

## International Economics Development Economics

Academic year 2020-2021

### Advanced International Macroeconomics B: International Policy: Constraints, Changing Effectiveness, and New Tools

**EI091 - Printemps - 3 ECTS**

Wednesday 10h15 - 12h00

### Course Description

This course provides a graduate-level treatment of policy in international economics, with a focus on recent developments. It first reviews and assesses the drivers of the low level of interest rates in advanced (mostly) economies, as well as the impact of the rising global demand for safe assets. The course then presents the workhorse model of monetary policy design in open economies. It then moves to recent extensions of the model, namely the partial transmission of exchange rates to prices (with a discussion of the dominant role of some currencies), the presence of financial frictions, and the challenge from a lower bound on the interest rate. It proceeds with a review of the evidence of effectiveness of unconventional monetary policies. We then review research on dominant currencies, and the final section offers a discussion of topics that have recently emerged.

The first part of the course consists of lectures. The second part consists of presentations of papers from the reading list (with the option to propose a paper not on the list that you would be particularly interested in presenting).

You will need a working knowledge of macroeconomics at the level of Obstfeld and Rogoff's Foundations in International Economics.

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#### > PROFESSOR

[Cédric Tille](#)

[Office hours](#)

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#### > ASSISTANT

[Office hours](#)

# Syllabus

## Evaluation

The evaluation consists of the presentations of a paper from the reading list (40% of grade), a short review of one of the topics (40% of grade) and participation in the classwide discussion (20% of grade). Each presentation lasts 30 minutes and goes over the main points of the paper. Each student will make one presentation. Preferences should be indicated by the end of the third week, and I will then put together the schedule ensuring an even coverage of topics.

Each student will also write a short review at the end of the course on a topic of her/his choice. The review should be a concise (5-6 pages) discussion of the recent advances in a topic, identifying what has been learnt and what are the remaining challenges. This review can form the basis of the literature review of your MPT or one of your chapters.

### 1) Safe assets

- Bacchetta, Philippe, and Kenza Benhima (2015). "The Demand for Liquid Assets, Corporate Saving, and Global Imbalances", *Journal of the European Economic Association* 13, pp. 1101-1135.  
[http://people.unil.ch/philippebacchetta/files/2015/01/LiquidityandCapitalFlows\\_2014\\_1011.pdf](http://people.unil.ch/philippebacchetta/files/2015/01/LiquidityandCapitalFlows_2014_1011.pdf)
- Brunnermeier, Markus, and Linyang Huang (2018). "A Global Safe Asset for and from Emerging Market Economies", NBER working paper 25373.  
<http://www.nber.org/papers/w25373>
- Brunnermeier, Markus, Sam Langfield, Marco Pagano, Ricardo Reis, Stijn Van Nieuwerburgh, and Dimitri Vayanos (2016). "The Sovereign-Bank Diabolic Loop and ESBies", *American Economic Review* 106(5), pp. 508-12.  
<https://www.aeaweb.org/articles?id=10.1257/aer.p20161107>
- Caballero, Ricardo, Emmanuel Farhi, and Pierre-Olivier Gourinchas (2017). "The Safe Assets Shortage Conundrum", *Journal of Economic Perspectives* 31(3), pp. 29-46.  
<https://www.aeaweb.org/articles?id=10.1257/jep.31.3.29>
- Caballero, Ricardo, Emmanuel Farhi, and Pierre-Olivier Gourinchas (2016). "Safe Asset Scarcity and Aggregate Demand", NBER Working Paper No. 22044.  
<http://www.nber.org/papers/w22044>
- Caballero, Ricardo, and Emmanuel Farhi (2014). "The Safety Trap", NBER Working Paper No. 19927.  
<http://www.nber.org/papers/w19927>
- Engel, Charles (2020). "Safe U.S. Assets and U.S. Capital Flows", *Journal of International Money and Finance* 102.  
<https://www.sciencedirect.com/science/article/pii/S0261560619305819>
- Gourinchas, Pierre-Olivier, and Hélène Rey (2016). "Real Interest Rates, Imbalances and the Curse of Regional Safe Asset Providers at the Zero Lower Bound", NBER Working Paper 22618.  
<http://www.nber.org/papers/w22618>
- Habib, Maurizio Michel, Livio Stracca, and Fabrizio Venditti (2020). "The Fundamentals of Safe Assets", *Journal of International Money and Finance* 102.  
<https://www.sciencedirect.com/science/article/pii/S0261560619305650#!>
- He, Zhiguo, Arvind Krishnamurthy, and Konstantin Milbradt (2019). "A Model of Safe Asset Determination", *American Economic Review* 109(4), pp. 1230-1262.  
<https://www.aeaweb.org/articles/pdf/doi/10.1257/aer.20160216>
- Jiang, Zhengyang, Arvind Krishnamurthy, and Hanno Lustig (2020). "Dollar Safety and the Global Financial Cycle", NBER working paper 27682  
<https://www.nber.org/papers/w27682>

## 2) Low interest rates

### 2.1) Patterns

- Bean, Charles, Christian Broda, Takatoshi Ito, and Randall Kroszner (2015). "Low for Long? Causes and Consequences of Persistently Low Interest Rates", Geneva report of the world economy 17. [http://cepr.org/sites/default/files/geneva\\_reports/GenevaP266.pdf](http://cepr.org/sites/default/files/geneva_reports/GenevaP266.pdf)
- Del Negro, Marco, Domenico Giannone, Marc Giannoni, and Andrea Tambalotti (2019). "Global Trends in Interest Rates", *Journal of International Economics* 118, pp. 248-262  
<https://www.sciencedirect.com/science/article/pii/S0022199618302927/pdf?md5=8f7d2797e1f2d1b382a4036c11477317&pid=1-s2.0-S0022199618302927-main.pdf>
- Holston, Kathryn, Thomas Laubach, and John Williams (2018). "Measuring the Natural Rate of Interest: International Trends and Determinants" *Journal of International Economics* 108(S), pp. S59-75.  
<https://www.sciencedirect.com/science/article/pii/S0022199617300065>
- International Monetary Fund (2014). "Perspectives on Global Real Interest Rate", *World Economic Outlook* chapter 3.  
<http://www.imf.org/external/pubs/ft/weo/2014/01/pdf/c3.pdf>
- Laubach, Thomas, and John Williams (2016). "Measuring the Natural Rate of Interest Redux" *Business Economics* 51(2), pp. 57-67.  
<http://www.frbsf.org/economic-research/publications/working-papers/wp2015-16.pdf>
- Pescatori, Andrea, and Jarkko Turunen (2016). "Lower for Longer: Neutral Rate in the U.S.", *IMF Economic Review* 64, pp. 708-731.  
<https://www.imf.org/external/pubs/ft/wp/2015/wp15135.pdf>
- Wang, Bin, and Yum Kwan (2021). "Measuring the natural rates of interest of OECD and BRICS economies: A time varying perspective", *Journal of International Money and Finance* 112.  
<https://www.sciencedirect.com/science/article/pii/S0261560620302825>

### 2.2) Possible causes

- Borio, Claudio, Piti Disyatat, Mikael Juselius, and Mathias Drehmann (2017). "Monetary Policy, the Financial Cycle, and Ultra-Low Interest Rates", *International Journal of Central Banking*, 13 (3) pp. 55-89. Discussion by Marc Giannoni.  
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- Chen, Peter, Loukas Karabarbounis, and Brent Neiman (2017). "The Global Rise of Corporate Savings", *Journal of Monetary Economics* 89, pp. 1-19.  
<https://www.sciencedirect.com/science/article/pii/S0304393217300284>
- Del Negro, Marco, Marc Giannoni, Domenico Giannone, and Andrea Tambalotti (2017). "Safety, Liquidity, and the Natural Rate of Interest", *Brookings Papers on Economic Activity*, pp. 235-316.  
<https://www.brookings.edu/wp-content/uploads/2017/08/delnegrotetxtsp17bpea.pdf>
- Eggertsson, Gauti, Neil R. Mehrotra, and Sanjay R. Singh (2016). "A Contagious Malady? Open Economy Dimensions of Secular Stagnation", *IMF Economic Review* 64, pp. 581-634.  
<https://link.springer.com/article/10.1057/s41308-016-0019-8>
- Eggertsson, Gauti, and Neil Mehrotra (2014) "A Model of Secular Stagnation" NBER Working Paper No. 20574.  
<http://www.nber.org/papers/w20574>
- Favero, Carlo, Arie E. Gozluklu, and Haoxi Yang (2016). "Demographics and the Behavior of Interest Rates", *IMF Economic Review* 64, pp. 732-776.  
<https://link.springer.com/content/pdf/10.1057/s41308-016-0020-2.pdf>

- Fiorentini, Gabriele, Alessandro Galesi, Gabriel Pörez-Quirós, and Enrique Sentana (2018). "The Rise and Fall of the Natural Interest rate", *CEPR Discussion Paper* 13042.  
[http://cepr.org/active/publications/discussion\\_papers/dp.php?dpno=13042](http://cepr.org/active/publications/discussion_papers/dp.php?dpno=13042)
- Gagnon, Etienne, Benjamin Johannsen, and David Lopez-Salido (2016). "Understanding the New Normal: The Role of Demographics", Finance and Economics Discussion Series Divisions of Research & Statistics and Monetary Affairs 2016-080.  
<https://www.federalreserve.gov/econresdata/feds/2016/files/2016080pap.pdf>
- Glick, Reuven (2020). "R\* and the Global Economy", *Journal of International Money and Finance* 102.  
<https://www.sciencedirect.com/science/article/pii/S0261560619305881>
- Gourinchas, Pierre-Olivier, and Hélène Rey (2019). "Global real rates: a secular approach", BIS working paper 793.  
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- Gruber, Joseph, and Steven Kamin (2016). "The Corporate Saving Glut and Falloff of Investment Spending in OECD Economies", *IMF Economic Review* 64, pp. 777-799.  
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- Kuyshinov, Dmitry, and Kaspar Zimmermann (2020) "The Expected Return on Risky Assets: International Long-run Evidence", CEPR discussion paper 15610.  
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- Lo, Stephanie, and Kenneth Rogoff (2016). "Secular stagnation, debt overhang and other rationales for sluggish growth, six years on", BIS working paper 482.  
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- Rachel, Lukasz, and Lawrence Summers (2019). "On Secular Stagnation in the Industrialized World", *Brookings Papers on Economic Activity*, pp. 1-76.  
[https://www.brookings.edu/wp-content/uploads/2019/03/RachelSummers\\_web.pdf](https://www.brookings.edu/wp-content/uploads/2019/03/RachelSummers_web.pdf)
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### 2.3) Consequences

- Abildgren, Kim, and Andreas Kuchler, (2020) "Do firms behave differently when nominal interest rates are below zero?", Danmarks Nationalbank working paper 164.  
<https://www.nationalbanken.dk/en/publications/Pages/2020/11/Working-Paper-Do-firms-behave-differently-when-nominal-interest-rates-are-below-zero.aspx>
- Altavilla, Carlo, Lorenzo Burlon, Mariassunta Giannetti, and Sarah Holton, (2020) "Is there a zero lower bound? The effects of negative policy rates on banks and firms", European Central Bank working paper 164.  
<https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2289~1a3c04db25.en.pdf?2ce8cbb75e8750c3e82f7847c63591e9>
- Arsenau, David (2020) "How Would U.S. Banks Fare in a Negative Interest Rate Environment?", *International Journal of Central Banking*, pp. 269-308.  
<https://www.ijcb.org/journal/ijcb20q4a7.htm>
- Basten, Christoph, and Mike Mariathasan (2018). "How Banks Respond to Negative Interest Rates: Evidence from the Swiss Exemption Threshold". CESifo working paper 6901  
[https://www.econstor.eu/bitstream/10419/176920/1/cesifo1\\_wp6901.pdf](https://www.econstor.eu/bitstream/10419/176920/1/cesifo1_wp6901.pdf)

- Brei, Michael, Claudio Borio, and Leonardo Gambacorta (2019). "Bank intermediation activity in a low interest rate environment", BIS working paper 807.  
<https://www.bis.org/publ/work807.htm>
- Caballero, Ricardo, Emmanuel Farhi, and Pierre-Olivier Gourinchas (2020) "Global Imbalances and Policy Wars at the Zero Lower Bound", CEPR discussion paper 14424.  
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- International Monetary Fund (2020) "Banking Sector: Low Rates, Low Profits?", Global Financial Stability Report chapter 4, April.  
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- Klein, Melanie (2020). "Implications of negative interest rates for the net interest margin and lending of euro area banks", BIS working paper 848  
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- Krogstrup, Signe, Andreas Kuchler and Morten Spange (2020). "Negative interest rates: The Danish experience", Voxeu column.  
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- Lopez, Jose, Andrew Rose, and Mark Spiegel (2018). "Why Have Negative Nominal Interest Rates Had Such a Small Effect on Bank Performance? Cross Country Evidence", NBER working paper 25004.  
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### **3) Macroeconomic policy in the crisis**

#### **3.1) Key patterns of the global and euro crises**

- Berger, Helge, Giovanni Dell'Ariccia, and Maurice Obstfeld (2019). "Revisiting the Economic Case for Fiscal Union in the Euro Area", *IMF Economic Review* 67(3) pp. 657-683.  
<https://link.springer.com/content/pdf/10.1057/s41308-019-00089-x.pdf>
- Brunnermeier, Markus, and Ricardo Reis (2019). "A Crash Course on the Euro Crisis", NBER working paper 26229.  
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- Brunnermeier, Markus (2009). "Deciphering the 2007 - 2008 Liquidity and Credit Crunch", *Journal of Economic Perspectives* 23(1), pp. 77-100.  
<https://www.aeaweb.org/articles/pdf/doi/10.1257/jep.23.1.77>
- Duffie, Darrell (2019). "Prone to Fail: The Pre-crisis Financial System", *Journal of Economic Perspectives* 33(1) pp. 81-106.  
<https://www.aeaweb.org/articles/pdf/doi/10.1257/jep.33.1.81>
- O'Rourke, Kevin, and Alan Taylor (2013). "Cross of Euros", *Journal of Economic Perspectives* 27(3), pp 167-192.  
[http://www.aeaweb.org/atypon.php?return\\_to=/doi/pdfplus/10.1257/jep.27.3.167](http://www.aeaweb.org/atypon.php?return_to=/doi/pdfplus/10.1257/jep.27.3.167)
- Shambaugh, Jay (2012). "The Euro's Three Crises", *Brookings Papers on Economic Activity*, pp. 157-231.  
<http://www.brookings.edu/about/projects/bpea/papers/2012/euros-three-crises-shambaugh>

#### **3.2) The standard model of international policy**

- Corsetti, Giancarlo, Luca Dedola, and Sylvain Leduc (2010). "Optimal monetary policy in open economies", in *Handbook of Monetary Economics*.  
<https://sites.google.com/site/giancarlocorsetti/main/handbook-codele.pdf?attredirects=0>
- Corsetti, Giancarlo and Paolo Pesenti (2007) "The simple geometry of transmission and stabilization in closed and open economy", NBER International Seminar on Macroeconomics 2007  
<http://ideas.repec.org/h/nbr/nberch/3000.html>
- Engel, Charles (2016). "Policy Cooperation, Incomplete Markets, and Risk Sharing", *IMF Economic Review* 64, pp. 103-133.  
<https://www.ssc.wisc.edu/~cengel/PublishedPapers/EngelIMFER.pdf>

#### **3.3) Selected recent developments in policy models**

- Auray, Stéphane, Michael Devereux, and Aurélien Eyquem (2020). "Trade Wars, Currency Wars", NBER working paper 27460  
<https://www.nber.org/papers/w27460>
- Banerjee, Ryan, Michael Devereux, and Giovanni Lombardo (2016). "Self-oriented monetary policy, global financial markets and excess volatility of international capital flows", *Journal of International Money and Finance* 68, pp. 275-297.  
<https://www.sciencedirect.com/science/article/pii/S0261560616000310>
- Benigno, Pierpaolo, Gauti Eggertsson, and Federica Romei (2014) "Dynamic Debt Deleveraging and Optimal Monetary Policy" NBER Working Paper No. 20556.  
<http://www.nber.org/papers/w20556>
- Bodenstein, Martin, Giancarlo Corsetti, and Luca Guerrieri (2020) "The Elusive Gains from Nationally-Oriented Monetary Policy", CEPR discussion paper 14359.  
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- Corsetti Giancarlo, Keith Kuester, and Gernot Müller (2017). "Fixed on Flexible: Rethinking Exchange Rate Regimes after the Great Recession", *IMF Economic Review* 65(3), pp. 586-632.  
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- Cook, David, and Michael Devereux (2016) "Exchange Rate Flexibility under the Zero Lower Bound: the Need for Forward Guidance" *Journal of International Economics*, 101(C), pp. 52-69.  
<http://www.sciencedirect.com/science/article/pii/S0022199616300460>
- Devereux, Michael, Charles Engel, and Giovanni Lombardo (2020) "Implementable Rules for International Monetary Policy Coordination", *IMF Economic Review* 68, pp. 108-162.  
<https://link.springer.com/article/10.1057/s41308-019-00104-1>
- Devereux, Michael, and Changhua Yu (2017). "Exchange Rate Adjustment in Financial Crises", *IMF Economic Review* 65(3), pp. 528-562.  
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### **3.4) Unconventional monetary policies: patterns**

- Bernanke, Ben (2020). "The New Tools of Monetary Policy", *American Economic Review* 110, pp-943-983..  
<https://www.brookings.edu/blog/ben-bernanke/2020/01/04/the-new-tools-of-monetary-policy/>  
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- Dell'Ariccia, Giovanni, Pau Rabanal, and Damiano Sandri (2018) "Unconventional Monetary Policies in the Euro Area, Japan, and the United Kingdom", *Journal of Economic Perspectives* 32(4), pp. 147-172.  
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- Kuttner, Kenneth (2018) "Outside the Box: Unconventional Monetary Policy in the Great Recession and Beyond", *Journal of Economic Perspectives* 32(4), pp. 121-146.  
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- Sims, Eric, and Jing Cynthia Wu (2020) "Are QE and Conventional Monetary Policy Substitutable?", *International Journal of Central Banking*, pp. 195-230.  
[https://www.ijcb.org/journal/ijcb2002\\_4.htm](https://www.ijcb.org/journal/ijcb2002_4.htm)

### **3.5) Unconventional monetary policies: domestic and international impact**

- Aizenman, Joshua, Mahir Binici, and Michael M. Hutchison (2016). "The Transmission of Federal Reserve Tapering News to Emerging Financial Markets", *International Journal of Central Banking* 12, pp. 317-356.  
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- Chari, Anusha, Karlye Dilts Stedman, and Christian Lundblad (2017). "Taper Tantrums: QE, its Aftermath and Emerging Market Capital Flows", NBER working paper 23474.  
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