

Joseph B. Steinberg
Department of Economics
University of Toronto

ECO2303H1 — LEC0101: International Macroeconomics, Fall 2013

Lectures: Wednesdays, 11am–1pm, in WW 126

Email: joseph.steinberg@utoronto.ca

Web page: <http://www.economics.utoronto.ca/steinberg/>

Office: Room 226, Max Gluskin House, 150 St. George Street

Office hours: 2–4pm on Tuesdays or by appointment

Course Description: ECO2303 is a graduate course in international macroeconomics. We will study some important empirical facts and puzzles in international macro and introduce modern modeling concepts to make sense of them (or not, in some cases!) See the course outline at the end of the syllabus for a more detailed taste of what we will talk about.

Textbook: There is no required textbook for this course. I will, however, use substantial material from the notes written by Stephanie Schmidt-Grohe and Martin Uribe, available here: <http://www.columbia.edu/~mu2166/UIM/notes.pdf>. Henceforth I will refer to these notes as SGU.

The undergraduate-level textbook *International Economics* by Krugman, Obstfeld, and Melitz, and the graduate text *Foundations of International Macroeconomics* by Obstfeld and Rogoff are good references. I may use excerpts from the latter; if so I will provide hardcopies and/or links to online PDFs.

Assignments, tests, and grading policy: I anticipate that this course may have both MA and PhD students. MA students will be graded on the basis of a midterm test and a final exam. The midterm will count for 40% of your final grade; the final exam will count for the remaining 60%. I do encourage class participation, and I reserve the right to use participation performance to make minor upward adjustments to your final grade (e.g. take you from a 78 to an 80).

The midterm is tentatively scheduled to take place in class on Wednesday, October 30. The final exam will take place during the winter final exam period for half-year courses (we need all the class time we can get). Time and location TBA.

PhD students will take the exams and will be assigned additional problem sets. 50% of your final grade will come from the exams (20% for the midterm and 30% for the final), while the other 50% will come from the problem sets. PhD students should meet with me briefly after the first class to discuss this further.

Readings and lecture notes: I will post readings and lecture notes on Blackboard. Be sure to check regularly.

Scheduling issues: I will be traveling on Wednesday, November 6, so we will have to reschedule that class for another day — we only have 12 classes and we'll need to use all of them. We will try to resolve this during the first class. I hope that further scheduling issues will not arise.

Tentative course outline/wishlist

This is very much subject to change, both due to time constraints and your interests. I've included some important references for each week's topic. I may add more later, but the references below should get you started in case you want to read ahead. References with stars are not required for MA students, but PhD students should read them.

We will almost certainly not get to all of this material. I've included it here because I think it provides a nice list of important empirical and theoretical papers in international macro. Students who wish to pursue this field further should know them at some point or another, regardless of whether we cover them in this class. If you need even more reading material, just check out the websites of any of the authors listed below who show up many times; they are the big names in the field and any of their latest working papers will do.

1. Balance of payments accounting basics by way of example: the United States

SGU, Chapters 1–2.

Hausmann, R. and F. Sturzenegger (2005), "Can Dark Matter Prevent a Big Bang?" Center for International Development Working Paper, Kennedy School of Government.

Kehoe, T. J., K. J. Ruhl, and J. B. Steinberg (2013), "Global Imbalances and Structural Change in the United States," NBER Working Paper 19339.*

Lane, P. R. and G. M. Milesi-Feretti (2007), "The External Wealth of Nations Mark II: Revised and Extended Estimates of Foreign Assets and Liabilities, 1970–2004," *Journal of International Economics*, 73, 223–250.

McGrattan, E. R. and E. C. Prescott (2008), "Technology Capital and the U.S. Current Account," NBER Working Paper 13983.*

Mendoza, E. G., V. Quadrini, and J.-V. Ríos-Rull (2009), "Financial Integration, Financial Development, and Global Imbalances," *Journal of Political Economy*, 117, 371–416.*

Milesi-Feretti, G. M. (2009), "A \$2 Trillion Question," *VoxEU*, available online at <http://www.voxeu.org/article/2-trillion-question>.

2. Exchange rates: Interest rate parity, real exchange rates, purchasing power parity

SGU, Chapter 9.

Alessandrio, G. and J. Kaboski (2008), "Why Are Goods so Cheap in Some Countries?" *Business Review*, Federal Reserve Bank of Philadelphia, Q2 2008.

Allen, T. (2012), "Information Frictions in Trade," Unpublished manuscript.*

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

Taylor, A. M. and M. P. Taylor (2004), “The Purchasing Power Debate,” *Journal of Economic Perspectives*, 18, 135–158.

3. Current account determination through the lens of the permanent income hypothesis

SGU, Chapter 3.

4. International capital flow puzzles

SGU, Chapter 8.1.

Alfaro, L., S. Kalemli-Ozcan, and V. Volosovych (2008), “Why Doesn’t Capital Flow From Rich to Poor Countries? An Empirical Investigation,” *The Review of Economics and Statistics*, 90, 347–368.

Bai, Y. and J. Zhang (2010), “Solving the Feldstein-Horioka Puzzle With Financial Frictions,” *Econometrica*, 78, 603–632.*

Engel, C. (2000) “[The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?]: Comment,” *NBER Macroeconomics Annual*, 15, 403–411.

Gourinchas, P.-O. and O. Jeanne (2013), “Capital Flows to Developing Countries: The Allocation Puzzle,” *Review of Economic Studies*, Forthcoming.

Lucas, R. E. (1990), “Why Doesn’t Capital Flow from Rich to Poor Countries?” *American Economic Review*, 80, 92–96.

M. Obstfeld and K. Rogoff (2000), “The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?” *NBER Macroeconomics Annual*, 15, 339–390.

5. Development accounting: cross-country income differences and total factor productivity

Caselli, F. (2005), “Accounting for Cross-Country Income Differences,” *Handbook of Economic Growth*, P. Aghion and S. Durlauf, eds., 679–741.

Erosa, A., T. Koreshkova, and D. Restuccia (2010), “How Important is Human Capital? A Quantitative Theory Assessment of World Income Inequality,” *Review of Economic Studies*, 77, 1421–1449.*

Hsieh, C.-T. and P. J. Klenow (2009), “Misallocation and Manufacturing TFP in China and India,” *The Quarterly Journal of Economics*, 124, 1403–1448.

P. J. Klenow (2012), “Misallocation and Productivity,” September 2012 talk at the Symposium on Growth and Development, Stockholm, Sweden.

Restuccia, D. and R. Rogerson (2008), “Policy Distortions and Aggregate Productivity with Heterogeneous Plants,” *Review of Economic Dynamics*, 11, 707–720.*

6. International equity portfolio diversification

- Devereux, M. B. and A. Sutherland (2011), “Country Portfolios in Open Economy Macro Models,” *Journal of the European Economic Association*, 9 337–369.*
- Engel, C. (2000) “[The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?]: Comment,” *NBER Macroeconomics Annual*, 15, 403–411.
- Heathcote, J. and F. Perri (2013), “The International Diversification Puzzle is Not as Bad as You Think,” *Journal of Political Economy*, Forthcoming.*
- M. Obstfeld and K. Rogoff (2000), “The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?” *NBER Macroeconomics Annual*, 15, 339–390.

7. International business cycles 1: Developed countries

- Backus, D. K, P. J. Kehoe, and F. E. Kydland (1994), “Dynamics of the Trade Balance and Terms of Trade: The J-Curve?” *American Economic Review*, 84, 84–103.*
- Backus, D. K. and J. Gali (1999), “International Factors in the Recessions of the Early Nineties,” in *Global Integration and Competition*, Kluwer Academic Publishers, 355–376.
- Heathcote, J. and F. Perri (2002), “Financial Autarky and International Business Cycles,” *Journal of Monetary Economics*, 49, 601–627.*
- Johnson, R. C. (2012), “Trade in Intermediate Inputs and Business Cycle Comovement,” NBER Working Paper 18240.*
- Kehoe, P. J. and F. Perri (2000), “International Business Cycles with Endogenous Incomplete Markets,” *Econometrica*, 70, 907–928.*
- Perri, F. and V. Quadrini (2012), “International Recessions,” Unpublished manuscript.*

8. International business cycles 2: Emerging markets, interest rates, crises, default, etc.

SGU Chapter 11.

- Aguiar, M. and G. Gopinath (2007), “Emerging Market Business Cycles: The Cycle is the Trend,” *Journal of Political Economy*, 115, 69–102.*
- Arellano, C. (2008), “Default Risk and Income Fluctuations in Emerging Economies,” *American Economic Review*, 98, 690–712.*
- Cole, H. and T. J. Kehoe (2000), “Self-Fulfilling Debt Crises,” *Review of Economic Studies*, 67, 91–116.*
- Mendoza, E. G. (2010), “Sudden Stops, Financial Crises, and Leverage,” *American Economic Review*, 100, 1941–1966.*
- Neumeyer, A. and F. Perri (2004), “Business Cycles in Emerging Economies: The Role of Interest Rates,” *Journal of Monetary Economics*, 52, 345–380.*
- Uribe, M. and V. Z. Yue (2006), “Country Spreads and Emerging Economies: Who Drives Whom?” *Journal of International Economics*, 69, 6–36.