business cycles in emerging economies: The role of interest rates,” JME (52) 2005 345-380.

D. Backus, P. Kehoe and F. Kydland (1992). "International Real Business Cycles," *JPE*, 100: 745-775.

3. International Capital Flows and Financial Globalization

Lane, P. R. and G. M. Milesi-Ferretti, "The External Wealth of Nations: Measures of Foreign Assets and Liabilities for Industrial and Developing Countries," *JIE*, 2001.

Frankel, J.: "Measuring International Capital Mobility", *American Economic Review Papers and Proceedings*, May 1992, 197-202.

Obstfeld M. and A. Taylor: "Globalization and capital markets", NBER WP8846 at <http://www.nber.org/papers/w8846>

Portes, R. and H. Rey: "Determinants of Cross-Border Equity Flows", *Journal of International Economics*, paper available at <http://www.princeton.edu/~hrey/>

Henry, Peter. "Capital Account Liberalization: Theory, Evidence and Speculation" at <https://faculty-gsb.stanford.edu/henry/Homepage/PDF/Henry-Liberalization-Oct-07.pdf>

Chuhan, P. and F. Sturzenegger, "Default Episodes in the 1990s: What Have We Learned?," Manuscript, the World Bank and Universidad Torcuato Di Tella, 2003.

Reinhart, C., K. Rogoff and M A. Savastano, "Debt Intolerance," NBER Working Paper 9908, 2003.

3a. The Rate of Return to Capital

Lucas, Robert E. "Why doesn't capital flow from rich to poor countries?," *AER* (1990): 92-96.

Francesco Caselli and James Fryer, "The Marginal Product of Capital," *Quarterly Journal of Economics*, May 2007.

Chang-Tai Hsieh and Peter Klenow, "Misallocation and Manufacturing TFP in China and India," *Quarterly Journal of Economics*.

Pierre-Olivier Gourinchas and Olivier Jeanne, "Capital Flows to Developing Countries: The Allocation Puzzle" Working Paper, June 2009.

4. International Macro-Financial Linkages

Chari, A., K. Dilts-Stedman and C. Lundblad. "Taper Tantrums: QE, its Aftermath and Emerging Market Capital Flows."

Schreger J. and W. Du. "Local Currency Sovereign Risk," *Journal of Finance*, 71(3), June 2016, Pages 1027-1070.

Luis-Peydro, J, B. Morais and C. Ruiz. "The International Bank Lending Channel of Monetary Policy Rates and QE: Credit Supply, Reach-for-Yield, and Real Effects," (with Bernardo Morais and Claudia Ruiz). Forthcoming at the *Journal of Finance*.

5. The Terms of Trade and the Real Exchange Rate

USG: Chapters 7-8

Obstfeld, M. and K. Rogoff, "The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?" NBER Macro Annual, 2000.

Consumption and Home Bias

French, K. and J. Poterba, "Investor Diversification and International Equity Markets," AER 1991.

Kehoe, P. and F. Perri, "International Business Cycles with Endogenous Incomplete Markets," *Econometrica* , 2000.

Tesar, L. and I. Werner, "Home Bias and High Turnover," *Journal of International Money and Finance* , 1994. Recursive Contracts and Endogenously Incomplete Markets

Feldstein-Horioka Puzzle

Bai, Y. and J. Zhang, "Can Financial Frictions Account for the Cross-Section Feldstein-Horioka Puzzle?" *Econometrica*, forthcoming.

Feldstein, M. and C. Horioka, "Domestic Saving and International Capital Flows," *Economic Journal* , 1980.

Tesar, L., "Savings, Investment and International Capital Flows," *JIE* , 1991.

6. Exchange rates, nominal rigidities and capital controls

USG Chapter 9 – 10

6a. Nominal Exchange Rates: Theory

Obsfeldt and Rogoff, ch. 9.1-9.3

Mark, N. Chapter 9.

Dornbusch, "Expectations and Exchange Rate Dynamics," *JPE* 1976, 84:1161-1176

Lucas, "Interest Rates and Currency Prices in a Two-Currency World," *Journal of Monetary Economics* 1982: 335-359.

6b. Nominal Exchange Rates: Facts

Meese, R. and K. Rogoff, "Empirical Exchange Rate Models of the Seventies: Are Any Fit to Survive?," *JIE*, 1983.

Mark, N., "Exchange Rates and Fundamentals: Evidence on Long-Horizon Predictability," *AER*, 1995.

Engel, Charles. "Exchange Rates and Interest Parity" NBER working paper #19336, 2013.

7. Sovereign Debt, Default, and Sudden Stops

USG: Chapter 13

Sovereign debt: Classical theory

Atkeson, A., "International Lending with Moral Hazard and Risk of Repudiation," *Econometrica*, 1991.

Bulow, J. and K. Rogoff, "Sovereign Debt: Is to Forgive to Forget?," *AER*, 1989.

Cole, H. and P. Kehoe, "Models of Sovereign Debt: Partial v.s. General Reputations," *IER*, 1998.

Cole, H. and T. Kehoe (1996), "A Self-Fulfilling Model of Mexico's 1994-95 Debt Crisis," *JIE*, 1996.

Eaton, J. and R. Fernandez, "Sovereign Debt," In *Handbook of International Economics*, edited by Gene M. Grossman and Kenneth Rogoff, Amsterdam: Elsevier, 1995.

Eaton, J. and M. Gersovitz, "Debt with Potential Repudiation: Theoretical and Empirical Analysis," REStud, 1981.

Sovereign debt: Recent extensions

Hebert, Benjamin and Jesse Schreger "The Costs of Sovereign Default: Evidence from Argentina," with Benjamin Hebert. *American Economic Review*, 107(10), October 2017, Pages 3119-3145. [Paper](#), [Appendix](#)

Chari, A., R. Leary and T. Phan (2017). The Real Costs of sub(sovereign) default risk: Evidence from Puerto Rico. http://www.unc.edu/~achari/PuertoRico_CLP.pdf

Aguiar, M. and G. Gopinath, "Defaultable Debt, Interest Rates and the Current Account," JIE 2005.

Arellano, C., "Default Risk, Income Fluctuations and Real Exchange Rates," AER, 2007.

Bai, Y. and J. Zhang, "Financial Integration and International Risk Sharing," mimeo, Arizona State University and University of Michigan, 2005.

Mendoza and Yue. [A General Equilibrium Model Of Sovereign Default and Business Cycles. http://www.econ.nyu.edu/user/yue/Mendoza_Yue_2011.pdf](http://www.econ.nyu.edu/user/yue/Mendoza_Yue_2011.pdf). *Quarterly Journal of Economics*, (2012) 127 (2): 889-946.

Bai, Y. and J. Zhang, "Duration of Sovereign Debt Renegotiation," mimeo, Arizona State University and University of Michigan, 2009.

Kletzer, K. and B. D. Wright, "Sovereign Debt as Inter-temporal Barter," *American Economic Review*, (90): 621-39, June 2000.

Yue, V., "Sovereign Default and Debt Renegotiation," JIE, *Journal of International Economics*, 80 (2), March 2010, 176-187.

Wright, M. L. J., "Reputations and Sovereign Debt," mimeo, Stanford University, September 2002.

Sudden Stops

Allen, F. and D. Gale, "Optimal Currency Crises," Carnegie-Rochester Conference Series on Public Policy, 2000.

Arellano, C. and E. Mendoza, "Credit Frictions and Sudden Stops in Small Open Economies: An Equilibrium Business Cycle Framework for Emerging Markets Crises," NBER WP 8880, 2002.

Chari, V.V., Patrick Kehoe and Ellen McGrattan, 2005, "Sudden Stops and Output Drops," *American Economic Review*, forthcoming.

Gopinath, Gita, 2004, "Lending Booms, Sharp Reversals and Real Exchange Rate Dynamics," *Journal of International Economics*, 1-23.

Mendoza, E. and K. Smith, "Margin Calls, Trading Costs and Asset Prices in Emerging Markets: The Financial Mechanics of the Sudden Stop Phenomenon," JIE 2006.

Oviedo, P. Marcelo, 2003, "Macroeconomic Risk and Banking Crises in Emerging Countries," Manuscript, Iowa State University.

V.V. Chari, P. Kehoe and E. McGrattan (2005). "Sudden Stops and Output Drops," AER P&P, 95: 381-387.

Additional Topics:

8. Financial frictions and Crises

USG: Chapters 11-12

Speculative attacks and balance of payments crises

Speculative attacks (Obstfeldt-Rogoff chapter 8.4.2, 8.4.3, 8.4.4 and pp. 648-653)

Krugman, P. "A Model of Balance of Payments Crises" Journal of Money, Credit, & Banking 1979.

Krugman P.: "Are Currency Crises Self-Fulfilling?" NBER Macroeconomics Annual, pp. 345-07, 1996.

Obstfeld M.: "Models of currency crises with self-fulfilling features", European Economic Review 40, 1037-47.

Empirical facts

Milesi-Ferretti, G.M. and A. Razin, "Current Account Reversals and Currency Crises: Empirical Regularities," NBER Working paper No. 6620, 1998.

Calvo, G. and E. Mendoza, "Reflections on Mexico's Balance of Payments Crisis: A Chronicle of a Death Foretold," JIE, 1996.

Frankel, J.A. and A.K. Rose, "Currency Crashes in Emerging Markets: An Empirical Treatment," JIE, 1996.

Kaminsky, G. and C.M. Reinhart, "The Twin Crises: The Cause of Banking and Balance-of-Payments Problems," AER, 1999.

9. International Risk Sharing and Portfolio Choice

International risk-sharing and portfolio home bias

Svensson, L.: "Trade in Risky Assets", American Economic Review, pp. 375-394, (June) 1988.

Kenneth French and James Poterba (1991). "Investor Diversification and International Equity Markets," AER P&P 81(2): 222-226. URL: <http://www.jstor.org/stable/2006858>.

Robert Lucas (1982). "Interest rates and currency prices in a two-country world," JME 10(3): 335-359.

Harold Cole and Maurice Obstfeld (1991). "Commodity trade and international risk sharing : How much do financial markets matter?" JME 28(1): 3-24.

Lewis K. (1996), "What can explain the apparent lack of consumption risk sharing?" Journal of Political Economy 104 (April): 267-97.

Karen Lewis (1999). "Trying to Explain Home Bias in Equities and Consumption," JEL 37 (2): 571-608. URL: <http://www.jstor.org/stable/2565213>.

Heathcote, J. and F. Perri, "The International Diversification Puzzle is not as bad as you think", mimeo NYU Stern, Aug 2004.

Adler M and B. Dumas, "International Portfolio Choice and Corporation Finance: a Synthesis", Journal of Finance, 38, 925-984.

M. Devereux and A. Sutherland (2009). "Country Portfolios in Open Economy Macro Models," JEEA forthcoming.

C. Tille and E. van Wincoop (2010). "International Capital Flows," JIE 80: 157-175.

Additional Readings:

Baxter M. and U. Jerman, 1997, "The international diversification puzzle is worse than you think", American Economic Review, 87(March) and the appendix.

Anna Pavlova and Roberto Rigobon (2007). "Asset Prices and Exchange Rates," RFS 20(4): 1139-1180.

Eric van Wincoop and Frank Warnock (2010). "Can trade costs in goods explain home bias in assets?" JIMF 29(6): 1108-1123.

Couerdacier and Gourinchas (2008). "When Bonds Matter: Home Bias in Goods and Assets," working paper.