

Economics 282: International Macroeconomics

Fall 2003, UCLA

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Organizational Details

Time: Tuesday and Thursday, 5:30 – 7 pm

Room: Bunche 9383

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Course Description: This course provides a selective discussion of tools, models, and empirical issues in International Macroeconomics and International Finance. The topics we plan to cover are listed in the Course Outline. Due to time constraints, we probably won't have enough time to cover all of the topics in the list.

Background: We will make use of many models and tools taught in the macro sequence. For students planning to do the international macro field, it is useful to also take the advanced macro sequence. Many exercises in the problem sets will require solving models numerically. For those purposes it will be very useful if you are familiar with software such as Matlab, Mathematica, Gauss, or Fortran. In particular, I program in Matlab.

Textbook: A good textbook to have is *Foundations of International Macroeconomics*, by Maurice Obstfeld and Kenneth Rogoff, MIT Press, 1996. This book is a useful reference for many of the topics in international macroeconomics. The course will also be heavily based on the list of articles that appears in the Course Outline.

Evaluation: Grades will be based on problem sets and a take-home final exam. Problem sets may be solved in pairs.

Course Outline

This outline groups papers by topics. During the course we won't necessarily follow the same order of papers and topics as in this list.

1) Numerical Methods

- a) Linearization
 - Cooley and Prescott, "Economic Growth and Business Cycles," in Cooley ed. *Frontiers of Business Cycle Research*, 1995
 - Christiano, Lawrence "Solving Dynamics Equilibrium Models by a Method of Undetermined Coefficients," *NBER t0225*, 1998
- b) Value Function Iteration
 - Ljungqvist and Sargent, "Recursive Macroeconomic Theory," *MIT Press*, 2000
 - Marimon and Scott, "Computational Methods for the Study of Dynamic Economics," *Oxford University Press*, 1999
 - Aiyagari, "Uninsured Idiosyncratic Risk and Aggregate Saving," *Quarterly Journal of Economics*, 1994
- c) Shooting Algorithms
 - Application to solution of the model of a small open economy

2) Real Models with Intertemporal Trade

- a) Small Open Economy
 - Mendoza, "Real Business Cycles in a Small Open Economy: The Canadian Case," *American Economic Review* (1991)
 - Correia, Neves, and Rebelo, "Business Cycles in a Small Open Economy," *European Economic Review*, 1995

Schmitt-Grohe and Uribe, "Closing Small-Open Economy Models," JIE, 2003
Neumeyer and Perri, "Business Cycles in Emerging Economies: The Role of Interest Rates,"
<http://pages.stern.nyu.edu/~fperri/papers/neuXI26.pdf>, 2001

b) Two Country Models

Baxter, Marianne, "International Trade and Business Cycles," in G. Grossman and K. Rogoff (eds.)
Handbook of International Economics vol. 3, 1995

Obstfeld and Rogoff, "The Intertemporal Approach to the Current Account," in G. Grossman and K. Rogoff (eds.)
Handbook of International Economics vol. 3, 1995

Backus, D., P. Kehoe and F. Kydland, "International Real Business Cycles: Theory and Evidence," in Cooley ed.
Frontiers of Business Cycle Research, 1995

Backus, Kydland and Kehoe, "J Dynamics of the Trade Balance and the Terms of Trade: The J-Curve?" *American Economic Review*, 1994

Baxter, M. and M. Crucini, "Explaining Savings-Investment Correlations," *American Economic Review*, 1992

Baxter and Crucini, "Business Cycles and the Asset Structure of Foreign Trade," *International Economic Review*, 1995

Backus and Smith, "Consumption and Real Exchange Rates in Dynamic Economies with Nontraded Goods," *Journal of International Economics*, 1993

Stockman and Tesar, "Tastes and Technology in a Two-Country Model of the Business Cycle: Explaining International Co-Movements," *American Economic Review*, 1995

Kehoe and Perri, "International Business Cycles with Endogenous Incomplete Markets," *Econometrica*, 2002

Heathcoate and Perri, "Financial Globalization and Real Regionalization,"
forthcoming *JET*, 2003

3) Exchange Rate Models

a) Flexible Price Models

Lucas, R.E. "Interest Rates and Currency Prices in a Two-Country World," *Journal of Monetary Economics*, 1982

Svensson, L.E.O, "Currency Prices, Terms of Trade and Interest Rates: A General Equilibrium Asset-Pricing, Cash-in-Advance Approach," *Journal of International Economics*, 1985

b) Models with Nominal Rigidities

Dornbusch, "Expectations and Exchange Rate Dynamics," *Journal of Political Economy*, 1976

Obstfeld and Rogoff, "Exchange Rate Dynamics Redux," *Journal of Political Economy*, 1995

Chari, Kehoe and McGrattan, "Monetary Shocks and Real Exchange Rates in Sticky Price Models of International Business Cycles," *Review of Economic Studies*, 2002

Obstfeld and Rogoff, "New Directions for Stochastic Open Economy Models," *Journal of International Economics*, 2000

Dotsey, Michael, Robert King and Alexander Wolman, "State-Dependent Pricing and the General Equilibrium Dynamics of Money and Output," *Quarterly Journal of Economics*, May 1999

Burstein, "Inflation and Output Dynamics with State Dependent Pricing Decisions,"
[TBA](#), 2002

c) Models with Limited Participation

Alvarez and Atkeson, "Money and Exchange Rates in the Grossman-Weiss Rotemberg Model", *Journal of Monetary Economics*, 1997

Alvarez, Atkeson, and Kehoe, "Money, Interest Rates, and Exchange Rates With Endogenously Segmented Asset Markets," *Journal of Political Economy*, 2001

Shlagenlauf and Wrase, "Liquidity and Real Activity in a Small Open Economy Model," *Journal of Monetary Economics*, 1995

d) Empirical Evidence

- Fama, "Forward and Spot Exchange Rates," *Journal of Monetary Economics*, 1984
- Meese and Rogoff, "The Out-of-Sample Failure of Empirical Exchange Rate Models," in Frenkel, ed. *Exchange Rates and International Macroeconomics, Chapter 3*, 1983
- Mussa, "Nominal Exchange Rates and the Behavior of Real Exchange Rates: Evidence and Implications," *Carnegie-Rochester Series on Public Policy*, 1986
- Baxter and Stockman, "Business Cycles and the Exchange Rate System: Some International Evidence," *Journal of Monetary Economics*, 1989
- Baxter, "Real Exchange Rates and Real Interest Rates: Have we Missed the Business-Cycle Relationship?" *Journal of Monetary Economics*, 1994

4) Purchasing Power Parity and Exchange Rate Pass-Through

- Engel, Charles, "Accounting for U.S. Real Exchange Rate Changes," *Journal of Political Economy*, 1999
- Rogoff, K., "The Purchasing Power Parity Puzzle," *Journal of Economic Literature*, 1996
- Obstfeld, "International Macroeconomics: Beyond the Mundell-Fleming Model," <http://elsa.berkeley.edu/~obstfeld/ftp/mundell-fleming/mundell-fleming.pdf>, 2000
- Betts and Devereux, "Exchange Rate Dynamics in a Model of Pricing-to-Market," *Journal of International Economics*, 2000
- Obstfeld and Rogoff, "The Six Major Puzzles in International Macroeconomics: Is there a Common Cause?" *NBER* 7777, 2000
- Engel, Charles, "Expenditure Switching and Exchange-Rate Policy," <http://www.ssc.wisc.edu/~cengel/WorkingPapers/EngelNBERWPRRevision.pdf>, 2002
- Goldberg and Verboven, "Market Integration and Convergence to the Law of One Price: Evidence from the European Car Market," <http://www.econ.yale.edu/~pg87/convp.pdf>, 2001
- Burstein, Eichenbaum, and Rebelo, "Why is Inflation so Low after Large Devaluations?" *TBA*, 2002
- Burstein, Eichenbaum, and Rebelo, "Large Devaluations and Real Exchange Rates,"
- Corsetti and Dedola, "Macroeconomics of Price Discrimination", <http://www.econ.yale.edu/%7Ecorsetti/euro/code-shorter.pdf>, 2002
- Devereux, Engel and Storaard, "Endogenous Exchange Rate Pass-Through when Nominal Prices are Set in Advance," <http://www.ssc.wisc.edu/~cengel/WorkingPapers/Endogenous9-10-02.pdf>, 2002

5) Exchange Rate Regimes

a) Exchange-Rate Based Stabilizations

- Calvo and Vegh, "Inflation Stabilization and BOP Crises in Developing Countries", *Handbook of Macroeconomics*, 1999
- Rebelo and Vegh, "Real Effects of Exchange Rate-Based Stabilizations: An Analysis of Competing Theories," *NBER Macroeconomics Annual*, 1995
- Burstein, Neves, and Rebelo, "Distribution Costs and Real Exchange Rate Dynamics during Exchange-Rate-Based Stabilization," *TBA*, 2002

b) Balance of Payment Crises

- Krugman, "A Model of Balance of Payment Crises," *Journal of Money Credit and Banking*, 1979
- Obstfeld, "Models of Currency Crises with Self-Fulfilling Features," *European Economic Review*, 1996
- Chang and Velasco, "A Model of Financial Crises in Emerging Markets," *Quarterly Journal of Economics*, 2001
- Burnside, Eichenbaum, and Rebelo, "Prospective Deficits and the East Asian Currency Crises," *Journal of Political Economy*, 2002
- Burnside, Craig "Currency Crises and Contingent Liabilities," *Journal of International Economics*, 2003
- Burnside, Eichenbaum, and Rebelo, "Government Guarantees and Self-fulfilling Speculative Attacks," <http://www.kellogg.nwu.edu/faculty/rebelo/htm/sunspots-26August2002.pdf>, 2002
- Gertler, Gilchrist, and Natalucci, "External Constraints on Monetary Policy and the Financial Accelerator,"

http://www.nyu.edu/econ/user/gertler/paper_1.pdf, 2000

Arellano and Mendoza, "Credit Frictions and 'Sudden Stops' in Small Open Economies: An Equilibrium Business Cycle Framework for Emerging Markets Crises," *NBER 8880*, 2002

Christiano, Gust, and Roldos, "Monetary Policy in a Financial Crisis,"

<http://faculty.econ.nwu.edu/faculty/christiano/research/gust-roldos/jetmanuscript.pdf>, 2002

Kaminsky and Reinhart, "The Twin Crises: Causes of Banking and Balance-of-Payments Problems,"

<http://home.gwu.edu/%7Egraciela/HOME-PAGE/RESEARCH-WORK/WORKING-PAPERS/twin-crises.pdf>,

c) Choice of Regime

Tornell and Velasco, "Fixed versus Flexible Exchange Rates: Which Provides More Discipline,"

Atkeson, and Kehoe, "On the Benefits to Transparency in a Monetary Policy Instrument",

<http://papers.nber.org/papers/W8681> , 2002

Rebelo, and Vegh, "When is it Optimal to Abandon a Fixed Exchange Rate?"

<http://www.kellogg.nwu.edu/faculty/rebelo/htm/rebelo-vegh1may02.pdf>, 2002

Lahiri and Vegh

6) International Risk Sharing and Home Bias in Portfolios

a) International Risk Sharing

Obstfeld and Cole, "Commodity Trade and International Risk Sharing?" *Journal of Monetary Economics*, 1991

Obstfeld, "Risk-Taking, Global Diversification and Growth," *American Economic Review*, 1994

Lewis, Karen "What Can Explain the Apparent Lack of International Consumption Risk Sharing?" *NBER WP #5203*, 1995

Lewis, Karen, "Puzzles in International Financial Markets," in G. Grossman and K. Rogoff (eds.) *Handbook of International Economics* vol. 3, 1995

Ozcan, Sorensen, and Yosha, "Risk Sharing and Industrial Specialization: Regional and International Evidence,"

<http://www.icpr.org/wpfiles/sorensen.pdf>, 1999

Brandt, Cochrane, Santa-Clara, "International Risk Sharing is Better Than You Think (or Exchange Rates are Much Too Smooth)," *NBER #8404*, 2001

b) Home Bias in Portfolios

French and Poterba, "Investor Diversification and International Equity Markets," *American Economic Review*, 1991

Tesar and Werner, "Home Bias and the Globalization of Securities Markets," *NBER #4218*, 1992

Tesar and Werner, "International Equity Transactions and U.S. Portfolio Choice," in J. Frankel (ed.) *The Internationalization of Equity Markets*, Chicago University Press, 1994

Baxter and Jermann, "The International Diversification Puzzle is Worse than You Think," *American Economic Review*, 1997

Baxter, Jermann and King, "Non-traded Goods, Non-traded Factors and International Diversification," *Journal of International Economics*, 1998

7) Sovereign Debt and Emerging Markets

Bulow and Rogoff, "Sovereign Debt: Is to Forgive to Forget?" *American Economic Review*, 1989

Eaton and Fernandez, "Sovereign Debt," in G. Grossman and K. Rogoff (eds.) *Handbook of International Economics* vol. 3, 1995

Atkeson, "International Lending with the Risk of Repudiation," *Econometrica*, 1990

Cole and Kehoe, "A Self-Fulfilling Model of Mexico's 1994-95 Debt Crisis," *Journal of International Economics*, 1996

Thomas and Worrall, "Foreign Direct Investment and the Risk of Expropriation," *Review of Economic Studies*, 1994

Albuquerque, "The Composition of International Capital Flows,"

<http://www.simon.rochester.edu/fac/albuquerque/pdf/capflows-final.pdf>, 2002