EC874.01

TOPICS IN INTERNATIONAL MACROECONOMICS

Syllabus

Spring 2008

Lectures:
Tuesday and Thursday, 12:00 – 1:30 pm; Carney Hall, Room 306

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Office Hours: Tuesday, 2:30 – 4:30 pm, and by appointment

Course Objectives and Description

This course covers topics in international macroeconomics. Its purpose is to expose students to recent developments in the study of international business cycle transmission for industrial and emerging economies, the effect and conduct of macroeconomic policies in open economies, international financial adjustment, and currency and financial crises.

We will first study models of international interdependence under flexible prices, focusing on the role of different assumptions on the structure of financial asset markets in the international propagation of shocks. Exogenous shocks to technology will be the main source of fluctuations in these models. We will then analyze the behavior of international relative prices and introduce nominal rigidity and a role for monetary policy shocks in the models. This will lead us to study the conduct of optimal monetary policy in open economies under different assumptions about the nature of nominal rigidity. (Time permitting we will also consider the interaction of monetary and fiscal policies.) Next, we will turn to pricing to market and the role of distribution sectors in affecting relative prices and exchange rate pass-through. We will then move to models of international macroeconomic and trade dynamics that attribute a role to firm entry and exit and trade costs in explaining outstanding puzzles in international macroeconomics. This will be followed by work on international financial adjustment, the current account, and valuation effects. The last part of the course will focus on the international macroeconomics of emerging market economies, and – time permitting – currency and financial crises, and debt repudiation.

Course Requirements

Readings: Starting with the second lecture of the course, I will expect you to have read the papers I will cover in advance of the relevant lecture. (At the end of each lecture, I will announce the readings for the following lecture.) There will be no homework for this course, but you must read these papers with pencil and paper, making sure you can reproduce all arguments and derivations whenever feasible. I will expect you to be able to do that for the final exam.

Discussions: We will hold two Course Conferences – one on Friday, March 14, the other on Friday, April 18, time and room TBA. In each of these conferences, you must give a thirty-minute discussion of a paper from the set marked with a smile ☺ in the reading list. You must spend approximately ten minutes explaining the key contribution of the paper and twenty minutes on your comments, focusing on issues of substance. (Papers discussed on March 14 cannot be discussed on April 18. You cannot cooperate in preparing discussions. In each conference, there can be at most two discussions of the same paper, and the choice of paper to be discussed will be on a first-come, first-served basis.)

Short paper: You must write a single-authored, short paper (between 10 and 15 pages, 1.5 spacing, plus appendix and references) on a topic in international macroeconomics. You must discuss your idea with me before starting. Your paper must clearly state the issue of interest, briefly discuss the relevant literature, describe your planned contribution, and develop the latter as far as you can. The paper is due in my mailbox by noon on Wednesday, May 21.

Final exam: There will be a three-hour final exam on a date/time TBA.

Discussions, short paper, and final exam will be graded on a scale 0-100. The weights of these requirements in your final course grade will be as follows:

- Discussions: 20 percent;
- Short paper: 40 percent;
- Final exam: 40 percent.

Course Topics and Readings

1. Asset Markets and the International Transmission of Shocks


2. **International Real Business Cycles**


3. Purchasing Power Parity and the Real Exchange Rate


4. Macroeconomic Interdependence under Sticky Prices


5. Endogenous Interest Rate Setting and Exchange Rate Dynamics


6. Optimal Macroeconomic Policy in Open Economies: Non-Microfounded Models


7. Optimal Monetary Policy in Open Economies


8. Monetary and Fiscal Policy


**10. International Trade and Macroeconomic Dynamics**


12. Understanding International Portfolios


© Heathcote, J., and F. Perri (2007): “The International Diversification Puzzle is not as Bad as You Think,” NBER WP 13483.


### 13. The International Macroeconomics of Emerging Market Economies


14. **Crises**


15


15. Debt Repudiation


