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 some evidence on 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. 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, and by a discussion of research ideas on the crisis that started in 2007. (In addition to these topics, the syllabus lists possible readings on topics that we will not be able to cover in class for lack of time, such as interactions of monetary and fiscal policy, the macroeconomics of emerging markets, exchange rate and financial crises – other than the one that started in 2007 –, 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 – on Friday, March 19, and Friday, April 16, 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 19 cannot be discussed on April 16. 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. Pdf files of the papers must be e-mailed to me by noon on Friday, May 28.

**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. The Law of One Price, 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**


13. Understanding International Portfolios


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


14. The International Macroeconomics of Emerging Market Economies


15. Crises (before 2007)


**16. Debt Repudiation**


17. The Crisis of 2007—: Issues and Ideas


