Prerequisites
316-612 Macroeconomics and 316-470 Advanced Econometric Techniques (or equivalent)

Contact
Three hours of lectures and seminars per week

Formal subject description
This subject is concerned with recent theoretical and empirical research. Topics covered include: intertemporal approach to international macroeconomics: savings, investment and the current account: debt, deficits and growth: nominal and real exchange rate models.

Assessment
Final examination worth 70% and homework assignments worth a total of 30%

Texts
Luckily, there is a superb advanced textbook on international macroeconomics. All students should buy


Informal subject description
This course is designed to provide students with an advanced introduction to international macroeconomics. We will cover topics such as: savings, investment, and the current account; purchasing power parity, the real exchange rate and terms of trade; international financial markets, risk sharing, and asset pricing; money and exchange rates.

This year I am primarily going to teach 316-632 as a “topics” class. I will spend about six weeks covering background material and we will then turn to a detailed discussion of a provocative paper by Obstfeld and Rogoff:

The six puzzles referred to in the title are:

1. The home bias in international trade puzzle: why are international goods markets so segmented?
2. The Feldstein-Horioka puzzle: why are savings and investment rates so positively correlated in OECD countries? (i.e., why is international capital mobility between industrialised countries so limited?)
3. The home bias in equity portfolios puzzle: why don’t stockholders avoid unnecessary exposure to idiosyncratic, home-country-specific risks?
4. The international consumption correlations puzzle: why is the correlation of consumption growth between pairs of industrial countries so low? If citizens completely share risks, consumption growth correlations should be near one.
5. The purchasing power parity puzzle: why do shocks to real exchange rates take so long to dissipate?
6. The exchange rate disconnect puzzle: why are exchange rate movements so volatile and so seemingly disconnected from movements in economic fundamentals?

After that, and if time is on our side, we’ll try to reproduce a recent paper by Chari, Kehoe and McGrattan:


**Articles that we will discuss along the way**

A number of other articles will also come up for discussion at various points in the course. A representative list of these is given below:


Schedule of classes

L1  Introduction
L2  Basic concepts and the small open economy
L3  Small open economy under uncertainty
L4  Dynamic uncertainty
L5  Introduction to two country models
L6  Real asset pricing I / Lucas model
L7  Real asset pricing II
L8  Nominal asset pricing I
L9  Nominal asset pricing II
L10 International RBC models I / Backus-Kehoe-Kydland
L11 International RBC models II
L12 International RBC models III
L13 Cagan hyperinflation model I
L14 Cagan hyperinflation model II
L15 Dornbusch overshooting model I
L16 Dornbusch overshooting model II

SEMESTER BREAK

L17 Home bias in international trade (Puzzle #1)
L18 The Feldstein-Horioka puzzle (Puzzle #2)
L19 Home bias in equity portfolios (Puzzle #3)
L20 International consumption correlations (Puzzle #4)
L21 Various exchange rate puzzles (Puzzles #5 and #6)
L22 Sticky price models of exchange rates / Chari-Kehoe-McGrattan
L23 Sticky price models of exchange rates / Chari-Kehoe-McGrattan
L24 Sticky price models of exchange rates / Chari-Kehoe-McGrattan