EC874.01

TOPICS IN INTERNATIONAL MACROECONOMICS

Syllabus

Spring 2011

Lectures:
Tuesday and Thursday, 1:30 – 3:00 pm; 21 Campanella Way, Room 480P

Fabio Ghironi
Boston College
21 Campanella Way, Room 473
Phone: 617-552-3686
E-mail: Fabio.Ghironi@bc.edu
Web page: http://www2.bc.edu/fabio-ghironi

Office Hours: 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, the effect and conduct of macroeconomic policies in open economies, the joint determination of international trade and macroeconomic dynamics, and international financial adjustment.

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 producer entry and exit in explaining 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 the crisis that started in 2007 and its implications for research in international macroeconomics. (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 fiscal policy and its interaction with monetary policy, the macroeconomics of emerging markets, exchange rate and financial crises – other than the one that started in 2007 –, and debt repudiation.)

Blackwell Publishers, 2001. However, lectures will be based mainly on articles from the reading list below.

**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 18, and Friday, April 15, 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 should feel free to discuss papers from parts of the reading list that we have not covered.) 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 18 cannot be discussed on April 15. 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 15 and 20 pages, double 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 27.

**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.

**A Parallel Course That May Be of Interest**

If you are seriously interested in international macroeconomics for your research, you should consider attending EC377.01: The World Economy: From the Gold Standard to Globalization. It is an upper-level, undergraduate elective course on the history and functioning of international monetary arrangements from the 19th century to the present day. If you have not had a similar course in the past, sitting in these lectures should be useful to give you a better idea of the evolution of important policy questions over time. (The course also presents some models that I do not cover in this graduate class.) If you cannot attend EC377.01 this semester because it conflicts with other courses, it is not a bad idea to attend it next year.

**A Seminar That May Be of Interest**

If you are seriously interested in international macroeconomics for your research, you should also consider attending the International Economic Policy and Political Economy Seminar. This
seminar focuses on present-day policy questions and “substance” over technique. See http://fmwww.bc.edu/EC-j/SemS2011/EC.ILA.S2011.php for this semester’s schedule.

Some Other Important Information

The reading list below obviously includes many more papers (and some more topics) than we will be able to cover in class. It is meant also as a reference source for additional readings for you if you become especially interested in any given topic. If you take a comprehensive exam in the international area that includes international macroeconomics, you will be expected to have read a much larger selection of the papers below than we cover in this class. If you plan to make international macroeconomics your primary research field and/or go on the job market with a paper in international macroeconomics and have me as advisor, I will expect you to have taken the comprehensive exam in international economics (or, if it is offered, the comprehensive exam in international finance and macroeconomics).

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. Fiscal Policy and Monetary-Fiscal Policy Interactions


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 and Some Early Literature

See the syllabus of EC377.01: The World Economy: From the Gold Standard to Globalization (available from my web site) for a large number of references on the global crisis. The references therein give you a good idea of the issues and questions that the crisis raised. A large number of papers have already been written or are being written in closed-economy macroeconomics on the development of models that explain the (U.S.) crisis. Some references to early literature on various aspects of the crisis in an international context are below:

**17.a. Early Attempts to Model the Crisis**


F. Perri and V. Quadrini (2010): “International Recessions,” mimeo, University of Minnesota and University of Southern California.

17.b. **House Prices and the Current Account**


17.c. **The Crisis and International Trade**


