

Economics 246 — Spring 2008

International Macroeconomics

March 31, 2008

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Class Time: TueThu 12:30p - 1:50p
Classroom: Econ 304
Class Web Page: econ.ucsd.edu/muendler/teach/08s/246

1 Course Objectives

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

2 Prerequisites

Instructor's consent.

3 Readings

Textbook: Obstfeld and Rogoff (1996)

Readings in order of appearance: Nason and Rogers (2006), Ghironi and Melitz (2005), Obstfeld and Rogoff (1995), Chari, Kehoe, and McGrattan (2002) Devereux, Engel, and Storgaard (2004), Burstein, Eichenbaum, and Rebelo (2005) Obstfeld (1996), Morris and Shin (1998) Diamond and Dybvig (1983), Aghion, Bacchetta, and Banerjee (2001), Tirole (2003), Morris and Shin (2002)

Classics for background: Lucas (1982), Backus, Kehoe, and Kydland (1992), Backus and Smith (1993), Dornbusch, Fischer, and Samuelson (1977), Cole and Obstfeld (1991), Dornbusch (1976), Krugman (1979)

Reviews for context: Lewis (1995), Obstfeld and Rogoff (2001), Goldberg and Knetter (1997), Neely and Sarno (2002), Kilian and Taylor (2003), Lane (2001)

Complementary optional readings: Kehoe and Perri (2002), Krugman (1989), Burnside, Eichenbaum, and Rebelo (2004)

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).

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 proposal should be around four 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 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 to address a puzzle *or* a discussion of an available data set and an estimation procedure along with its identifying assumptions. A draft of the paper proposal is due on Friday, May 30, 5:00p and the final proposal is due on Friday, June 6, 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 (12 points; score multiplied by 5/2 to a maximum of 30.)
2. You can choose to submit a short research paper proposal. (A draft of the paper proposal is due on Friday, May 30, 5:00p and the final proposal is due on Friday, June 6, 5:00p.) Under this option, the final paper proposal counts for 60 percent of your grade (18 points) and the final exam for 40 percent (12 points).

The minimum performance for a grade of Satisfactory is the same as the minimum for a grade of B-.

7 Class Schedule

I. Microfoundations of International Macroeconomics

1. **Tue, April 1:** Intertemporal Trade in the Open Economy
(Obstfeld and Rogoff 1996/Ch. 1; *classic*: Lucas 1982)
2. **Thu, April 3:** Intertemporal Trade and Open-economy Puzzles
(Obstfeld and Rogoff 1996/Ch. 1; *reviews*: Lewis 1995, Obstfeld and Rogoff 2001)
3. **Tue, April 8:** Current Account Dynamics
(Obstfeld and Rogoff 1996/Ch. 2; Nason and Rogers 2006)
PROBLEM SET 1 OUT
4. **Thu, April 10:** Firms, Investment and the Current Account
(Obstfeld and Rogoff 1996/Ch. 2; *classic*: Backus, Kehoe, and Kydland 1992)
5. **Tue, April 15:** The Real Exchange Rate and Nontraded-Goods Sectors
(Obstfeld and Rogoff 1996/Ch. 4; *classic*: Backus and Smith 1993)
6. **Thu, April 17:** The Real Exchange Rate, Terms of Trade and Nontraded Goods
(Obstfeld and Rogoff 1996/Ch. 4; *review*: Goldberg and Knetter 1997; *classic*: Dornbusch, Fischer, and Samuelson 1977)
7. **Tue, April 22:** Firm Heterogeneity and Exchange Rate Pass-Through
(Ghironi and Melitz 2005)
8. **Thu, April 24:** International Risk Sharing with Complete Asset Markets
(Obstfeld and Rogoff 1996/Ch. 5; *classic*: Cole and Obstfeld 1991)
PROBLEM SET 1 DUE
9. **Tue, April 29:** International Risk Sharing with Incomplete Asset Markets
(Obstfeld and Rogoff 1996/Ch. 5; *optional*: Kehoe and Perri 2002)
PROBLEM SET 2 OUT
10. **Thu, May 1:** Sovereign Risk and Debt Overhang
(Obstfeld and Rogoff 1996/Ch. 6; *optional*: Krugman 1989)

II. Monetary Foundations of International Macroeconomics

11. **Tue, May 6:** Nominal Exchange Rates under Flexible Prices
(Obstfeld and Rogoff 1996/Ch. 8)
12. **Thu, May 8:** Nominal Exchange Rates, Inflation and Bubbles
(Obstfeld and Rogoff 1996/Ch. 8; *reviews*: Neely and Sarno 2002, Kilian and Taylor 2003)

- 13. Tue, May 13:** Price Rigidities and Exchange Rate Overshooting
(Obstfeld and Rogoff 1996/Ch. 9; *classic*: Dornbusch 1976)
- 14. Thu, May 15:** Price Rigidities and World Economy Redux
(Obstfeld and Rogoff 1996/Ch. 10; Obstfeld and Rogoff 1995; *review*: Lane 2001)
PROBLEM SET 2 DUE
- 15. Fri, May 16 (2.30p):** Price Rigidities, Monetary Shocks and the Real Exchange Rate
(Chari, Kehoe, and McGrattan 2002)
- 16. Tue, May 20:** Firms, Currency Adoption and Exchange Rate Pass-Through
(Devereux, Engel, and Storgaard 2004; Burstein, Eichenbaum, and Rebelo 2005)
PROBLEM SET 3 OUT
No class on Thu, May 22 (extra class on Fri, May 16)
- 17. Tue, May 27:** Exchange-Rate Intervention and First-generation Crises
(Obstfeld and Rogoff 1996/Ch. 8; *classic*: Krugman 1979)
- 18. Thu, May 29:** Self-fulfilling Equilibria and Second-generation Crises
(Obstfeld 1996, Morris and Shin 1998)
- Fri, May 30:** DRAFT OF PAPER PROPOSAL DUE
- 19. Tue, June 3:** Bank Runs, Balance Sheet Effects, and Third-generation Crises
(Diamond and Dybvig 1983, Aghion, Bacchetta, and Banerjee 2001; *optional*: Burnside, Eichenbaum, and Rebelo 2004)
- 20. Thu, June 5:** Contractual Frictions and Information Economics
(Tirole 2003, Morris and Shin 2002)
PROBLEM SET 3 DUE
- Fri, June 6:** FINAL PAPER PROPOSAL DUE
- Finals week:** FINAL EXAM, TBA

References

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