

Economics 246 — Fall 2003

# International Macroeconomics

September 10, 2003

Instructor: Marc-Andreas Muendler  
Office: Economics 312  
Office hours: MW 2:30pm - 3:30pm and by appointment  
Phone: (858) 534-4799  
E-mail: muendler@ucsd.edu  
Class Time: MW 8:00am - 9:20am  
Classroom: Econ 210  
Class Web Page: econ.ucsd.edu/muendler/teach/03f/246

## 1 Course Objectives

This course examines open-economy macroeconomics and international finance. Topics include theories of the exchange rate, foreign exchange regimes, current account adjustments, and international portfolio investments. The course investigates real and monetary explanations, and implications of international capital market integration.

## 2 Prerequisites

Instructor's consent.

## 3 Readings

**Textbook:** Obstfeld and Rogoff (1996)

**Further readings:** Goldberg and Knetter (1997), Obstfeld and Rogoff (2000a), Neely and Sarno (2002), Froot and Obstfeld (1991), Driffill and Sola (1998), Diamond and Dybvig (1983), Obstfeld (1996), Morris and Shin (1998), Caballero and Krishnamurthy (2000), Aghion, Bacchetta, and Banerjee (2001), Dornbusch (1976), Obstfeld and Rogoff (1995), Obstfeld and Rogoff (2000b), Lane (2001)

The additional readings are available through the class web page (see link above) and the UCSD electronic library. They are also available as printed custom materials from AS Soft Reserves (copyright fees apply).

## 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) but your performance on them does not become a formal part of the final grade.

## 5 Research Paper Proposal

You may choose to submit a research paper proposal as part of your course work. I strongly encourage this.

The detailed proposal should be 5 to 10 pages in length. A proposal includes a thorough review of the related literature, and a detailed outline of a theoretical model along with its conjectured implications *or* a detailed discussion of a data set and an estimation procedure along with its identifying assumptions. A draft of the paper proposal is due on Wednesday, Nov 26, 5:00pm and the final proposal is due on Thursday, Dec 4, 5:00pm.

## 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 (180 points; score multiplied by 5/3.)
2. You can choose to submit a detailed research paper proposal. (A draft of the paper proposal is due on Nov 26, 5:00pm and the final proposal is due on Dec 4, 5:00pm.) Under this option, the final paper proposal counts for 40 percent of your grade (120 points) and the final exam for 60 percent (180 points).

## 7 Class Schedule

### I. Microfoundations of International Macroeconomics

1. **Mon, Sept 29:** Intertemporal Trade in a Small Open Economy  
(Obstfeld and Rogoff 1996/Ch. 1)
2. **Wed, Oct 1:** Intertemporal Trade in a Two-Region World  
(Obstfeld and Rogoff 1996/Ch. 1)  
PROBLEM SET 1 OUT
3. **Mon, Oct 6:** Current Account Dynamics  
(Obstfeld and Rogoff 1996/Ch. 2)

4. **Wed, Oct 8:** Firms, Investment and the Current Account  
(Obstfeld and Rogoff 1996/Ch. 2)
5. **Mon, Oct 13:** The Real Exchange Rate, Nontraded Goods and Productivity  
(Obstfeld and Rogoff 1996/Ch. 4; Goldberg and Knetter 1997)
6. **Wed, Oct 15:** The Terms of Trade and International Specialization  
(Obstfeld and Rogoff 1996/Ch. 4)
7. **Mon, Oct 20:** International Risk Sharing in a Small Open Economy  
(Obstfeld and Rogoff 1996/Ch. 5)  
PROBLEM SET 1 DUE
8. **Wed, Oct 22:** International Risk Sharing in a World Economy  
(Obstfeld and Rogoff 1996/Ch. 5)  
PROBLEM SET 2 OUT
9. **Mon, Oct 27:** Sovereign Risk and Incentive-Compatible Risk-Sharing  
(Obstfeld and Rogoff 1996/Ch. 6)
10. **Wed, Oct 29:** Sovereign Risk and Investment under Sanctions or Commitments  
(Obstfeld and Rogoff 1996/Ch. 6)
11. **Mon, Nov 3:** International Macroeconomic Puzzles and Trade Frictions  
(Obstfeld and Rogoff 2000b)

## II. Monetary Foundations of International Macroeconomics

12. **Wed, Nov 5:** Exchange Rates under Flexible Prices  
(Obstfeld and Rogoff 1996/Ch. 8; Neely and Sarno 2002)
13. **Mon, Nov 10:** Exchange Rates, Inflation and Bubbles  
(Obstfeld and Rogoff 1996/Ch. 8; Froot and Obstfeld 1991, Driffill and Sola 1998)  
PROBLEM SET 2 DUE
14. **Wed, Nov 12:** Exchange Rate Interventions and Currency Attacks  
(Obstfeld and Rogoff 1996/Ch. 8)  
PROBLEM SET 3 OUT
15. **Mon, Nov 17:** Bank Runs and Second-generation Crisis Models  
(Diamond and Dybvig 1983, Obstfeld 1996, Morris and Shin 1998)
16. **Wed, Nov 19:** Currency Mismatch and Third-generation Crisis Models  
(Caballero and Krishnamurthy 2000, Aghion, Bacchetta, and Banerjee 2001)
17. **Mon, Nov 24:** Price Rigidities and Exchange Rate Overshooting  
(Dornbusch 1976; Obstfeld and Rogoff 1996/Ch. 9)

- 18. Wed, Nov 26:** Price Rigidities and World-Economy Redux  
(Obstfeld and Rogoff 1996/Ch. 10; Obstfeld and Rogoff 1995)  
DRAFT OF PAPER PROPOSAL DUE
- 19. Mon, Dec 1:** Variations in Price Rigidities and Extensions of the Redux  
(Obstfeld and Rogoff 1996/Ch. 10; Obstfeld and Rogoff 2000a, Lane 2001)
- 20. Wed, Dec 3:** Summary and Review  
PROBLEM SET 3 DUE
- Thu, Dec 4:** FINAL PAPER PROPOSAL DUE
- Mon, Dec 9, 15:00pm - 18:00pm:** FINAL EXAM. Room: TBA

## References

- AGHION, P., P. BACCHETTA, AND A. BANERJEE (2001): "Currency Crises and Monetary Policy in an Economy with Credit Constraints," *European Economic Review*, 45(7), 1121–50.
- CABALLERO, R. J., AND A. KRISHNAMURTHY (2000): "Dollarization of Liabilities: Underinsurance and Domestic Financial Underdevelopment," *MIT Department of Economics Working Paper*, 00/14, forthcoming *Journal of Finance*.
- DIAMOND, D. W., AND P. H. DYBVIK (1983): "Bank Runs, Deposit Insurance, and Liquidity," *Journal of Political Economy*, 91(3), 401–19.
- DORNBUSCH, R. (1976): "Expectations and Exchange Rate Dynamics," *Journal of Political Economy*, 84(6), 1161–76.
- DRIFFILL, J., AND M. SOLA (1998): "Intrinsic Bubbles and Regime-Switching," *Journal of Monetary Economics*, 42(2), 357–73.
- FROOT, K. A., AND M. OBSTFELD (1991): "Intrinsic Bubbles: The Case of Stock Prices," *American Economic Review*, 81(5), 1189–214.
- GOLDBERG, P. K., AND M. M. KNETTER (1997): "Goods Prices and Exchange Rates: What Have We Learned?," *Journal of Economic Literature*, 35(3), 1243–72.
- LANE, P. R. (2001): "The New Open Economy Macroeconomics: A Survey," *Journal of International Economics*, 54(2), 235–66.
- MORRIS, S., AND H. S. SHIN (1998): "Unique Equilibrium in a Model of Self-Fulfilling Currency Attacks," *American Economic Review*, 88(3), 587–97.
- NEELY, C. J., AND L. SARNO (2002): "How Well Do Monetary Fundamentals Forecast Exchange Rates?," *Federal Reserve Bank of St. Louis Review*, 84(5), 51–74.
- OBSTFELD, M. (1996): "Models of Currency Crises with Self-Fulfilling Features," *European Economic Review*, 40(3-5), 1037–47.
- OBSTFELD, M., AND K. ROGOFF (1995): "Exchange Rate Dynamics Redux," *Journal of Political Economy*, 103(3), 624–60.
- (1996): *Foundations of international macroeconomics*. MIT Press, Cambridge, MA and London.

- (2000a): “New Directions for Stochastic Open Economy Models,” *Journal of International Economics*, 50(1), 117–53.
- (2000b): “The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?,” *NBER Working Paper*, 7777.