

Economics 246 — Fall 2005

International Macroeconomics

October 24, 2005

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Class Time: TueThu 2:00p - 3:20p
Classroom: Econ 210
Class Web Page: econ.ucsd.edu/muendler/teach/05f/246

1 Course Objectives

This course examines open-economy macroeconomics and international finance. Topics include theories of the exchange rate, foreign exchange regimes, current account adjustments, causes and potential remedies of financial crises, and international portfolio investments. The course investigates real and monetary explanations, and implications of international capital market integration.

2 Prerequisites

Instructor's consent.

3 Readings

Textbook: Obstfeld and Rogoff (1996)

Further readings: Goldberg and Knetter (1997), Obstfeld and Rogoff (2001), Neely and Sarno (2002), Froot and Obstfeld (1991), Driffill and Sola (1998), Dornbusch (1976), Obstfeld (1996), Morris and Shin (1998), Diamond and Dybvig (1983), Caballero and Krishnamurthy (2003), Tirole (2003), Morris and Shin (2002), Obstfeld and Rogoff (1995), Obstfeld and Rogoff (2000), Lane (2001)

The additional readings are available through the class web page.

4 Problem Sets

There will be three problem sets, due on scheduled dates throughout the quarter. You are encouraged to work on the problems with your classmates. Your

solutions to the problem sets will be checked (check/no check) but your performance on them does not become a formal part of the final grade.

5 Research Paper Proposal

You may choose to submit a short research paper proposal as part of your course work. I strongly encourage this.

The short proposal should be around five to eight pages in length. The proposal can take many forms: you can use a model from class, alter a crucial assumption, and show how it leads to different implications; you can take a model from class and propose a novel estimation procedure on available data sets; you can construct a little sample economy from scratch to address an overlooked issue and explore its effects; you can explore new data sources and document how previously unaddressed issues could be brought closer to an answer. The proposal includes a brief review of the related literature, and a sketch of a theoretical model along with its conjectured implications *or* a discussion of a data set and an estimation procedure along with its identifying assumptions. A draft of the paper proposal is due on Wednesday, Nov 23, 5:00p and the final proposal is due on Friday, Dec 2, 5:00p.

6 Assessment

There will be a final exam during finals week, but no midterm exam. The problem sets help you prepare for the final exam. The exam will take 180 minutes (180 points). You have two options for your assessment.

1. You can take the final exam only (180 points; score multiplied by 5/3.)
2. You can choose to submit a short research paper proposal. (A draft of the paper proposal is due on Wednesday, Nov 23, 5:00p and the final proposal is due on Friday, Dec 2, 5:00p.) Under this option, the final paper proposal counts for 40 percent of your grade (120 points) and the final exam for 60 percent (180 points).

7 Class Schedule

I. Microfoundations of International Macroeconomics

1. **Thu, Sept 22:** Intertemporal Trade in a Small Open Economy
(Obstfeld and Rogoff 1996/Ch. 1)
2. **Tue, Sep 27:** Intertemporal Trade in a Two-Region World
(Obstfeld and Rogoff 1996/Ch. 1)
PROBLEM SET 1 OUT
3. **Thu, Sep 29:** Current Account Dynamics
(Obstfeld and Rogoff 1996/Ch. 2)
4. **Tue, Oct 4:** Firms, Investment and the Current Account
(Obstfeld and Rogoff 1996/Ch. 2)
5. **Thu, Oct 6:** The Real Exchange Rate, Nontradable Goods and Productivity
(Obstfeld and Rogoff 1996/Ch. 4; Goldberg and Knetter 1997)
6. **Tue, Oct 11:** The Terms of Trade and International Specialization
(Obstfeld and Rogoff 1996/Ch. 4)
7. **Thu, Oct 13:** International Risk Sharing with Complete Asset Markets
(Obstfeld and Rogoff 1996/Ch. 5)
PROBLEM SET 1 DUE
8. **Tue, Oct 18:** International Risk Sharing with Incomplete Asset Markets
(Obstfeld and Rogoff 1996/Ch. 5)
PROBLEM SET 2 OUT
9. **Thu, Oct 20:** Sovereign Risk and Borrowing under Sanctions or Commitments
(Obstfeld and Rogoff 1996/Ch. 6)
10. **Tue, Oct 25:** International Macroeconomic Puzzles and Trade Frictions
(Obstfeld and Rogoff 2001)

II. Monetary Foundations and Debt Denomination

11. **Thu, Oct 27:** Exchange Rates under Flexible Prices
(Obstfeld and Rogoff 1996/Ch. 8; Neely and Sarno 2002)
12. **Tue, Nov 1:** Exchange Rates, Inflation and Bubbles
(Obstfeld and Rogoff 1996/Ch. 8; Froot and Obstfeld 1991, Driffill and Sola 1998)
13. **Tue, Nov 1:** Price Rigidities and Exchange Rate Overshooting
(Dornbusch 1976; Obstfeld and Rogoff 1996/Ch. 9)

- 14. Tue, Nov 8:** Exchange Rate Interventions and First-generation Crisis Models (Obstfeld and Rogoff 1996/Ch. 8)
PROBLEM SET 2 DUE, PROBLEM SET 3 OUT
- 15. Thu, Nov 10:** Self-fulfilling Equilibria and Second-generation Crisis Models (Obstfeld 1996, Morris and Shin 1998)
- 16. Tue, Nov 15:** Bank Runs, Balance Sheet Effects, and Third-generation Crisis Models (Diamond and Dybvig 1983, Caballero and Krishnamurthy 2003)
- 17. Thu, Nov 17:** Contract Design and Transparency
(Tirole 2003, Morris and Shin 2002)
- 18. Tue, Nov 22:** Price Rigidities and World Economy Redux
(Obstfeld and Rogoff 1996/Ch. 10; Obstfeld and Rogoff 1995)
- Wed, Nov 23:** DRAFT OF PAPER PROPOSAL DUE
- 19. Tue, Nov 29:** Variations in Price Rigidities and Extensions of the Redux
(Obstfeld and Rogoff 1996/Ch. 10; Obstfeld and Rogoff 2000, Lane 2001)
PROBLEM SET 3 DUE
- 20. Thu, Dec 1:** Summary and Review
- Fri, Dec 2:** FINAL PAPER PROPOSAL DUE
- Mon, Dec 5, 3:00p-6:00p** FINAL EXAM. Room: Econ 210

References

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