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ECO2303H1 — LEC0101: International Macroeconomics, Fall 2014

Lectures: Wednesdays, 11am–1pm, in KP 113

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Course Description: ECO2303 is a graduate course in international macroeconomics intended for MA students. 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 textbooks *International Economics* and *International Finance* 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 these texts. If so I will provide links to PDFs.

Assignments, tests, and grading policy: You will be graded on the basis of a two exams, each of which will count for 40% of your course grade, and a project worth 20%. 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 first exam is tentatively scheduled to take place in class on Wednesday, October 29. The second exam will take place during the winter final exam period for half-year courses. Time and location TBA.

The project will be due at the end of the course. I will provide more information about this as we get further into the course, but for now you can think about it as an analysis of a particular country — the kind of report you might provide if you were studying a particular country as an analyst at the International Monetary Fund or the World Bank. I will ask you to gather data on your country, analyze its recent macroeconomic history, and assess its future trajectory using the concepts and modeling tools we will learn in the course.

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. These readings are not strictly necessary, but I will draw from many of them in the lectures and they provide good background and context for the theoretical material we will cover. References with stars are advanced material that might be worth looking at, especially for students who are planning to apply to PhD programs and are interested in pursuing research in international macro.

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. **Current account determination through the lens of the permanent income hypothesis; uncertainty and the current account.**

   SGU, Chapters 3-4.

   Fogli, A. and F. Perri (2013), "Macroeconomic Volatility and External Imbalances," Unpublished manuscript. *

3. **Current account determination in a model of production; a first look at sudden stops in emerging economies; small and open economies**

   SGU, Chapters 5-6.

   Bernanke, B. S. (2005), "The Global Saving Glut and the U.S. Current Account Deficit," speech at the Sandridge Lecture, Virginia Association of Economists, Richmond, VA, March 10.

   Edwards, S. (2004), "Thirty Years of Current Account Imbalances, Current Account Reversals, and Sudden Stops," NBER working paper 10276.

Neumeyer, A. and F. Perri (2004), "Business Cycles in Emerging Economies: The Role of Interest Rates," Journal of Monetary Economics, 52, 345–380.*

Reinhart, C. and G. Calvo (2000), "When Capital Inflows Come to a Sudden Stop: Consequences and Policy Options," in P. Kenen and A. Swoboda, eds., *Reforming the International Monetary and Financial System,* pp. 175–201.

Uribe, M. and V. Z. Yue (2006), "Country Spreads and Emerging Economies: Who Drives Whom?" Journal of International Economics, 69, 6–36.

4. Government debt in international macroeconomics; sovereign debt crises

SGU, Chapters 7, 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.*

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

Buera, F. J. and Y. Shin (2011), "Productivity Growth and Capital Flows: The Dynamics of Reforms," Unpublished manuscript.*

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

Comin, D. A. and M. Mestieri (2010), "An Intensive Exploration of Technology Diffusion," NBER Working Paper 16379.

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 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.

Feldstein, M. and C. Horioka (1980), "Domestic Saving and International Capital Flows," *The Economic Journal*, 90, 314–329.

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

Gourinchas, P.-O. and H. Rey (2013), "External Adjustment, Global Imbalances, Valuation Effects," Unpublished manuscript.*

N. Coeurdacier, H. Rey, and P. Winant (2013), "Financial Integration and Growth in a Risky World," Unpublished manuscript.*

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.

7. 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.*

Buera, F. J., J. P. Kaboski, and Y. Shin (2011), "Finance and Development: A Tale of Two Sectors," *American Economic Review*, 101, 1964–2002. *

Betts, C. M. and T. J. Kehoe (2008), "Real Exchange Rate Movements and the Relative Price of Non-Traded Goods," NBER Working Paper 14437.

Engel, C. (1999), "Accounting for U.S. Real Exchange Rate Changes," *Journal of Political Economy*, 107, 507–38.

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

8. Modeling joint dynamics of the current account and the real exchange rate

SGU, Chapter 10.

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