

Joseph B. Steinberg
Department of Economics
University of Toronto

ECO2303H1 — LEC0101: International Macroeconomics, Fall 2018

Lectures: Wednesdays, 11am–1pm, in ES4000

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

Course Description:

ECO2303 is a graduate course in international macroeconomics intended primarily for MA students. International macroeconomics is the study of how trade between countries in goods, services, and assets changes over time, both over the business cycle and the long run. We will study important concepts, empirical facts, and puzzles in international macro and build models 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 free textbooks

- “International Macroeconomics” (aka IM)
<http://www.columbia.edu/~mu2166/UIM/suw.pdf>
- “Open Economy Macroeconomics” (aka OEM)
<http://www.columbia.edu/~mu2166/book/>

written by Stephanie Schmidt-Grohe and Martin Uribe. 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 two exams, each of which will count for 40% of your course grade, and a project worth 20%. I 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 24. The second exam will take place during the winter final exam period for half-year courses. Time and location TBA. Prior to both exams, I will post some past exams with solutions on Blackboard to help you study. End-of-chapter problems in OEM and IM are also very helpful.

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, or in a research group at an investment firm. 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.

Office hours:

I hold office hours every Tuesday from 2–4pm. If you would like to attend my office hours, you must reserve a time slot in advance using this Google Docs calendar:

https://docs.google.com/spreadsheets/d/1Bm9GPoJLx3TXCy8O_nVeWRTFOt_T-7KNKdORFgN8Ye8/edit?usp=sharing.

As shown in the calendar, time slots are available in 15-minute increments. To reserve a slot, simply type your name. You may only reserve multiple time slots if you email me first. One exception to this policy is if you would like to attend office hours in a group of several students (many students like to do this before term tests). Groups of X students may reserve X time slots, where X is any number greater than or equal to one. Just fill in the names of all students in the group in each of the slots on the calendar that you would like to reserve.

Tentative course outline/reading list

This is very much subject to change, both due to time constraints and your interests. I've included some important references for each 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. Global imbalances and balances of payment accounting

IM 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.

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.

IM chapters 3-4; OEM chapter 2.1–2.2

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

Coerdacier, N., H. Rey, and P. Winant (2015), “Financial Integration and Growth in a Risky World,” Unpublished manuscript.*

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

IM chapters 5-6; OEM chapter 3.1–3.2

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.

Kehoe, T. J., K. J. Ruhl, and J. B. Steinberg (2017), “Global Imbalances and Structural Change in the United States,” *Journal of Political Economy*, Forthcoming.

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.

Steinberg, J. B. (2016), “On the Source of U.S. Trade Deficits: Global Saving Glut or Domestic Saving Drought?” Unpublished manuscript.*

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*

IM 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. *International capital flow puzzles*

IM 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.

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

IM chapter 9.

- Alessandria, 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.

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

IM chapter 10.