

Syllabus
Economics 861: International Monetary Economics
Spring 2024

General information

Time and place: TTH, 9:30-10:45 am, GA 309
Instructor: Anusha Chari
Email: achari@unc.edu
Office hours: By appointment

Course Description

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

Objectives: Given the target audience above, the course has three main goals.

- 1) To introduce and investigate classic and new economic issues at the frontier of current international macroeconomics and finance research. The purely pedagogical part of the course aims to familiarize you with the questions, the current state of research, the data, the models, and the tools in current use.
- 2) To develop an intuitive understanding of essential questions in international macro and finance. Is the research question important? Why? What makes for a good paper? How do we critically assess new and existing literature in international economics? This objective is less direct and less formal but aims to transition the students into full-time researchers.
- 3) To jumpstart independent research. Writing a referee report requires that you critically assess a published paper. The replication exercise requires that you reproduce the key results from a well-published paper, learn how to use data, conduct empirical estimations, or solve models if you choose a theoretical paper.

Reference Books:

USG: Martin 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.

You can download articles from journal websites (link from University of North Carolina Library eJournals), SSRN, JSTOR, Science Direct, or ProQuest.

Two additional sources:

-Handbook of International Economics, Volume 5. [Link](#)

-Stanford Big-Data Initiative in International Macro-Finance Videos: [Link](#)

Reading List

Below is an extensive reading list in International Macroeconomics. We may 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. You can download NBER (National Bureau of Economic Research) working papers from <http://www.nber.org>, and CEPR (Centre for Economic Policy Research) discussion papers from <http://www.cepr.org>. I will also post some articles on Canvas.

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

The international/macro seminar will be held on Thursdays at 3:30 pm after the job market season. If your schedule permits, please plan to attend. Attending workshops 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 class regularly, read papers before class, and participate actively in class discussions. (10%)
5. Journal article presentations (10%)

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

Resources for Replication

<http://emiguel.econ.berkeley.edu/wordpress/wp-content/uploads/2023/09/d41586-023-02997-5.pdf>

<https://i4replication.org/description.html>

<https://www.socialsciencereproduction.org/>

Replication Exercise Example:

Original Paper:

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

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. <https://peri.umass.edu/publication/item/526-does-high-public-debt-consistently-stifle-economic-growth-a-critique-of-reinhart-and-rogo-ff>

Reading List

I have included links. Please let me know if a link is broken.

1. Small Open Economy Models

USG Chapters 1 – 4.

Obstfeld, M. and K. Rogoff chapter 1–3. Intertemporal Trade (pp. 1-27, 59-70). On Canvas.

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.

2. International Capital Flows and Financial Globalization

Fischer, Stanley (2003). “[Globalization and Its Challenges](#).” American Economic Review, 93 (2), 1–30.

Obstfeld, Maurice (1998) “[The Global Capital Market: Benefactor or Menace?](#)” Journal of Economic Perspectives, Fall 1998, 12 (4), 9–30.

Rogoff, Kenneth (1999). “[International Institutions for Reducing Global Financial Instability](#),” Journal of Economic Perspectives, Fall 1999, 13 (4), 21–42.

Henry, Peter, 2007. “[Capital Account Liberalization: Theory, Evidence and Speculation](#).” *Journal of Economic Literature*, Vol. XLV (December 2007), pp. 887–935.

Kose, M. A., E. Prasad, Kenneth S. Rogoff, and Shang jin Wei (2006). “[Financial Globalization: A Reappraisal](#),” IMF Staff Papers, 2006, 56, 8–62.

Chari, Anusha, Peter Blair Henry, and Hector Reyes (2021). [“The Baker Hypothesis: Stabilization, Structural Reforms, and Economic Growth.”](#) *Journal of Economic Perspectives*, 35 (3), 83–108.

Gourinchas, Pierre-Olivier and Olivier Jeanne (2006). [“The Elusive Gains from International Financial Integration.”](#) *Review of Economic Studies*, 07, 73 (3), 715–741.

Chari, Anusha, Peter Blair Henry, and Racha Moussa (2022). [“Do Finite Horizons Matter? The Welfare Consequences of Capital Account Liberalization.”](#) *Economic Modelling*, 114, 105903.

Investment Positions, Bilateral Positions Data, Micro Data

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.

Videos: [Public Contemporary Data](#); [Global Portfolios and External Positions](#)

Videos: [Micro Data and Cross-Border Investments](#); [Key Patterns in Cross-Border Investments](#)

Capital Account Openness: Sudden Stops and Misallocation

Forbes, K.J. and Warnock, F.E., 2012. [Capital flow waves: Surges, stops, flight, and retrenchment.](#) *Journal of International Economics* 88(2), pp.235-251

Mendoza, E.G., 2010. [Sudden stops, financial crises, and leverage.](#) *American Economic Review*, 100(5), pp. 1941-66.

Chari, Anusha, Karlye Dilts Stedman, and Christian Lundblad (2020). [“Capital Flows in Risky Times: Risk-On, Risk-Off and Emerging Market Tail Risk”](#) NBER Working Paper No. 27927.

Bau, N. and Matray, A., 2021. [Misallocation and capital market integration: Evidence from India.](#) Working Paper.

International Portfolio Allocation

Bacchetta, Philippe, Margaret Davenport, and Eric van Wincoop (2022). [“Can Sticky Portfolios Explain International Capital Flows and Asset Prices?”](#) *Journal of International Economics*, Volume 136, 103583.

Camanho, Nelson, Harald Hau, and Helene Rey (2018). [“Global Portfolio Rebalancing and Exchange Rates.”](#) Forthcoming, *The Review of Financial Studies*.

3. International Macro-Financial Linkages

The Global Financial Cycle

Rey, Helene (2013). Dilemma not trilemma: The global financial cycle and monetary policy independence. Federal Reserve Bank of Kansas City Economic Policy Symposium.

Silvia Miranda-Agrippino and H el ene Rey, 2020. "[US Monetary Policy and the Global Financial Cycle](#)." *The Review of Economic Studies*, 87, 6, 2754-2776.

Chari, Anusha, Karlye Dilts-Stedman, and Christian Lundblad (2021). "Taper Tantrums: QE, its Aftermath and Emerging Market Capital Flows." *Review of Financial Studies*. <https://doi.org/10.1093/rfs/hhaa044>, March 2021.

Cerutti, Eugenio, Claessens, Stijn & Andrew K. Rose (2019). "How Important is the Global Financial Cycle? Evidence from Capital Flows." *IMF Economic Review*, 67, 24–60.

Cross-Border Banking Linkages

Valentina Bruno and Hyun Song Shin, 2015. "[Capital flows and the risk-taking channel of monetary policy](#)." *Journal of Monetary Economics*, 71, 119-132.

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). *Journal of Finance*.

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

Avdjiev, Stefan, Gambacorta, Leonardo, Goldberg, Linda, Schiaffi, Stefano (2020). "[The shifting drivers of global liquidity](#)." *Journal of International Economics* 125, 103324.

Erik, Burcu, Marco J. Lombardi, Dubravko Mihaljek, and Hyun Song Shin. 2020. "[The Dollar, Bank Leverage, and Real Economic Activity: An Evolving Relationship](#)." AEA Papers and Proceedings, 110, 529-534.

Cross-Border Non-Bank Financial Intermediation

Arslanalp, Serkan, Drakopoulos, Dimitris, Goel, Rohit and Koepke, Robin (2020). "[Benchmark-Driven Investments in Emerging Market Bond Markets: Taking Stock](#)" *IMF Working Paper* No. 20/192.

Cremers, Martin, Miguel Ferreira, Pedro Matos and Laura Starks (2016). "[Indexing and active fund management: international evidence](#)." *Journal of Financial Economics*, 120: 539-560.

Raddatz, Claudio, Sergio Schmukler and Williams, Tomas (2017). [“International Asset Allocations and Capital Flows: The Benchmark Effect.”](#) *Journal of International Economics*, 108, 413-430.

Basak, Suleman and Anna Pavlova (2013). [“Asset prices and institutional investors.”](#) *American Economic Review*, 103, 1728-1758.

Jotikasthira, C., Lundblad, C., & Ramadorai, T. (2012). [“Asset fire sales and purchases and the international transmission of funding shocks.”](#) *The Journal of Finance*, 67(6), 2015–2050.

Chari, Anusha, Karlye Dilts Stedman and Christian Lundblad (2022). “Global Fund Flows and Emerging Market Tail Risk”

4. **International Financial Stability**

Claessens, Stijn. (2015). [“An Overview of Macroprudential Tools.”](#) *Annual Review of Financial Economics*, 7, 397-422.

Ahnert, Forbes and Friedrich, 2018. “Macroprudential FX Regulations: Shifting the Snowbanks of FX Vulnerability?” [Paper](#)

Bianchi, Javier and Enrique Mendoza. (2018). [“Optimal time-consistent Macroprudential Policy.”](#) *Journal of Political Economy* 126:588-634.

Chari, Anusha, Karlye Dilts-Stedman, and Kristin Forbes (2021). [“Capital Flows at the Extremes: Macroprudential Tools and Vulnerability to the Global Financial Cycle.”](#) *Journal of International Economics*, 136, 103582.

5. **New Policy Tools**

Capital Controls

Alfaro, Laura, Anusha Chari, and Fabio Kanuck, 2017. [“The Real Effects of Capital Controls: Firm-level Evidence from a Policy Experiment.”](#) *Journal of International Economics*. 108, 191-210.

Farhi, E. and Werning, I., 2016. [A theory of macroprudential policies in the presence of nominal rigidities.](#) *Econometrica*, 84(5), pp.1645-1704.

The New IMF Integrated Policy Framework

Basu, S., Boz, E., Gopinath, G., Roch, F., Unsal, F. D., 2020. [A Conceptual Model for the Integrated Policy Framework](#), IMF Working Paper.

Adrian T., Erceg, C. J., Lindé, J., Zabczyk, P., Zhou, J., 2020. [A Quantitative Microfounded Model for the Integrated Policy Framework](#), IMF Working Paper.

Das, Mitali, Gita Gopinath, and Sebnem Kalemli-Ozcan (2021). [“Preemptive Policies and Risk-Off Shocks in Emerging Markets,”](#) NBER Working Paper No. 29615, National Bureau of Economic Research.

6. Currency Issues

Basic Facts About Exchange Rates and Fundamentals

The Carry Trade and Uncovered Interest Parity:

Lustig, H., N. Roussanov and A. Verdelhan. 2011. [Common Risk Factors in Currency Markets.](#) Review of Financial Studies, 24(11), pp. 3731-3777.

Video: [FX Returns and Aggregate Risk](#)

Brunnermeier, Markus, Stefan Nagel, and Lasse Pederson (2008). [“Carry Trades and Currency Crashes.”](#) NBER Macroeconomics Annual 2008, 23(1).

Failure of Arbitrage in FX markets and Covered Interest Parity:

Du, W., A. Tepper, and A. Verdelhan. 2018. [Deviations from Covered Interest Rate Parity.](#) The Journal of Finance, 73(3), pp. 915–57.

Avdjiev, Stefan, Wenxin Du, Catherine Koch, and Hyun Song Shin, H. S. (2019). [“The Dollar, Bank Leverage, and Deviations from Covered Interest Parity.”](#) *American Economic Review: Insights*, 1(2), 193-208.

Du, W. and J. Schreger. 2021. [CIP Deviations, the Dollar, and Frictions in International Capital Markets.](#) Handbook of International Economics Vol 5.

Video: [Covered Interest Parity](#)

International Risk Sharing, Backus-Smith Condition:

Backus, D. K., and G. W. Smith. 1993. [Consumption and Real Exchange Rates in Dynamic Economies with Non-Traded Goods.](#) Journal of International Economics 35(3), pp. 297–316.

Lustig, H. and Verdelhan, A., 2019. [Does incomplete spanning in international financial markets help to explain exchange rates?](#) *American Economic Review*, 109(6), pp. 2208- 44.

The International Role of the US dollar

Stefan Avdjiev, Wenxin Du, Catherine Koch, and Hyun Song Shin, August 2018. [The Dollar, Bank Leverage and Deviations from Covered Interest Rate Parity](#), *American Economic Review: Insights*, forthcoming.

Gopinath, G. and Stein, J.C., 2021. [Banking, Trade, and the making of a Dominant Currency.](#) The

Quarterly Journal of Economics, 136(2), pp. 783-830.

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

Exchange Rate and Fundamentals, the Disconnect:

Rossi, B. 2013. [Exchange Rate Predictability](#). Journal of Economic Literature, 51(4), pp. 1063–1119.

Meese, R. A., and K. Rogoff. 1983. [Empirical Exchange Rate Models of the Seventies: Do They Fit-out of Sample?](#) Journal of International Economics, 14(1), pp. 3–24.

Lilley, Andrew, Matteo Maggiori, Brent Neiman, Jesse Schreger (2022). [“Exchange Rate Reconnect.”](#) The Review of Economics and Statistics, 104 (4): 845–855.

Basic Facts About Exchange Rates and Prices

Videos: [Exchange Rate Passthrough Theory](#); [Exchange Rate Passthrough and PPP in Data](#); [Price Scraping and the Billion Prices Project](#); [Applications: Currency Unions and Trade War](#)

7. 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.

Chari, Anusha and Jennifer Rhee (2019). [“The Return to Capital in Capital-Scarce Countries.”](#) NBER Working Paper No. 27675.

8. Theory and Evidence on Sovereign Default

USG: Chapter 13

Aguiar, Mark, and Manuel Amador. [“Chapter 11 - Sovereign Debt.”](#) In Handbook of International Economics, Vol. 4 Elsevier, 2014.

History and Stylized Facts

Trebesch C., J. Meyer and C. Reinhart. 2019. [Sovereign Bonds since Waterloo](#). National Bureau of Economic Research Working Paper No. 25543.

Cruces, J.J. and Trebesch, C., 2013. [Sovereign defaults: The price of haircuts](#). American Economic

Journal: Macroeconomics, 5(3), pp. 85-117.

Hébert, Benjamin, and Jesse Schreger. 2017. [The Costs of Sovereign Default: Evidence from Argentina](#). American Economic Review, 107 (10), pp. 3119-45.

Theories of Default: Willingness to Pay and Self-Fulfilling Crises

Bulow, J., and K. Rogoff. 1989. [Sovereign Debt: Is to Forgive to Forget?](#) American Economic Review 79(1), pp. 43-50.

Arellano, Cristina, 2008. [“Default Risk and Income Fluctuations in Emerging Economies.”](#) American Economic Review 98(3), pp. 690-712.

Calvo, G. A. 1988. [Servicing the Public Debt: The Role of Expectations](#). American Economic Review 78(4), pp. 647-661.

Harold C. L., and T. J. Kehoe. 2000. [Self-Fulfilling Debt Crises](#). Review of Economic Studies 67(1), pp. 91-116.

9. 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.

Feldstein-Horioka Puzzle

Bai, Y. and J. Zhang, [“Can Financial Frictions Account for the Cross-Section Feldstein-Horioka Puzzle?”](#) Econometrica.

Feldstein, M. and C. Horioka, “Domestic Saving and International Capital Flows,” Economic Journal, 1980.

10. Some Important Miscellaneous Topics

Home Bias in Global Portfolios

French, K. and J. Poterba. 1991. [Investor diversification and international equity markets](#), American Economic Review, 31:222-226.

Coeurdacier N., and H. Rey. 2013. [Home Bias in Open Economy Financial Macroeconomics](#). Journal of Economic Literature, 51(1), 63-115.

Currency Composition and Home Currency Bias in Global Portfolios

Maggiore, M., B. Neiman, and J. Schreger. 2020. [International Currencies and Capital Allocation](#). Journal of Political Economy, 128(6), pp. 2019-2066.

Lane, P.R. and J.C. Shambaugh. 2010. [Financial Exchange Rates and International Currency Exposures](#), American Economic Review, 100(1), pp. 518-540.

Global Firms, Tax Havens, and Capital Flows

Coppola, A., M. Maggiore, B. Neiman, and J. Schreger. 2021. [Redrawing the Map of Global Capital Flows: The Role of Cross Border Financing and Tax Havens](#). The Quarterly Journal of Economics, 136(3), pp. 1499-1556.

Videos: [Residency, Nationality, and Tax Havens](#); [Global Capital Allocation: Redrawing the Map](#)