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:

<table>
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<th>Assignment</th>
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<td>Referee Report</td>
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<td>In-Class Presentations</td>
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<td>Paper</td>
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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:


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 ' * '

I. The Intertemporal Approach to the Current Account

1.1. The Basic Theoretical Framework


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


Ventura J., “Towards a Theory of Current Accounts”.

1.2. Empirical Issues


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).


2.2 Incomplete Markets


2.3 International Portfolio Diversification


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


*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)


3. International Real Business Cycles

3.1. Empirical Issues


3.2. Small Open Economy Models


* Mark (2001), ch. 5.


3.3. Two-Country Models


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


**4. Nominal Exchange Rate Determination**

4.1. **Empirical Issues**

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


* *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


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

4.2. The Microstructure Approach to Exchange Rates


4.3. Flexible Price Models


* Mark (2001), ch. 6.

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


5. Real Exchange Rates

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


* Obstfeld–Rogoff, ch. 4.


6. New Open Economy Macroeconomic Models: Theory


* Obstfeld–Rogoff, ch. 10.

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-

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.
* 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

7.2 Effects of Monetary Policy: VAR

* Clarida, Richard and Jordi Gali (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
the Effects of Shocks to Monetary Policy on Exchange Rates". Quarterly

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

9. Globalization, Inflation, and Monetary Policy

Imbs et al
Razin
Rogoff
Bordo and Filardo

10. Heterogeneous Firms, Endogenous Trade, and Macro Dynamics


Angeloni, Ceccarelli, Inflation Differentials
Benigno

12. Sovereign Debt

*Obstfeld and Rogoff, Chapter 6;