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.

A good reference textbook for background reading is Maurice Obstfeld and Kenneth Rogoff's *Foundations of International Macroeconomics*, Cambridge: MIT Press, 1996. I also recommend Nelson Mark's, *International Macroeconomics and Finance: Theory and Econometric Methods*, 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 – 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

Baxter, M., and M. Crucini (1995): "Business Cycles and the Asset Structure of Foreign Trade," *International Economic Review* 36: 821-853.

☺ Bodenstein, M. (2006): "Closing Open Economy Models," *mimeo*, Board of Governors of the Federal Reserve System.

Cole, H. L., and M. Obstfeld (1991): "Commodity Trade and International Risk Sharing: How Much Do Financial Markets Matter?" *Journal of Monetary Economics* 28: 3-24.

Ghironi, F. (2006): "Macroeconomic Interdependence under Incomplete Markets," *Journal of International Economics* 70: 428-450.

Heathcote, J., and F. Perri (2002): "Financial Autarky and International Business Cycles," *Journal of Monetary Economics* 49: 601-627.

Kehoe, P. J., and F. Perri (2002): "International Business Cycles with Endogenous Incomplete Markets," *Econometrica* 70: 907-928.

Schmitt-Grohé, S., and M. Uribe (2003): "Closing Small Open Economy Models," *Journal of International Economics* 61: 163-185.

2. International Real Business Cycles

Backus, D. K., P. J. Kehoe, and F. E. Kydland (1992): "International Real Business Cycles," *Journal of Political Economy* 100: 745-775.

Backus, D. K., P. J. Kehoe, and F. E. Kydland (1994): "Dynamics of the Trade Balance and the Terms of Trade: The J Curve?" *American Economic Review* 84: 84-103.

Backus, D. K., and G. W. Smith (1993): "Consumption and Real Exchange Rates in Dynamic Economies with Non-Traded Goods," *Journal of International Economics* 35: 297-316.

Baxter, M. (1995): "International Trade and Business Cycles," in G. M. Grossman and K. Rogoff (eds.), *Handbook of International Economics*, vol. 3, pp. 1801-1864, Amsterdam: Elsevier.

Baxter, M., and M. J. Crucini (1993): "Explaining Saving-Investment Correlations," *American Economic Review* 83: 416-436.

Benigno, G., and C. Thoenissen (forthcoming): "Consumption and Real Exchange Rates with Incomplete Markets and Non-Traded Goods," *Journal of International Money and Finance*.

Corsetti, G., L. Dedola, and S. Leduc (forthcoming, *a*): "International Risk-Sharing and the Transmission of Productivity Shocks," *Review of Economic Studies*.

Corsetti, G., L. Dedola, and S. Leduc (forthcoming, *b*): "Productivity, External Balance, and Exchange Rates: Evidence on the Transmission Mechanism among the G7 Countries," in Reichlin, L., and K. West (eds.), *NBER International Seminar on Macroeconomics 2006*, Cambridge: MIT Press.

☺ Enders, Z., and G. J. Müller (2007): "On the International Transmission of Technology Shocks," *mimeo*, European University Institute.

☺ Engel, C., and J. Wang (2007): "International Trade in Durable Goods: Understanding Volatility, Cyclicality, and Elasticities," *mimeo*, University of Wisconsin, Madison.

Mendoza, E. G. (1991): "Real Business Cycles in a Small Open Economy," *American Economic Review* 81: 797-818.

Raffo, A. (forthcoming): "Net Exports, Consumption Volatility and International Business Cycle Models," *Journal of International Economics*.

Stockman, A. C., and L. L. Tesar (1995): "Tastes and Technology in a Two-Country Model of the Business Cycle: Explaining International Co-Movements," *American Economic Review* 85: 168-185.

3. <u>Purchasing Power Parity and the Real Exchange Rate</u>

Burstein, A. T., M. Eichenbaum, and S. Rebelo (2005): "Large Devaluations and the Real Exchange Rate," *Journal of Political Economy* 113: 742-784.

Engel, C. M. (1993): "Real Exchange Rates and Relative Prices: An Empirical Investigation," *Journal of Monetary Economics* 32: 35-50.

Engel, C. M. (1999): "Accounting for U.S. Real Exchange Rate Changes," *Journal of Political Economy* 107: 507-538.

Engel, C. M. (2000): "Long Run PPP May Not Hold After All," *Journal of International Economics* 51: 243-273.

Engel, C. M., and J. H. Rogers (1996): "How Wide Is the Border?" *American Economic Review* 86: 1112-1125.

Finn, M. G. (1999): "An Equilibrium Theory of Nominal and Real Exchange Rate Comovement," *Journal of Monetary Economics* 44: 453-475.

☺ Fitzgerald, D. (2003): "Terms-of-Trade Effects, Interdependence and Cross-Country Differences in Price Levels," *mimeo*, Stanford University.

☺ Gorodnichenko, Y., and L. L. Tesar (2006): "Border Effect or Country Effect? Seattle Is 110 Miles from Vancouver After All," *mimeo*, University of California, Berkeley.

Imbs, J., H. Mumtaz, M. O. Ravn, and H. Rey (2005): "PPP Strikes Back: Aggregation and the Real Exchange Rate," *Quarterly Journal of Economics* 120: 1-43.

Mussa, M. (1986): "Nominal Exchange Rate Regimes and the Behavior of Real Exchange Rates: Evidence and Implications," *Carnegie-Rochester Conference Series on Public Policy* 25: 117-213.

Rogoff, K. (1996): "The Purchasing Power Parity Puzzle," *Journal of Economic Literature* 34: 647-668.

☺ Strasser, G. (2007): "The Efficiency of the Global Market for Capital Goods," *mimeo*, University of Pennsylvania.

Taylor, A. M. (2001): "Potential Pitfalls for the Purchasing Power Parity Puzzle? Sampling and Specification Biases in Mean-Reversion Tests of the Law of One Price," *Econometrica* 69: 473-498.

Taylor, A. M. (2002): "A Century of Purchasing Power Parity," *Review of Economic and Statistics* 84: 139-150.

Taylor, M. P., D. A. Peel, and L. Sarno (2001): "Nonlinear Mean Reversion in Real Exchange Rates: Towards a Solution to the Purchasing Power Parity Puzzles," *International Economic Review* 42: 1015-1042.

4. <u>Macroeconomic Interdependence under Sticky Prices</u>

Adolfson, M., S. Laséen, J. Lindé, and M. Villani (2007): "Bayesian Estimation of an Open Economy DSGE Model with Incomplete Pass-Through," *Journal of International Economics* 72: 481-511.

Baxter, M., and A. C. Stockman (1989): "Business Cycles and the Exchange-Rate Regime: Some International Evidence," *Journal of Monetary Economics* 23: 377-400.

Benigno, G., and C. Thoenissen (2003): "Equilibrium Exchange Rates and Supply Side Performance," *Economic Journal* 113: 103-124.

Bergin, P. R. (2003): "Putting the 'New Open Economy Macroeconomics' to a Test," *Journal of International Economics* 60: 3-34.

Betts, C., and M. B. Devereux (2000): "Exchange Rate Dynamics in a Model of Pricing to Market," *Journal of International Economics* 50: 215-244. (Note the Erratum in *Journal of International Economics* 52: 207-208.)

Chari, V. V., P. J. Kehoe, and E. R. McGrattan (2002): "Can Sticky Price Models Generate Volatile and Persistent Real Exchange Rates?" *Review of Economic Studies* 69: 533-563.

Corsetti, G., and P. Pesenti (2001): "Welfare and Macroeconomic Interdependence," *Quarterly Journal of Economics* 116: 421-446.

Corsetti, G., and P. Pesenti (2005): "The Simple Geometry of Transmission and Stabilization in Closed and Open Economies," NBER WP 11341.

Devereux, M. B., C. M. Engel, and P. E. Storgaard (2004): "Endogenous Exchange Rate Pass-Through when Nominal Prices Are Set in Advance," *Journal of International Economics* 63: 263-291.

Dornbusch, R. (1976): "Expectations and Exchange Rate Dynamics," *Journal of Political Economy* 84: 1161-1176.

Engel, C. (2006): "Equivalence Results for Optimal Pass-Through, Optimal Indexing to Exchange Rates, and Optimal Choice of Currency for Export Pricing," *Journal of the European Economic Association* 4: 1249-1260.

Faia, E. (2007): "Finance and International Business Cycles," *Journal of Monetary Economics* 54: 1018-1034.

Gertler, M. J., S. Gilchrist, and F. M. Natalucci (2007): "External Constraints on Monetary Policy and the Financial Accelerator," *Journal of Money, Credit and Banking* 39: 295-330.

☺ Gopinath, G., O. Itskhoki, and R. Rigobon (2007): "Currency Choice and Exchange Rate Pass-through," mimeo, Harvard University.

Gopinath, G., and R. Rigobon (forthcoming): "Sticky Borders," *Quarterly Journal of Economics*.

☺ Justiniano, A., and B. Preston (2004): "Small Open Economy DSGE Models: Specification, Estimation, and Model Fit," *mimeo*, Columbia University.

Kollmann, R. (2001*a*): "Explaning International Comovements of Output and Asset Returns: The Role of Money and Nominal Rigidities," *Journal of Economic Dynamics and Control* 25:1547-1583.

Kollmann, R. (2001*b*): "The Exchange Rate in a Dynamic-Optimizing Business Cycle Model with Nominal Rigidities: A Quantitative Investigation," *Journal of International Economics* 55: 243-262.

McCallum, B. T., and E. Nelson (2000): "Monetary Policy for an Open Economy: An Alternative Framework with Optimizing Agents and Sticky Prices," *Oxford Review of Economic Policy* 16: 74-91.

Obstfeld, M., and K. Rogoff (1995): "Exchange Rate Dynamics Redux," *Journal of Political Economy* 103: 624-660.

Obstfeld, M., and K. Rogoff (2000): "New Directions for Stochastic Open Economy Models," *Journal of International Economics* 50: 117-153.

Patureau, L. (forthcoming): "Pricing to Market, Limited Participation, and Exchange Rate Dynamics," *Journal of Economic Dynamics and Control*.

Tille, C. (2001): "The Role of Consumption Substitutability in the International Transmission of Monetary Shocks," *Journal of International Economics* 53: 421-444.

Tille, C. (2005): "The Welfare Effect of International Asset Market Integration under Nominal Rigidities," *Journal of International Economics* 65: 221-247.

5. <u>Endogenous Interest Rate Setting and Exchange Rate Dynamics</u>

Benigno, G. (2004): "Real Exchange Rate Persistence with Endogenous Monetary Policy," *Journal of Monetary Economics* 51: 473-502.

Benigno, G., and P. Benigno (forthcoming): "Exchange Rate Determination under Interest Rate Rules," *Journal of International Money and Finance*.

Benigno, G., P. Benigno, and F. Ghironi (2007): "Interest Rate Rules for Fixed Exchange Rate Regimes," *Journal of Economic Dynamics and Control* 31: 2196-2211.

Carlstrom, C. T., T. S. Fuerst, and F. Ghironi (2006): "Does It Matter (for Equilibrium Determinacy) What Price Index the Central Bank Targets?" *Journal of Economic Theory* 128: 214-231.

Cavallo, M., and F. Ghironi (2002): "Net Foreign Assets and the Exchange Rate: Redux Revived," *Journal of Monetary Economics* 49: 1057-1097.

De Fiore, F., and Z. Liu (2005): "Does Trade Openness Matter for Aggregate Instability?" *Journal of Economic Dynamics and Control* 29: 1165-1192.

☺ Dotsey, M., and M. Duarte (2007): Nontraded Goods, Market Segmentation, and Exchange Rates," *mimeo*, Federal Reserve Bank of Philadelphia.

Engel, C. M., and K. D. West (2005): "Exchange Rates and Fundamentals," *Journal of Political Economy* 113: 485-517.

☺ Jääskelä, J., and M. Kulish (2007): "The Butterly Effect of Small Open Economies," Reserve Bank of Australia Research Discussion Paper 2007-06.

Linnemann, L., and A. Schabert (2006): "Monetary Policy and the Taylor Principle in Open Economies," *International Finance* 9: 343-367.

☺ Zanna, L. F. (2003): "Interest Rate Rules and Multiple Equilibria in the Small Open Economy," IFDP 2003-785, Board of Governors of the Federal Reserve System.

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

Canzoneri, M. B., and D. W. Henderson (1991): *Monetary Policy in Interdependent Economies: A Game-Theoretic Approach*, Cambridge: MIT Press.

Dixit, A., and L. Lambertini (2003): "Symbiosis of Monetary and Fiscal Policies in a Monetary Union," *Journal of International Economics* 60: 235-247.

Eichengreen, B., and F. Ghironi (2002): "Transatlantic Trade-Offs in the Age of Balanced Budgets and European Monetary Union," *Open Economies Review* 13: 381-411.

Ghironi, F., and F. Giavazzi (1998): "Currency Areas, International Monetary Regimes, and the Employment-Inflation Tradeoff," *Journal of International Economics* 45: 259-296.

Giavazzi, F., and M. Pagano (1988): "The Advantage of Tying One's Hands: EMS Discipline and Central Bank Credibility," *European Economic Review* 32: 1050-1082.

Persson, T., and G. Tabellini (1995): "Double Edged Incentives: Institutions and Policy Coordination," in Grossman, G. and K. Rogoff (eds.), *Handbook of International Economics*, Vol. III, Amsterdam: North-Holland.

Rogoff, K. (1985): "Can International Monetary Cooperation be Counterproductive?" *Journal of International Economics* 18: 199-217.

7. Optimal Monetary Policy in Open Economies

Benigno, G., and P. Benigno (2003): "Price Stability in Open Economies," *Review of Economic Studies* 70: 743-764.

Benigno, G., and P. Benigno (2006): "Designing Targeting Rules for International Monetary Policy Cooperation," *Journal of Monetary Economics* 53: 473-506.

Benigno, G., and P. Benigno (forthcoming): "Implementing International Monetary Cooperation through Inflation Targeting," *Macroeconomic Dynamics*.

☺ Benigno, P. (2007): "Price Stability with Imperfect Financial Integration," *mimeo*, LUISS Guido Carli University.

Benigno, P. (2004): "Optimal Monetary Policy in a Currency Area," *Journal of International Economics* 63: 293-320.

Clarida, R., J. Galí, and M. Gertler (2001): "Optimal Monetary Policy in Open versus Closed Economies: An Integrated Approach," *American Economic Review Papers and Proceedings* 91: 248-252.

Corsetti, G., and P. Pesenti (2005): "International Dimensions of Optimal Monetary Policy," *Journal of Monetary Economics* 52: 281-305.

☺ De Paoli, B. (2004): "Monetary Policy and Welfare in a Small Open Economy," CEP DP 639.

Devereux, M. B., and C. M. Engel (2003): "Monetary Policy in the Open Economy Revisited: Exchange Rate Flexibility and Price Setting Behavior," *Review of Economic Studies* 70: 765-783.

Duarte, M., and M. Obstfeld (forthcoming): "Monetary Policy in the Open Economy Revisited: The Case for Exchange-Rate Flexibility Restored," *Journal of International Money and Finance*.

☺ Faia, E. (2005): "Financial Frictions and the Choice of Exchange Rate Regimes," *mimeo*, University of Rome at Tor Vergata.

Galí, J., and T. Monacelli (2005): "Monetary Policy and Exchange Rate Volatility in a Small Open Economy," *Review of Economic Studies* 72: 707-734.

Kollmann, R. (2002): "Monetary Policy Rules in the Open Economy: Effects on Welfare and Business Cycles," *Journal of Monetary Economics* 49: 989-1015.

Lombardo, G., and A. Sutherland (2006): "Policy Instrument Choice and Non-Coordinated Monetary Policy in Interdependent Economies," *Journal of International Money and Finance* 25: 855-873.

Obstfeld, M. (2002): "Inflation Targeting, Exchange-Rate Pass-Through, and Volatility," *American Economic Review Papers and Proceedings* 92: 102-107.

Obstfeld, Maurice, and Kenneth Rogoff (2002): "Global Implications of Self-Oriented National Monetary Rules," *Quarterly Journal of Economics* 117: 503-536.

☺ Sutherland, A. (2002): "A Simple Second-Order Solution Method for Dynamic General Equilibrium Models," CEPR DP 3554.

☺ Sutherland, A. (2004): "International Monetary Policy Coordination and Financial Market Integration," CEPR DP 4251.

Sutherland, A. (2005): "Incomplete Pass-Through and the Welfare Effects of Exchange Rate Variability," *Journal of International Economics* 65: 375-399.

Sutherland, A. (2006): "The Expenditure Switching Effect, Welfare and Monetary Policy in a Small Open Economy," *Journal of Economic Dynamics and Control* 30: 1159-1182.

8. Monetary and Fiscal Policy

Beetsma, R. M. W. J., and H. Jensen (2005): "Monetary and Fiscal Policy Interactions in a Micro-Founded Model of a Monetary Union," *Journal of International Economics* 67: 320-352.

☺ Benigno, G., and B. De Paoli (2005): "Optimal Monetary and Fiscal Policy for a Small Open Economy," *mimeo*, London School of Economics.

☺ Galí, J., and T. Monacelli (2005): "Optimal Monetary and Fiscal Policy in a Currency Union," NBER WP 11815.

Lombardo, G., and A. Sutherland (2004): "Monetary and Fiscal Interactions in Open Economies," *Journal of Macroeconomics* 26: 319-348.

☺ Schabert, A., and S. van Wijnbergen (2006): "Debt, Deficits, and Destabilizing Monetary Policy in Open Economies," CEPR DP 5590.

9. Pricing-to-Market and Imperfect Pass-Through

Bergin, P. R., and R. C. Feenstra (2001): "Pricing-to-Market, Staggered Contracts, and Real Exchange Rate Persistence," *Journal of International Economics* 54: 333-359.

Bacchetta, P., and E. van Wincoop (2003): "Why Do Consumer Prices React Less Than Import Prices to Exchange Rates?" *Journal of the European Economic Association* 1: 662-670.

Bacchetta, P., and E. van Wincoop (2005): "A Theory of the Currency Denomination of International Trade," *Journal of International Economics* 67: 295-319.

Burstein, A. T., J. C. Neves, and S. Rebelo (2003): "Distribution Costs and Real Exchange Rate Dynamics during Exchange-Rate-Based Stabilizations," *Journal of Monetary Economics* 50: 1189-1214.

Burstein, A. T., M. Eichenbaum, and S. Rebelo (in press): "Modeling Exchange Rate Pass-Through after Large Devaluations," *Journal of Monetary Economics*.

Corsetti, G., and L. Dedola (2005): "A Macroeconomic Model of International Price Discrimination," *Journal of International Economics* 67: 129-155.

☺ Corsetti, G., L. Dedola, and S. Leduc (2006): "DSGE Models of High Exchange-Rate Volatility and Low Pass-Through," CEPR DP 5377.

Corsetti, G., L. Dedola, and S. Leduc (forthcoming): "Optimal Monetary Policy and Sources of Local-Currency Price Stability," in Galí, J., and M. J. Gertler (eds.), *International Dimensions of Monetary Policy*, Chicago: University of Chicago Press.

Devereux, M. B., and C. M. Engel (2002): "Exchange Rate Pass-Through, Exchange Rate Volatility, and Exchange Rate Disconnect," *Journal of Monetary Economics* 49: 913-940.

Dornbusch, R. (1987): "Exchange Rates and Prices," *American Economic Review* 77: 93-106.

Goldberg, L., and C. Tille (2005): "Vehicle Currency Use in International Trade," NBER WP 11127.

☺ Hernández, K., and A. Leblebicioğlu (2007): "A Regime Switching Analysis of the Exchange Rate Pass-through," *mimeo*, University of Delaware.

Krugman, P. (1986): "Pricing to Market when the Exchange Rate Changes", NBER WP 1926.

Ravn, M., S. Schmitt-Grohé, and M. Uribe (2007): "Pricing to Habits and the Law of One Price," *American Economic Review* (*Papers and Proceedings*) 97: 232-238.

10. <u>International Trade and Macroeconomic Dynamics</u>

Alessandria, G., and H. Choi (2007): "Do Sunk Costs of Exporting Matter for Net Export Dynamics?" *Quarterly Journal of Economics* 122: 289-336.

☺ Atkeson, A., and A. T. Burstein (2007): "Pricing to Market, Trade Costs, and International Relative Prices," *mimeo*, UCLA.

Bergin, P. R., and R. Glick (2003): "Endogenous Nontradability and Macroeconomic Implications," NBER WP 9739.

Bergin, P. R., R. Glick, and A. M. Taylor (2006): "Productivity, Tradability, and the Long-Run Price Puzzle," *Journal of Monetary Economics* 53: 2041-2066.

☺ Brůha, J., and J. Podpiera (2006): "Transition Economy Convergence in a Two-Country Model: Implications for Monetary Integration," *mimeo*, Czech National Bank.

Burstein, A., C. Kurz, and L. Tesar (forthcoming): "Trade, Production Sharing, and the International Transmission of Business Cycles," *Journal of Monetary Economics*.

Cavallari, L. (2007): "A Macroeconomic Model of Entry with Exporters and Multinationals," *The B.E. Journal of Macroeconomics* (*Contributions*) 7: Article 32.

Cavallari, L. (forthcoming): "Macroeconomic Interdependence with Trade and Multinational Activities," *Review of International Economics*.

☺ Contessi, S. (2006): "International Macroeconomic Dynamics, Endogenous Tradability and FDI with Heterogeneous Firms," *mimeo*, Federal Reserve Bank of St. Louis.

Corsetti, G., P. Martin, and P. Pesenti (2007): "Productivity Spillovers, Terms of Trade, and the 'Home Market Effect'," *Journal of International Economics* 73: 99-127.

Dornbusch, R., S. Fischer, and P. A. Samuelson (1977): "Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods," *American Economic Review* 67: 823-839.

☺ Dvir, E. (2007): "Globalization, Optimal Auctions, and Exchange Rate Pass-Through," *mimeo*, Harvard University.

Ghironi, F., and M. J. Melitz (2005): "International Trade and Macroeconomic Dynamics with Heterogeneous Firms,"*Quarterly Journal of Economics* 120: 865-915.

Ghironi, F., and M. J. Melitz (2007): "Trade Flow Dynamics with Heterogeneous Firms," *American Economic Review* (*Papers and Proceedings*) 97: 356-361.

☺ Johnson, R. C. (2007): "Trade and Prices with Heterogeneous Firms," *mimeo*, University of California, Berkeley.

☺ Lin, C.-Y. (2007): "Exchange Rate Uncertainty and the Extensive Margin of Exports," *mimeo*, University of California, Davis.

☺ Lubik, T. A., and K. N. Russ (2006): "Entry, Multinational Firms and Exchange Rate Volatility," *mimeo*, Federal Reserve Bank of Richmond.

Naknoi, K. (forthcoming): "Real Exchange Rate Fluctuations, Endogenous Tradability and Exchange Rate Regimes," *Journal of Monetary Economics*.

☺ Neiman, B. (2008): "Multinationals, Intrafirm Trades, and International Macro Dynamics," *mimeo*, Harvard University.

Obstfeld, M., and K. Rogoff (2001): "The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?" in B. Bernanke and K. Rogoff (eds.), *NBER Macroeconomics Annual 2000*, pp. 339-390, Cambridge: MIT Press.

Ramondo, N., and V. Rappoport (2007): "The Role of Multinational Production in Cross-Country Risk Sharing," *mimeo*, University of Texas, Austin.

☺ Rodriguez-Lopez, J. A. (2006): "Trade, Prices, and the Exchange Rate with Heterogeneous Producers and Endogenous Markups," *mimeo*, University of California, Irvine.

☺ Ruhl, K. (2003): "Solving the Elasticity Puzzle in International Economics," *mimeo*, University of Texas.

Russ, K N. (2007a): "The Endogeneity of the Exchange Rate as a Determinant of FDI: A Model of Entry and Multinational Firms," *Journal of International Economics* 71: 344-372.

☺ Russ, K. N. (2007b): "Exchange Rate Volatility and First-Time Entry by Multinational Firms," NBER WP 13659.

Sbordone, A. M. (fortcoming): "Globalization and Inflation Dynamics: The Impact of Increased Competition," in Galí, J., and M. J. Gertler (eds.), *International Dimensions of Monetary Policy*, Chicago: University of Chicago Press.

☺ Sim, J. W. (2006): "Hystheresis and Trade Dynamics in a Two Country General Equilibrium with Incomplete Markets," *mimeo*, Board of Governors of the Federal Reserve System.

11. Global Imbalances, International Financial Adjustment, and Valuation Effects

Blanchard, O. J., F. Giavazzi, and F. Sa (2005): "International Investors, the U.S. Current Account, and the Dollar," *Brookings Papers on Economic Activity* 1:2005, 1-65 (including comments).

☺ Benigno, P. (2006): "Are Valuation Effects Desirable from a Global Perspective?" NBER WP 12219.

Caballero, R. J., E. Farhi, and P.-O. Gourinchas (forthcoming): "An Equilibrium Model of 'Global Imbalances' and Low Interest Rates," *American Economic Review*.

Cavallo, M., and C. Tille (2006*a*): "Current Account Adjustment with High Financial Integration: A Scenario Analysis," *FRBSF Economic Review* March 2006: 31-45.

☺ Cavallo, M., and C. Tille (2006*b*): "Could Capital Gains Smooth a Current Account Rebalancing?" FRBSF WP 2006-03.

Freund, C., and F. Warnock (2005): "Current Account Reversals in Industrial Countries: The Bigger They Are, the Harder They Fall?" in Clarida, R. (ed.), *G7 Current Account Imbalances: Sustainability and Adjustment*, Chicago: University of Chicago Press.

Ghironi, F., J. Lee, and A. Rebucci (2005): "The Valuation Channel of External Adjustment," *mimeo*, Boston College.

Gourinchas, P.-O., and H. Rey (2005): "International Financial Adjustment," NBER WP 11155.

Kim, S. (2002): "Nominal Revaluation of Cross-Border Assets, Term-of-Trade Changes, International Portfolio Diversification, and International Risk Sharing," *Southern Economic Journal* 69: 327-344.

Lane, P. R., and G. M. Milesi-Ferretti (2003): "International Financial Integration," *IMF Staff Papers* 50: 83-113.

Lane, P. R., and G. M. Milesi-Ferretti (2004): "Financial Globalization and Exchange Rates," CEPR DP 4745.

Mann, C. L. (2002): "Perspectives on the U.S. Current Account Deficit and Sustainability," *Journal of Economic Perspectives* 16: 131-152.

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