

Topics in Macroeconomics: International Macroeconomics

Sebastián Fanelli

Office: 3.07

Email: fanelli@cemfi.es

Office hours: email me for an
appointment

1 Overview

This course covers intermediate and advanced topics in international macroeconomics and international finance. It includes the study of positive and normative issues, such as: Why do countries borrow and lend? What assets do countries trade? What are the implications of international capital flows? How do open economies considerations affect the way we think about monetary policy? Should countries restrict capital flows?

2 Textbook

The textbook for the class is Obstfeld and Rogoff (1995), *Foundations of International Macroeconomics*, MIT press.

3 Syllabus

3.1 Current account dynamics in small open economies

3.1.1 The balance of payments and the international investment position

- IMF, 2013. *Balance of Payments and International Investment Position Manual*, Sixth ed.

3.1.2 Current account dynamics in endowment economies

- Obstfeld and Rogoff, 1995. Sections 2.3.1, 2.3.2., and 2.3.3.
- Nason, J.M. and Rogers, J.H., 2006. The present-value model of the current account has been rejected: Round up the usual suspects. *Journal of International Economics*, 68(1), pp.159-187.
- Aguiar, M. and Gopinath, G., 2007. Emerging market business cycles: The cycle is the trend. *Journal of Political Economy*, 115(1), pp.69-102.

- Arezki, R., Ramey, V.A. and Sheng, L., 2017. News shocks in open economies: Evidence from giant oil discoveries. *The Quarterly Journal of Economics*, 132(1), pp.103-155.

3.1.3 Production economies and OLG economies

- Obstfeld and Rogoff, 1995. Sections 1.2, 2.3.4, 3.3.2, and 3.4.
- Kraay, A. and Ventura, J., 2000. Current Accounts in Debtor and Creditor Countries. *The Quarterly Journal of Economics*, 115(4), pp.1137-1166.

3.2 Capital flows: The Lucas puzzle and the allocation puzzle

- Obstfeld and Rogoff, 1995. Section 1.3
- Lucas, R.E., 1990. Why doesn't capital flow from rich to poor countries?. *American Economic Review*, 80(2), pp.92-96.
- Caselli, F. and Feyrer, J., 2007. The marginal product of capital. *The Quarterly Journal of Economics*, 122(2), pp.535-568.
- Gourinchas, P.O. and Jeanne, O., 2013. Capital flows to developing countries: The allocation puzzle. *Review of Economic Studies*, 80(4), pp.1484-1515.
- Aguiar, M. and Amador, M., 2011. Growth in the Shadow of Expropriation. *The Quarterly Journal of Economics*, 126(2), pp.651-697.
- Caballero, R.J., Farhi, E. and Gourinchas, P.O., 2008. An equilibrium model of "global imbalances" and low interest rates. *American Economic Review*, 98(1), pp.358-93.

3.3 Real exchange rates

3.3.1 An introduction to the real exchange rate

- Obstfeld and Rogoff, 1995. Sections 4.1 and 4.2.
- Engel, C., 1993. Real exchange rates and relative prices: An empirical investigation. *Journal of Monetary Economics*, 32(1), pp.35-50.
- Engel, C., 1999. Accounting for US real exchange rate changes. *Journal of Political economy*, 107(3), pp.507-538.
- Burstein, A., Eichenbaum, M. and Rebelo, S., 2005. Large devaluations and the real exchange rate. *Journal of Political Economy*, 113(4), pp.742-784.
- Burstein, A., Eichenbaum, M. and Rebelo, S., 2006. The importance of nontradable goods' prices in cyclical real exchange rate fluctuations. *Japan and the World Economy*, 18(3), pp.247-253.

3.3.2 Real exchange rates and the terms of trade

- Atkeson, A. and Burstein, A., 2008. Pricing-to-market, trade costs, and international relative prices. *American Economic Review*, 98(5), pp.1998-2031.
- Fernández, A., González, A. and Rodríguez, D., 2018. Sharing a ride on the commodities roller coaster: Common factors in business cycles of emerging economies. *Journal of International Economics*, 111, pp.99-121.

3.4 International risk sharing

3.4.1 Financial integration and international portfolios

- Lane, P.R. and Milesi-Ferretti, G.M., 2007. The external wealth of nations mark II: Revised and extended estimates of foreign assets and liabilities, 1970–2004. *Journal of international Economics*, 73(2), pp.223-250.

3.4.2 A model with complete markets and a single good

- Obstfeld and Rogoff, chapter 5

3.4.3 Risk sharing with multiple goods: the home bias puzzle

- French, K.R. and Poterba, J.M., 1991. Investor Diversification and International Equity Markets. *American Economic Review*, 81(2), pp.222-226.
- Coeurdacier, N. and Rey, H., 2013. Home bias in open economy financial macroeconomics. *Journal of Economic Literature*, 51(1), pp.63-115.
- Heathcote, J. and Perri, F., 2013. The international diversification puzzle is not as bad as you think. *Journal of Political Economy*, 121(6), pp.1108-1159.

3.4.4 Violations of the UIP condition

- Hassan, T.A. and Mano, R.C., 2018. Forward and spot exchange rates in a multi-currency world. *The Quarterly Journal of Economics*, 134(1), pp.397-450.

3.5 Optimal capital controls and foreign exchange interventions

- Bianchi, J., 2011. Overborrowing and systemic externalities in the business cycle. *American Economic Review*, 101(7), pp.3400-3426.
- Costinot, A., Lorenzoni, G. and Werning, I., 2014. A theory of capital controls as dynamic terms-of-trade manipulation. *Journal of Political Economy*, 122(1), pp.77-128.
- Fanelli, S. and Straub, L., 2020. A Theory of Foreign Exchange Interventions.

3.6 Monetary policy in open economies

- Gali, J. and Monacelli, T., 2005. Monetary policy and exchange rate volatility in a small open economy. *The Review of Economic Studies*, 72(3), pp.707-734.
- Farhi, E. and Werning, I., 2014. Dilemma not trilemma? Capital controls and exchange rates with volatile capital flows. *IMF Economic Review*, 62(4), pp.569-605.
- Farhi, E. and Werning, I., 2017. Fiscal unions. *American Economic Review*, 107(12), pp.3788-3834.
- Fanelli, S., 2017. Monetary Policy, Capital Controls, and International Portfolios.
- Mukhin, D., 2018. An equilibrium model of the International Price System.