

International Economics Development Economics

Academic year 2020-2021

Advanced International Macroeconomics A: Selected Topics

EI083 - Autumn - 3 ECTS

Thursday 12h15 - 14h00

Course Description

This course provides a graduate-level treatment of selected advanced topics in international macroeconomics determined partly by the interests of class participants. Sample topics are: international risk sharing; trade-macro linkages; sovereign debt and default; emerging market business cycles; exchange rate puzzles; capital flows. The class will involve presenting and discussing current papers, and writing referee reports. After taking this course, students will be expected to develop a critical and creative approach to reading and evaluating the recent literature in international macroeconomics for the purpose of improving one's own research.

> PROFESSOR

[Paolo Cavallino](#)

[Office hours](#)

> ASSISTANT

[Office hours](#)

Syllabus

[Tentative; revised version on first day of class]

Prerequisites: Masters Macroeconomics sequence at IHEID or their equivalent. I will assume familiarity with material at the level of Open Economy Macroeconomics (Schmitt-Grohé and Uribe). Attendance of course EI082 is not compulsory but is strongly recommended.

Course materials: The lectures will be taught using slides, and will be based on presentations of classical and recent papers by students and, occasionally, myself. Slides will be made available after the class.

Grades: The final grade of the course will be a weighted average of paper presentation(s) (50%) a referee report (30%) and class participation (20%).

- *Presentation guidelines:* Depending on the number of student enrolled, you will either be presenting one or two papers. The presenter must know the paper in details and be ready to answer questions regarding any aspect of the paper. A superficial knowledge of the main messages of the paper will not be enough. Other students are encouraged to read the paper before the class.
 - In case of one presentation, you can choose a paper from any of the topics listed depending on your own research interests, subject to my final approval (in some cases if too many students choose the same topic I might need to reallocate). This paper can either be: (i) from the papers listed in the syllabus; or (ii) you can also select a paper not on the syllabus to present subject to certain criteria. The selected papers need to fulfill the following criteria: a) They have been published in this millennium; b) They are from the following journals: *Econometrica*, *Journal of Economic Theory*, *Journal of Political Economy*, *American Economic Review*, *Quarterly Journal of Economics*, *Review of Economic Studies*, *Journal of International Economics*, *Journal of Monetary Economics*, *Review of Economics and Statistics*, *Journal of Money, Credit, and Banking*, *Journal of Finance*, *International Economic Review*, *Journal of the European Economic Association*, *Review of Financial Studies*, *Journal of Financial Economics*; c) the questions they address have to be in the area of international macroeconomics or international finance; d) They can be working papers, but you will need to consult me and convince me that it is an interesting and promising paper.
 - In case of two presentations, you can choose one of the paper as described above, while I will choose the other one. The purpose of this is to get you used to reading and understanding papers that may not have anything to do with your specific research interests.

Preferences should be indicated before the beginning of the class (I will email the enrolled students), and I will then put together the schedule ensuring an even coverage of topics.

- *Referee report guidelines:* The paper for the report will be assigned by me to maintain comparability across submissions. These will usually be recent working papers. The report should be 2-3 pages long single spaced. You should break up the report into paragraphs. The first should deal with the question the paper addresses, and why it is an important question in the context of the literature. The second paragraph should summarize the main findings of the paper. The third paragraph should deal with how the paper arrives at its findings, and its methods. The rest of the report should deal with what you perceive as the shortcomings of the paper, and constructive suggestions that could improve the paper. Try to be creative in these parts. You should put a lot of care in writing the report because writing clearly and effectively is a very important skill for an economist.

Reading list [very tentative]

1. Small open economy models

- Mendoza, E., "Real Business Cycles in a Small Open Economy: The Canadian Case," *AER* 1991.
- Schmitt-Grohe, S. and M. Uribe, "Closing Small Open Economy Models" *JIE* 2003.
- Feldstein, M. and C. Horioka, "Domestic Saving and International Capital Flows," *Economic Journal*, 1980.
- Tesar, L., "Savings, Investment and International Capital Flows," *JIE*, 1991.

2. International business cycles

2a. Real models

- Backus, D., P. Kehoe and F. Kydland, "International Real Business Cycles," JPE, 1992.
- Ambler, Steve, Emanuela Cardia, and Christian Zimmermann. "International business cycles: What are the facts?." Journal of monetary economics 51.2 (2004): 257-276.
- Stockman, A., and L. Tesar, "Tastes and Technology in a Two-Country Model of the Business Cycle: Explaining International Co-Movements," AER 1995.

2b. International transmission of real shocks

- Backus, D., P. Kehoe and F. Kydland, "Dynamics of the Trade Balance and the Terms of Trade: the J-Curve?," AER, 1994.
- Corsetti, Giancarlo, Luca Dedola, and Sylvain Leduc. "International risk sharing and the transmission of productivity shocks." The Review of Economic Studies 75.2 (2008): 443-473.
- Burstein, A., C. Kurz and L. Tesar, "International Trade, Production Sharing and the Transmission of Business Cycles", Journal of Monetary Economics, 2009.
- Heathcote, J. and F. Perri , "Financial Globalization and Real Regionalization," JET, 2004.
- Kehoe, T. and K. Ruhl, "Trade Intensity and International Business Cycles," University of Texas, 2005.

2.c. International risk-sharing: theory and empirics

- Backus, D. K. and G. W. Smith. "Consumption and Real Exchange Rates in Dynamic Economies with Non-Traded Goods, Journal of International Economics, 1993.
- K. K. Lewis. What can explain the apparent lack of international consumption risk sharing? Journal of Political Economy, 1996.
- J. H. Cochrane. A simple test of consumption insurance. Journal of Political Economy, 1991.
- Artis, Michael J., and Mathias Hoffmann. "Financial Globalization, International Business Cycles and Consumption Risk Sharing." The Scandinavian Journal of Economics 110.3 (2008): 447-471.
- M. W. Brandt, J. H. Cochrane, and P. Santa-Clara. International risk sharing is better than you think, or exchange rates are too smooth. Journal of Monetary Economics, 53(4), 2006.
- J. Imbs. The real effects of financial integration. Journal of International Economics, 68 (2), 2006.
- Epstein, B., R. Mukherjee, and S. Ramnath. "Taxes and International Risk Sharing", Federal Reserve Board International Finance Discussion Paper, 2014-1110.

2.d. Business cycle accounting and international wedges

- Chari, V.V., P. Kehoe and E. McGrattan, "Business Cycle Accounting", Econometrica, 2007.
- Shimer, R., "Convergence in Macroeconomics: the Labor Wedge", AEJ Macro, 2009.
- Karabarbounis, L., "Labor Wedges and Open Economy Puzzles", University of Chicago Booth School Working Paper, 2011.

3. Capital Flows in International Macroeconomics

3a. Empirical facts

- Coeurdacier, Nicolas, and Helene Rey. Home bias in open economy financial macroeconomics. No. w17691. National Bureau of Economic Research, 2011.

3b. Theory of country portfolios

- Heathcote, Jonathan, and Fabrizio Perri. "The international diversification puzzle is not as bad as you think." Journal of Political Economy 121.6 (2013): 1108-1159.
- Coeurdacier, Nicolas, Robert Kollmann, and Philippe Martin. "International portfolios, capital accumulation and foreign assets dynamics." Journal of International Economics 80.1 (2010): 100-112.
- Cole, H.L. and M. Obstfeld, "Commodity Trade and International Risk Sharing," Journal of Monetary Economics, 1991.

- Obstfeld, M. and K. Rogoff, “The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?” NBER Macro Annual, 2000.
- Lewis, K., “Trying to Explain Home Bias in Equities and Consumption,” Journal of Economic Literature, 1999.
- French, K. and J. Poterba, “Investor Diversification and International Equity Markets,” AER 1991.
- Tesar, L. and I. Werner, “Home Bias and High Turnover,” Journal of International Money and Finance, 1994.
- Coeurdacier, N. and P. O. Gourinchas, “When Bonds Matter: Home Bias in Goods and Assets,” Manuscript, London Business School, 2008.
- Van Nieuwerburgh, S., and L. Veldkamp, “Information Immobility and the Home Bias Puzzle”, Journal of Finance, 2009.
- Engel, C. and A. Matsumoto, "The International Diversification Puzzle When Goods Prices Are Sticky: It's Really about Exchange-Rate Hedging, Not Equity Portfolios," American Economic Journal: Macroeconomics, 2009.
- Mukherjee, R., “Institutions, Corporate Governance and Capital Flows,” Journal of International Economics, Volume 96, Issue 2, July 2015, Pages 338–359.

3c. Related technical papers

- Devereux, M., and A. Sutherland. "Solving for Country Portfolios in Open Economy Macro Models," Journal of the European Economic Association, 2010.
- Tille, C., and E. van Wincoop, “International Capital Flows”, Journal of International Economics, 2010. Evans, M., and V. Hnatkovska, "Solving General Equilibrium Models with Incomplete Markets and Many Assets," Georgetown University Working Paper, 2010.
- Coudercier, N., H. Rey and P. Winant, “The Risky Steady State”, American Economic Review Papers and Proceedings, 2011.

3.d. Global Imbalances and the Allocation Puzzle

- P.-O. Gourinchas and O. Jeanne. Capital flows to developing countries: The allocation puzzle. The Review of Economic Studies, 2013.
- Gourinchas, P.O. and H. Rey, “International Financial Adjustment,” Journal of Political Economy, 2007.
- D. Sandri. "Growth and Capital Flows with Risky Entrepreneurship," American Economic Journal: Macroeconomics, 6(3): 102-123, 2014.
- Z. Song, K. Storesletten, and F. Zilibotti. Growing like china. The American Economic Review, 101(1):196{233, 2011. M. Aguiar and M. Amador. Growth in the shadow of expropriation. The Quarterly Journal of Economics, 126(2):651{697, 2011.
- Obstfeld, M., and K. Rogoff, “The Unsustainable US Current Account Position Revisited”, Brookings Papers on Economic Activity, 2005.
- Mendoza, E., V. Quadrini and V. Rios-Rull, "Financial Integration, Financial Deepness and Global Imbalances," Journal of Political Economy, 2009.
- Perri, F., and A. Fogli, “Macroeconomic Volatility and External Imbalances,” NBER Working Paper 12708, 2006.
- Bacchetta, Philippe, Kenza Benhima, and Yannick Kalantzis. "Capital Controls with International Reserve Accumulation: Can This Be Optimal?." American Economic Journal: Macroeconomics 5.3 (2013): 229-62.

4. Emerging market business cycles

- Aguiar, M. and G. Gopinath, “Emerging Market Business Cycles: The Cycle is the Trend,” Journal of Political Economy, 2007.
- García-Cicco, Javier, Roberto Pancrazi, and Martín Uribe. "Real Business Cycles in Emerging Countries?" The American Economic Review 100.5 (2010): 2510-2531.

- Neumeayer, P.A. and F. Perri, “Business Cycles in Emerging Markets: The Role of Interest Rates,” *Journal of Monetary Economics*, 2005.

5. International prices, exchange rates, and related puzzles

5.a. Nominal exchange rates: Facts

- Meese, R. and K. Rogoff, “Empirical Exchange Rate Models of the Seventies: Do They Fit Out of Sample?” *JIE*, 1983.
- Mark, N., “Exchange Rates and Fundamentals: Evidence on Long-Horizon Predictability,” *AER*, 1995.
- Mark, N. C., “Exchange Rates and Fundamentals: Evidence on Long-Horizon Predictability,” *American Economic Review*, 1995.
- Mark, N. C., and D. Sul, “Nominal Exchange Rates and Monetary Fundamentals: Evidence from a Small Post-Bretton Woods Sample,” *Journal of International Economics*, 2001.
- Engel, Charles, and K. D. West. 2005. “Exchange Rates and Fundamentals.” *Journal of Political Economy* 113, 485-517.

5.b. Nominal and real exchange rates: Theory and Policy Implications

- Obstfeld, M., and K. Rogoff, “Exchange Rate Dynamics Redux,” *Journal of Political Economy*, 1995.
- Betts, C. and M. Devereux, “Exchange Rate Dynamics in a Model of Pricing-To-Market,” *JIE* 2000.
- Chari, V.V., P. Kehoe and E. McGrattan, “Monetary Shocks and Real Exchange Rates in Sticky Price Models of International Business Cycles,” *REStud*, 2002.
- Devereux, Michael B., and Charles Engel. “Monetary policy in the open economy revisited: Price setting and exchange-rate flexibility.” *The Review of Economic Studies* 70.4 (2003): 765-783.
- Alvarez, F., A. Atkeson, and P. Kehoe, “Money, Interest Rates, and Exchange Rates with Endogenously Segmented Asset Markets,” *JPE*, 2002.
- Bacchetta, P., and E. van Wincoop, “Can Information Heterogeneity Explain the Exchange Rate Determination Puzzle?” *American Economic Review*, 2006.

5c. Failure of the Law of One Price

- Rogoff, K., “The Purchasing Power Parity Puzzle”, *Journal of Economic Literature*, 1996.
- Engel, C. and J. Rogers, “How Wide is the Border?” *AER*, 1996.
- Gorodnichenko, Y. and L. Tesar, “Border Effect or Country Effect? Seattle May Not be So Far From Vancouver After All.” *American Economic Journal: Macroeconomics*, 2009.
- Imbs, J., H. Mumtaz, M. Ravn, and H. Rey. “PPP Strikes Back: Aggregation and the Real Exchange Rate”, *Quarterly Journal of Economics*, 2005.

6. Sovereign debt

6.a The composition, direction and volatility of capital flow

- Tomz, Michael, and Mark LJ Wright. “Do countries default in “bad times”?.” *Journal of the European Economic Association* 5.2-3 (2007): 352-360.
- Chuhan, P. and F. Sturzenegger, “Default Episodes in the 1990s: What Have We Learned?,” Manuscript, the World Bank and Universidad Torcuato Di Tella, 2003.
- 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.
- Reinhart, C., K. Rogoff and M A. Savastano, “Debt Intolerance,” *NBER Working Paper* 9908, 2003.
- Rose, Andrew K., “One Reason Country Pay Their Debts: Renegotiation and International Trade,” Manuscript, 2002.

6.b 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.
- Eaton, J. and M. Gersovitz, “Debt with Potential Repudiation: Theoretical and Empirical Analysis,” *REStud*, 1981.
- 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.

6.c Sovereign debt: Extensions

- 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,” mimeo, University of Minnesota, 2005.
- Bai, Y. and J. Zhang, “Financial Integration and International Risk Sharing,” mimeo, Arizona State University and University of Michigan, 2005.
- Yue, V., “Sovereign Default and Debt Renegotiation,” mimeo, New York University, 2005.

7. Financial Crisis

7.a 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.
- Milesi-Ferretti, Gian-Maria, and Cédric Tille. “The great retrenchment: international capital flows during the global financial crisis.” *Economic Policy* 26.66 (2011): 289-346.
- Alquist, R., R. Mukherjee and L. Tesar, “Fire Sale FDI or Business as Usual?” forthcoming, *Journal of International Economics*.

7.b. First generation models

- Krugman, P., “A Model of Balance of Payment Crises,” *JMCB*, 1979.
- Craig, B., M. Eichenbaum and S. Rebelo, “Prospective Deficits and the Asian Currency Crisis,” *JPE*, 2001.
- Calvo, G., “Balance of Payments Crises in a Cash-in-Advance Economy,” *JMCB*, 1987.
- Uribe, M., “A Fiscal Theory of Sovereign Risk,” *JME*, 2005.

7.c. Self-Fulfilling Expectation and Crises (Second-Generation Models)

- Morris, S. and Shin, H., “Unique Equilibrium in a Model of Self-Fulfilling Currency Attacks,” *AER*, 1998.
- Angeletos, M., A. Pavan and C. Hellwig, “Signaling in a Global Game: Coordination and Policy Traps”, *Journal of Political Economy*, 2006.
- Cole, H. L. and T. Kehoe, “Self-Fulfilling Debt Crises,” *REStud*, 2000.

7.d. Credit Frictions and Crises/Sudden Stops (Third Generation Models)

- 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.
- 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.

7.e. Recent work

- Caballero, R. and A. Simsek, “Fire Sales in a Model of Complexity”, NBER working paper 15479, 2010.
- Devereux, M., and J. Yetman . “Leverage Constraints and the International Transmission of Shocks”, JMCB, 2010.
- Angeloni, Ignazio, and Ester Faia. "Capital regulation and monetary policy with fragile banks." Journal of Monetary Economics 60.3 (2013): 311-324.
- Brunnermeier, Markus, “Deciphering the 2007 - 2008 Liquidity and Credit Crunch”, Journal of Economic Perspectives, 2009.