

University of Toronto
Department of Economics

ECO 2301 – International Monetary Theory

Spring 2017

Margarida Duarte

Classes: Thursdays 11:00am – 1:00pm, GE100

Office hours: Thursdays 1:00pm – 2:00pm and by appointment

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Overview:

The goal of the course is to provide an understanding of selected topics of current academic research in the areas of international macroeconomics and international finance.

Reference books:

- Open Economy Macroeconomics, Martín Uribe and Stephanie Schmitt-Grohé, 2016, mimeo. [US] Available at: <http://www.columbia.edu/~mu2166/book/>.
- Recursive Macroeconomic Theory, Lars Ljungqvist and Thomas J. Sargent, MIT Press, 2nd edition, 2004. [LS]
- Foundations of International Macroeconomics, Maurice Obstfeld and Kenneth Rogoff, MIT Press, 1996. [OR]

Grading:

For M.A. students:

1. Referee report – 40%
2. Final exam – 45%
3. Class participation – 15%

For Ph.D. students:

1. Class presentation – 40%
2. Final exam – 45%
3. Class participation – 15%

Course outline and selected readings:

1. Real Business Cycles in Open Economies:

(small open economy and two-country models)

- US, Chapters 2-4.
- OR, Chapters 1-3.
- LS, Chapter 8.
- Cole, H. and M. Obstfeld, 1991. "Commodity Trade and International Risk Sharing," *Journal of Monetary Economics* 28, 3 – 24.
- Backus, D., P. Kehoe, and F. Kydland, 1992. "International Real Business Cycles," *Journal of Political Economy*.
- Backus, D. and G. Smith, 1993. "Consumption and Real Exchange Rates in Dynamic Economies with Non-Traded Goods", *Journal of International Economics* 35, 297 – 316.
- Baxter, M. and M. Crucini, 1995. "Business Cycles and the Asset Structure of Foreign Trade," *International Economic Review*.
- Schmitt-Grohé, S. and M. Uribe, 2003. "Closing Small Open Economy Models," *Journal of International Economics* 61, 163 – 185.
- Kehoe, P. and F. Perri, 2002. "International Business Cycles with Endogenous Market Incompleteness," *Econometrica*.
- Aguiar, M., and G. Gopinath, 2008. "Emerging Market Business Cycles: The Cycle is the Trend," *Journal of Political Economy* 115, 69 – 102.

Additional readings

- Bai, Y. and J. Zhang, 2010. "Solving the Feldstein-Horioka Puzzle with Financial Frictions," *Econometrica* 78 (2), 603 – 632.
- Corsetti, C., L. Dedola, and S. Leduc, 2008. "International Risk Sharing and the Transmission of Productivity Shocks," *Review of Economic Studies*.
- Corsetti, G., L. Dedola, and F. Viani, 2011. "Traded and Non-traded Goods Prices, and International Risk Sharing: An Empirical Investigation," NBER International Seminar in Macroeconomics.
- Engel, C. and J. Wang, 2011. "International Trade in Durable Goods: Understanding Volatility, Cyclicalities, and Elasticities," *Journal of International Economics* 83, 37 – 52.
- Garcia, J., R. Pancrazi, and M. Uribe, 2010. "Real Business Cycles in Emerging Countries?" *American Economic Review* 100, 2510 – 2531.
- Gao, X., V. Hnatkovska, and V. Marmer, 2014. "Limited Participation in International Business Cycle Models: A Formal Evaluation," *Journal of Economic Dynamics and Control*.
- Gourinchas, P., and H. Rey, 2007. "International Financial Adjustment," *Journal of Political Economy*.
- Heathcote, J. and F. Perri, 2002. "Financial Autarky and International Business Cycles," *Journal of Monetary Economics* 49 (3), 601 – 627.

- Karabarbounis, L., 2014. “Home Production, Labor Wedges, and International Business Cycles,” *Journal of Monetary Economics* 64, 68 – 84.
- Kollmann, R., 2010. “Limited Asset Market Participation and the Consumption Real Exchange Rate Anomaly,” mimeo.
- Lewis, K., 1996. “What Can Explain the Apparent Lack of International Consumption Risk Sharing?” *Journal of Political Economy* 104 (2), 267 – 297.
- Obstfeld, M. and K. Rogoff, 2000. “Six Puzzles in International Macroeconomics,” NBER Macroannual. With comments by C. Engel.
- Raffo, A., 2008. “Net Exports, Consumption Volatility and International Business Cycle Models,” *Journal of International Economics*.
- Raffo, A., 2010. “Technology Shocks: Novel Implications for International Business Cycles,” mimeo.

2. Sovereign Default

- US, chapter 13.
- Aguiar, M. and M. Amador, 2015. “Sovereign Debt,” *Handbook of International Economics*.
- Aguiar, M. and G. Gopinath, 2006. “Defaultable Debt and Current Account Sustainability,” *JIE*.
- Arellano, C., 2008. “Default Risk and Income Fluctuations in Emerging Economies,” *American Economic Review*.
- Hatchondo, J. C., L. Martinez, and Sosa Padilla, 2016. “Debt dilution and sovereign default risk,” *Journal of Political Economy*.
- Chatterjee, S. and Eyigungor, B., 2012. “Maturity, Indebtedness and Default Risk,” *American Economic Review*.

Additional Readings:

- Aguiar, M. and M. Amador, 2011. “Growth in the Shadow of Expropriation”, *QJE*.
- Aguiar, M. and M. Amador, 2016. “Fiscal Policy in Debt Constrained Economies,” *Journal of Economic Theory*.
- Aguiar, M., M. Amador, E. Fahri, and G. Gopinath, 2015. “Coordination and Crisis in Monetary Unions,” *Quarterly Journal of Economics*.
- Aguiar, M., M. Amador, and G. Gopinath, 2009. “Investment Cycles and Sovereign Debt Overhang,” *Review of Economic Studies* 76(1), pp. 1 – 31
- Aguiar, M., M. Amador, H. Hopenhayn, and I. Werning, 2016, “Take the Short Route: Equilibrium Default and Debt Maturity,” mimeo.
- Arellano, C. and Y. Bai, 2014. “Linkages Across Sovereign Debt Markets”, Mimeo, Minneapolis Fed.
- Arellano, C. and A. Ramanarayanan, 2012. “Default and the maturity structure in sovereign bonds”, *Journal of Political Economy*.
- Bianchi, J., J. C. Hatchondo, and L. Martinez, 2012. “International Reserves and Rollover Risk”, NBER Working Paper
- Chatterjee, S. and Eyigungor, B., 2014. “Debt Dilution and Seniority in a Model of Defaultable Sovereign Debt,” mimeo, Philadelphia Fed.

- Cuadra, G., J. Sanchez, and H. Sapriza, 2010. “Fiscal Policy and Default Risk in Emerging Markets,” *Review of Economic Dynamics* 13, 452 – 469.
- DAVIS, A., 2016. “Efficient Sovereign Default,” University of Minnesota.
- D'Erasmus, P., 2011. “Government Reputation and Debt Repayment,” mimeo, University of Maryland.
- D'Erasmus, P., and E. Mendoza, 2016, “Optimal Domestic and External Sovereign Default,” mimeo.
- Farhi, E. and I. Werning, 2012, “Fiscal Unions,” mimeo, MIT.
- Hatchondo, J. C. and L. Martinez, 2009. “Long-duration bonds and sovereign defaults,” *Journal of International Economics*.
- Hatchondo, J. C., L. Martinez, and F. Roch, 2014. “Fiscal rules and the sovereign default premium,” mimeo.
- Mendoza, E. and Z. V. Yue, 2012. “A General Equilibrium Model of Sovereign Default and Business Cycles,” *Quarterly Journal of Economics*.
- Roch, F., and H. Uhlig, 2016, “Dynamics of Sovereign Debt Crises and Bailouts,” mimeo.
- Z. V. Yue, 2007. “Sovereign Default and Debt Renegotiation,” *JIE*.

3. Nominal Exchange Rates:

- OR, Chapters 8.3 and 10.
- Stockman, A.C., 1980. “A Theory of Exchange Rate Determination,” *Journal of Political Economy*.
- Lucas, R.E., 1982. “Interest Rates and Currency Prices in a Two-Country World,” *Journal of Monetary Economics*.
- Mussa, M., 1986. “Nominal Exchange Rate Regimes and the Behavior of Real Exchange Rates: Evidence and Implications,” *Carnegie-Rochester Series on Public Policy* 25, 117 – 214.
- Obstfeld, M. and K. Rogoff, 1995. “Exchange Rate Dynamics Redux,” *Journal of Political Economy* 103, 624 – 660.
- Engel, C. 2015. “Exchange Rates and Interest Parity,” *Handbook of International Economics* 4, 453 – 522.
- Engel, C., N. Mark, and K. West, 2007. “Exchange Rate Models Are Not as Bad as You Think,” *NBER Macroeconomic Annual*. With comments by K. Rogoff.
- Gabaix, X. and M. Maggiori, 2015. “International Liquidity and Exchange Rate Dynamics,” *Quarterly Journal of Economics*.

Additional readings

- Alvarez, F., A. Atkeson, and P. Kehoe, 2009. “Time-Varying Risk, Interest Rates, and Exchange Rates in General Equilibrium,” *Review of Economic Studies*.
- Bacchetta, P. and E. van Wincoop, 2010, “Infrequent Portfolio Decisions: A Solution to the Forward Discount Puzzle,” *American Economic Review* 100, 870 – 904.
- Colacito, R., and M. Croce, 2011. “Risks for the Long Run and the Real Exchange Rate,” *Journal of Political Economy* 119 (1), 153 – 181.

- Devereux, M. and C. Engel, 2002. “Exchange Rate Pass-Through, Exchange Rate Volatility, and the Exchange Rate Disconnect,” *Journal of Monetary Economics*, 913 – 940.
- Duarte, M., 2003. “Why Don’t Macroeconomic Quantities Respond to Exchange Rate Variability?,” *Journal of Monetary Economics* 50, 889 – 913.
- Duarte, M. and A.C. Stockman, 2005. “Rational Speculation and Exchange Rates,” *Journal of Monetary Economics* 52, 3 – 29.
- Engel, C., forthcoming. “Exchange Rates, Interest Rates, and the Risk Premium,” *American Economic Review*.
- Engel, C., and K. West, 2005. “Exchange Rates and Fundamentals,” *Journal of Political Economy* 113, 485 – 517.
- Fahri, E., and X. Gabaix, 2016. “Rare Disasters and Exchange Rates,” *Quarterly Journal of Economics*.
- Fama, E., 1984. “Forward and Spot Exchange Rates,” *Journal of Monetary Economics* 14, 319 – 338.
- Meese, R., and K. Rogoff, 1983. “Empirical Exchange Rate Models of the Seventies: Do They Fit Out of Sample?” *Journal of International Economics* 14, 3 – 24.

4. International Capital Flows and Global Imbalances

- Caballero, R., E. Farhi, and P.O. Gourinchas, 2008. “An Equilibrium Model of ‘Global Imbalances’ and Low Interest Rates,” *American Economic Review* 98: 358-393.
- Jeanne O. and Gourinchas P., 2013. “Capital Flows to Developing Countries: the Allocation Puzzle”. *Review of Economic Studies*.
- Mendoza E., V. Quadrini and V. Rios-Rull, 2009. “Financial Integration, Financial Development and Global Imbalances,” *JPE* 117(3).
- Lorenzoni, G., 2015. “International Financial Crises,” in *Handbook of International Economics*, vol.4.

Additional readings

- Alfaro, L., S. Kalemli-Ozcan, and V. Volosovych, 2014. “Sovereigns, Upstream Capital Flows and Global Imbalances,” *Journal of the European Economic Association*, Vol. 12, No. 5: 1240–1284.
- Azzimonti, M., E. de Francisco, V. Quadrini, 2014. “Financial Globalization, Inequality and the Raising of Public Debt,” *AER*.
- Bengui, J., E. Mendoza, and V. Quadrini, 2012. “Capital Mobility and International Sharing of Cyclical Risk,” *JME*.
- David, J., E. Henriksen, and I. Simonovska, 2015. “The Risky Capital of Emerging Markets,” mimeo, USC.
- Fahri, E. and I. Werning, 2014. “Fiscal Unions,” mimeo, MIT.
- Mendoza, E. and V. Quadrini, 2010. “Financial Globalization, Financial Crises and Contagion,” *Journal of Monetary Economics*.
- Mendoza, E., V. Quadrini, and J. V. Rios-Rull, 2009. “On the Welfare Implications of Financial Globalization without Financial Development,”

International Seminar on Macroeconomics Annual, R. Clarida & F. G Giavazzi, eds.

- Quadrini Vincenzo and Fabrizio Perri, 2016. “International recessions”, Mimeo, USC.