

ECON 269
INTERNATIONAL MACROECONOMICS
Winter 2007

Professor: Fabio Milani, fmilani@uci.edu
Office Hours: SSPA 3145, Thu 3.00-4.30 PM

Time and Location: Tu-Th 9.30-10.50 PM
Course Webpage: <http://www.socsci.uci.edu/~fmilani/econ269.html>

Grading:

Assignments	20%
Referee Report	20%
In-Class Presentations	20%
Paper	40%

Course description:

There will be about 3-4 assignments in the quarter. You can work in groups, but each member has to turn in the homework individually. There will be no final exam in the course. Instead, you will have to write a paper on an international macro topic. The paper can be an original contribution or a survey of a particular topic. There will be some in-class presentations in which you will be responsible to present an overview of the papers in one area of the syllabus. You will also have to complete a referee report on one of the papers listed.

Books:

Foundations of International Macroeconomics, by
Maurice Obstfeld and Kenneth Rogoff, MIT Press, October 1996.

International Macroeconomics and Finance: Theory and Empirical Methods, by
Nelson Mark, Blackwell Publisher, September 2001.

Others:

The Economics of Exchange Rates, Sarno and Taylor
Handbook of International Economics
Handbook of International Macroeconomics

Useful websites for international macroeconomists:

<http://www.econ.yale.edu/~corsetti/euro/>
http://www.geocities.com/brian_m_doyle/open.html
<http://www.geocities.com/monetaryrules/mpoe.htm>

Reading List - PRELIMINARY

(Highly recommended readings are indicated by a ' * ')

1. The Intertemporal Approach to the Current Account

1.1. The Basic Theoretical Framework

Dornbusch, Rudiger (1983): "Real Interest Rates, Home Goods, and Optimal External Borrowing". *Journal of Political Economy*, 91, 141-153..

Obstfeld, Maurice (1982): "Aggregate Spending and the Terms of Trade: Is There a Laursen-Metzler Effect?" *Quarterly Journal of Economics*, 97 (May), 251-270.

* **Obstfeld, Maurice and Kenneth Rogoff (1995):** "The Intertemporal Approach to the Current Account". In: Gene M. Grossman and Kenneth Rogoff (eds.): *Handbook of International Economics*, Volume 3, North Holland, Amsterdam.

* **Obstfeld and Rogoff (1996)**, ch. 1, 2, and 4.

* **Kraay, A. and J. Ventura**, "Current Accounts in Debtor and Creditor Countries", *Quarterly Journal of Economics*, November 2000.

Razin, Assaf (1995): "The Dynamic Optimizing Approach to the Current Account: Theory and Evidence". In: Peter B. Kenen (ed.): *Understanding Interdependence: The Macroeconomics of the Open Economy*. Princeton University Press, Princeton, NJ. Chapter 3.

* **Rogoff, Kenneth (1996):** "The Purchasing Power Parity Puzzle". *Journal of Economic Literature*, 34 (June), 647-688.

Sachs, Jeffrey (1981): "The Current Account and Macroeconomic Adjustment in the 1970s". *Brookings Papers on Economic Activity*, 1, 201-282.

Ventura J., "Towards a Theory of Current Accounts".

1.2. Empirical Issues

Bergin, Paul R. and Steven M. Sheffrin (2000): "Interest Rates, Exchange Rates, and Present Value Models of the Current Account". *The Economic Journal*, 110 (April), 535-558.

* **Glick, Reuven and Kenneth Rogoff (1995):** "Global vs. Country-Specific Productivity Shocks and the Current Account". *Journal of Monetary Economics*, 35, 159-192.

Ghosh, Atish R.(1995): "Capital Mobility Amongst the Major Industrialized Countries: Too Little or Too Much?" *Economic Journal*, 105, 107-128.

Gruber, Joseph W. (2001): "A Present Value Test of Habits and the Current Account". Mimeo, Johns Hopkins University.

* **Nason, James M. and John H. Rogers (2003):** "The Present-Value Model of the Current Account Has Been Rejected: Round Up the Usual Suspects". *Journal of International Economics*.

Sheffrin, Steven M. and Wing T. Woo (1990): "Present-Value Tests of the Current Account". *Journal of International Economics*, 29, 237-253.

Feldstein, M. and C. Horioka, "Domestic Savings and International Capital Flows", *Economic Journal* 90 (June): 314-29, 1980

2. Risk Sharing and International Real Business Cycles.

2.1. Complete Markets and Risk Sharing

***Obstfeld and Rogoff**, chapter 5.

Brandt M., Cochrane J. and P. Santa Clara, 2005. "International Risk Sharing is better than you think (or exchange rates are much too smooth) ", forthcoming *Journal of Monetary Economics* (also NBER WP 8404).

Lewis K. (1996), "What can explain the apparent lack of consumption risk sharing?" *Journal of Political Economy* 104 (April): 267-97.

Obstfeld, M., "Are Industrial Country Consumption Risks Globally Diversified?", in L. Leiderman and A. Razin, eds, *Capital Mobility, The Impact on Consumption, Investment and Growth*, Cambridge University Press, New York, 1994.

Obstfeld, M., "Risk-Taking, Global Diversification and Growth", *American Economic Review* 84, (December): 1310-29, 1994

Svensson, L.: "Trade in Risky Assets", *American Economic Review*, pp. 375-394, (June) 1988

* **Obstfeld, Maurice and Kenneth Rogoff (2000):** "The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?" In: Ben Bernanke and Kenneth Rogoff (eds.): *NBER Macroeconomics Annual*. Cambridge: MIT Press.

* **Lewis, Karen K. (1999):** "Trying to Explain Home Bias in Equities and Consumption". *Journal of Economic Literature*, 37, 571-608.

Cole, Harold L. and Maurice Obstfeld (1991): "Commodity Trade and International Risk Sharing: How Much Do Financial Markets Matter?" *Journal of Monetary Economics*, 28, 3-24.

Schmitt-Grohé, Stephanie and Martin Uribe (2003): "Closing Small Open Economy Models". *Journal of International Economics*.

2.2 Incomplete Markets

* **Kehoe, Patrick J. and Fabrizio Perri (2002):** "International Business Cycles with Endogenous Incomplete Markets". *Econometrica*, 70(3), pp. 907-928.

2.3 International Portfolio Diversification

French K. and J. Poterba, 1991, "Investor diversification and international equity markets", *American Economic Review* 81, 222-226.

Lewis K., "International Home Bias in International Finance and Business Cycles", NBER WP #6351, January 1998

Lewis K., "Puzzles in International Financial Markets" in *Handbook of International Economics*, Gene Grossman and Ken Rogoff, ed, North Holland, 1995 also NBER WP 4951;

***Heathcote, J. and F. Perri,** "The International Diversification Puzzle is not as bad as you think"

Baxter M. and U. Jerman, 1997, "The international diversification puzzle is worse than you think", *American Economic Review*, 87(March)

Baxter M, U. Jermann and R. King, “Nontraded Goods, Nontraded factors and International Nondiversification”, *Journal of International Economics*, April 1998, 211-229.

Serrat A., “A Dynamic Equilibrium Model of International Portfolio Holdings,” *Econometrica*, Nov 2001.

***Pavlova A and R. Rigobon**, “Asset Prices and Exchange Rates”, forthcoming Review of Financial Studies, 2006

3. International Real Business Cycles

3.1. Empirical Issues

* **Backus, David and Patrick J. Kehoe (1992)**: “International Evidence on the Historical Properties of Business Cycles”. *American Economic Review*, 82, 864-888.

Costello, Donna M. (1993): “A Cross-Country, Cross-Industry Comparison of Productivity Growth”. *Journal of Political Economy*, 101, 207-222.

3.2. Small Open Economy Models

Correia, Isabel, Joao C. Neves, and Sergio Rebelo (1995): “Business Cycles in a Small Open Economy”. *European Economic Review*, 39 (June), 1089-1113.

Finn, Mary G. (1990): “On Savings and Investment Dynamics in a Small Open Economy”. *Journal of International Economics*, 29, 1-21.

* **Mark (2001)**, ch. 5.

Mendoza, Enrique G. (1995): “The Terms of Trade, the Real Exchange Rate, and Economic Fluctuations”. *International Economic Review*, 36, 101-137.

* **Schmitt-Grohé, Stephanie (1998)**: “The International Transmission of Economic Fluctuations”. *Journal of International Economics*, 44, 257-287.

Tesar, Linda L. (1991): “Savings, Investment and International Capital Flows”. *Journal of International Economics*, 31, 55-78.

3.3. Two-Country Models

* **Backus, David K., Patrick J. Kehoe, and Finn E. Kydland (1992)**: “International Real Business Cycles”. *Journal of Political Economy*, 100:4 (August), 745-775.

Backus, David K., Patrick J. Kehoe, and Finn E. Kydland (1994a): “Dynamics of the Trade Balance and the Terms of Trade: The J-Curve”. *American Economic Review*, 84, 84-103.

Backus, David K., Patrick J. Kehoe and Finn E. Kydland (1994b): “Relative Price Movements in Dynamic General Equilibrium Models of International Trade”.

In: Frederick Van Der Ploeg (ed.): *The Handbook of International Macroeconomics*, Cambridge, Ma: Basil Blackwell.

* **Baxter, Marianne (1995)**: "International Trade and Business Cycles". In: Gene M. Grossman and Kenneth Rogoff (eds.): *Handbook of International Economics*, Vol. III. Amsterdam: North Holland.

* **Baxter, Marianne and Mario J. Crucini (1995)**: "Business Cycles and the Asset

Structure of Foreign Trade". *International Economic Review*, 36:4, 821-854.

Backus, D., P. Kehoe and F. Kydland, "Dynamics of the trade balance and the terms of trade: the J curve ?" *American Economic Review*, March 1994

Baxter M. and M. Crucini, "Explaining Saving –Investment Correlations", *American Economic Review* June 1993, p 416-436.

Betts, Caroline M. and Timothy J. Kehoe (2001): "Tradability of Goods and Real Exchange Rate Fluctuations". Federal Reserve Bank of Minneapolis Staff Report #265

Canova, Fabio and Jane Marrinan (1998): "Sources and Propagation of International Output Cycles: Common Shocks or Transmission?" *Journal of International Economics*, 46, 133-166.

Stockman, Alan C. and Linda L. Tesar (1995): "Tastes and Technology in a Two-Country Model of the Business Cycle: Explaining International Comovements". *American Economic Review*, 85:1 (March), 168-185.

* **Baxter, Marianne (1995)**: "International Trade and Business Cycles". In: Gene M. Grossman and Kenneth Rogoff (eds.): *Handbook of International Economics*, Vol. III. Amsterdam: North Holland.

4. Nominal Exchange Rate Determination

4.1. Empirical Issues

* **Mark (2001)**, ch. 4.

Mussa, Michael (1986): "Nominal Exchange Rate Regimes and the Behavior of Real Exchange Rates". *Carnegie-Rochester Conference Series on Public Policy*, 25, 117-214.

***Obstfeld–Rogoff** , 8.1-8.3

***Bacchetta P. and E. van Wincoop**, "Can Information Heterogeneity Explain the Exchange Rate Determination Puzzle?", *American Economic Review*, Jun 2006

Gourinchas P.O and H. Rey, "International Financial Adjustment", revised version April 2006.

***Lucas R.**, "Interest Rates and Currency Prices in a Two-Country World", *Journal of Monetary Economics*, 10, 335-59, 1982.

***Meese R. and K. Rogoff**, "Empirical Exchange Rate Models of the Seventies", *Journal of International Economics* 14 3-24, 1983

***Mark, N. 1995**. Exchange Rates and Fundamentals: Evidence on long-horizon predictability. *American Economic Review* 85: 201-218.

Cheung Y-W., M. Chinn and A. Pascual, "Empirical Exchange Rate Models of the Nineties: Are any Fit to Survive?", mimeo UCSB, 2003

Duarte M. and A. Stockman, 2001. Rational Speculation and Exchange Rates, NBER WP 8362.

***Evans M. and R. Lyons**, "Order Flow and Exchange Rate Dynamics", NBER WP7317, and *Journal of Political Economy*

Gourinchas P. and A. Tornell, "Exchange Rate Puzzles and Distorted Beliefs," *Journal of International Economics*, December 2004

4.2. The Microstructure Approach to Exchange Rates

***Evans M. and R. Lyons**, (2002) “Order Flow and Exchange Rate Dynamics”, *Journal of Political Economy*

Lyons, *The Microstructure Approach to Exchange Rates*, MIT Press 2001.

***Evans M. and R. Lyons**, (2006), “Meese-Rogoff Redux: Micro-Based Exchange Rate Forecasting”, Forthcoming in the *American Economic Review*

Evans M. and R. Lyons, (2004), “A New Micro Model of Exchange Rate Dynamics”, NBER Working Paper 10379.

Vitale, Paolo, (2004) “A Guided Tour of The Market Micro Structure Approach to Exchange Rate Determination”, forthcoming, *Journal of Economic Surveys*

4.3. Flexible Price Models

Grilli, Vittorio and Nouriel Roubini (1992): “Liquidity and Exchange Rates”. *Journal of International Economics*, 32, 339-352.

Lucas, Robert E. (1982): “Interest Rates and Currency Prices in a Two-Country World”. *Journal of Monetary Economics*, 10, 335-360.

* **Mark (2001)**, ch. 6.

* **Obstfeld and Rogoff (1996)**, ch. 8.

Schlagenhauf, Don E. and Jeffrey M. Wrase (1995): “Liquidity and Real Activity in a Simple Open Economy Model”. *Journal of Monetary Economics*, 35, 431-461.

* **Stockman, Alan C. (1980)**: “A Theory of Exchange Rate Determination”. *Journal of Political Economy*, 88:4 (August), 673-698.

5. Real Exchange Rates

* **Imbs J, H. Mumtaz, M. Ravn and H. Rey**, “PPP Strikes Back: Aggregation and the Real Exchange Rate”, *QJE*

- **Chari, Kehoe, and McGrattan**, “Can Sticky Price Models Generate Volatile and Persistent Real Exchange Rates?,” *Review of Economic Studies*, vol.69(3), pages 533-63.

***Obstfeld–Rogoff** , ch. 4.

Backus D. and G. Smith, “Consumption and Real Exchange Rates in Dynamic Economies with Nontraded Goods”, *Journal of International Economics*, 25, 1993.

6. New Open Economy Macroeconomic Models: Theory

***Obstfeld and Rogoff**, “Exchange Rate Dynamics Redux,” *Journal of Political Economy* 103, June 1995, 624-60.

***Lane, (1999)**. *The New Open Economy Macroeconomics: A Survey.*, *JIE*.

***Obstfeld–Rogoff** , ch. 10.

***Corsetti**, (2007). “New Open Economy Macroeconomics”, *New Palgrave Dictionary of Economics*, 2nd edition.

6.1 Producer Currency Pricing vs. Pricing-to-Market+Local Currency Pricing

Obstfeld and Rogoff, “New Directions for Stochastic Open Economy Models”, *JIE*
Betts and Devereux, (2000), "Exchange Rate Dynamics in a Model of Pricing-to-Market", , *Journal of International Economics* 50: pp. 215-244.

7. Monetary Policy in a Small Open Economy

7.1 Monetary Policy in Open Economies

Devereux, Michael and Charles Engel (2003): “Monetary Policy in the Open Economy Revisited: Exchange Rate Flexibility and Price Setting Behavior”. *Review of Economic Studies*.

Lubik, Thomas A. and Frank Schorfheide (2003): “Do Central Banks Respond to Exchange Rate Movements? A Structural Investigation”, *JME*.

* **De Paoli, B.**, (2004), “Monetary Policy and Welfare in a Small Open Economy”

* **Gali and Monacelli**, Monetary Policy and Exchange Rate Volatility in a Small Open Economy, *RES*.

* **Clarida, Gali, Gertler**, (2002), "A simple framework for international monetary policy analysis," *Journal of Monetary Economics*, vol. 49(5), pages 879-904

7.2 Effects of Monetary Policy: VAR

* **Clarida, Richard and Jordi Galí (1994)**: "Sources of Real Exchange Fluctuations: How Important Are Nominal Shocks?" *Carnegie-Rochester Conference Series on Public Policy*, 41, 1-56.

* **Cushman David O., and Tao Zha (1997)**: “Identifying Monetary Policy in a Small Open Economy under Flexible Exchange Rates”. *Journal of Monetary Economics*, 39(3), 433-448.

* **Eichenbaum, Martin and Charles L. Evans (1995)**: "Some Empirical Evidence on the Effects of Shocks to Monetary Policy on Exchange Rates". *Quarterly Journal of Economics*, 110:4, 975-1009.

Kim, Soyoung (2001): “International Transmission of U.S. Monetary Policy Shocks: Evidence from VAR's”. *Journal of Monetary Economics*, 48(2), 339-372.

Rogers, John H. (1999): “Monetary Shocks and Real Exchange Rates”. *Journal of International Economics*, 49(2), 269-288.

7.3 Monetary Policy in Emerging Markets

Taylor
Benigno and Ghironi

8. New Open Economy Macroeconomic Models: Empirical Issues

Bergin, Paul R. (2003): “Putting the ‘New Open Economy Macroeconomics’ Test”. *Journal of International Economics*. 60(1), pp. 3-34.

Lane, (1999). The New Open Economy Macroeconomics: A Survey., *JIE*.

Ghironi, (1999) Towards New Open Economy Macroeconometrics.

Lubik and Schorfheide (2005). A Bayesian Look at New Open Economy Macroeconomics, *NBER Macro Annual*

Justiniano and Preston (2005). ...

Fuesta and Rabanal (2004). Euro-Dollar Real Exchange Rate Dynamics in an Estimated Two-Country Model: What is Important and What is Not

Adolfson, et al

9. Globalization, Inflation, and Monetary Policy

Imbs et al

Razin

Rogoff

Rogoff

Bordo and Filardo

10. Heterogeneous Firms, Endogenous Trade, and Macro Dynamics

Bergin, Paul R. and Reuven Glick (2003): "A Theory of Endogenous Non-Tradability and its Implications for Intertemporal Trade". Mimeo, UC Davis.

*[Ghironi F. and M. Melitz](#), "International Trade and Macroeconomic Dynamics with Heterogeneous Firms," *Quarterly Journal of Economics*, Aug 2005

11. Monetary Policy in a Currency Union: Empirical Issues in the Euro Area.

Angeloni, Ceccarelli, Inflation Differentials

Benigno

12. Sovereign Debt

*Obstfeld and Rogoff, Chapter 6;

Eaton ,J. and R. Fernandez, "Sovereign Debt", in Handbook of International Economics, Gene Grossman and Ken Rogoff, ed, North Holland, 1995; also [NBER working paper 5131](#);

[Bulow J. and K. Rogoff](#), "Sovereign Debt: is to forgive to forget", *American Economic Review* Vol. 79, No. 1. (Mar., 1989), pp. 43-50