Course Schedule
Classes will be held every Tuesday and Thursday from 2:40 to 4:10.

Grading Policy
Midterm Exam (40% of grade). There will be one problem set before to prepare you for the midterm.
Short report and presentation (60% of grade). Class participants will be asked towards the end of the course to choose one paper among a small selection and give a short presentation on that paper with a written support. Students will be expected to have thoroughly understood the paper’s content, methodology and techniques. Following the presentation a short and creative report of at most 15 double spaced pages on the paper presented will be due. This is probably the exercise you will learn most from. You should take it very seriously. A paper may come out of it!
Papers are chosen on a first come first served basis. Depending on the number of students, the presentations and reports will be either individual or by groups of 2 students.

Course Material
The textbook for the course is Foundations of International Macroeconomics, by Maurice Obstfeld and Kenneth Rogoff, MIT Press, October 1996.
It is available at the U-Store, as well as at www.amazon.com and www.barnesandnoble.com

Reading List
The following reading list gives a guide to the material that will be covered in the course. Most articles are available on-line. Articles un-available online will be available in the Graduate Economics Reading Room (A-18-D2 in Firestone library) or in the journals themselves (available in Firestone and often, in the Robertson Hall library in WWS).

The web page for this class is http://courseinfo.princeton.edu/courses/ECO552_F2003/. This syllabus is available under course information.

1) Introduction to open economy economics
*Mark, chapter 1.

2) Intertemporal approach to the current account
*Obstfeld -Rogoff chapters 1 and 2;


International Business Cycle Models. International financial markets and risk sharing

*Obstfeld-Rogoff, chapter 5.
Mark, chapter 6


Stockman, Alan, New Evidence Connecting Exchange Rates to Business Cycles


**Financial Market imperfections. Sudden Stops**


**4) Is capital mobile internationally? Home bias**


*Lane P. and G. M. Milesi-Ferretti: International Financial Integration, CEPR DP 3769.

Imbs, J.: Trade, Finance, Specialization and Synchronization, mimeo LBS, February 2003

5) Real exchange rate, PPP and law of one price

*Obstfeld and Rogoff Chapter 4


Wei Shan-Jin David C. Parsley: Purchasing Power Disparity During the Floating Rate Period: Exchange Rate Volatility, Trade Barriers and Other Culprit, NBER WP 5032.


Imbs, Mumtaz, Ravn and Rey, “Aggregation bias does explain the PPP puzzle”, 2004, at www.princeton.edu/~hrey

Law of one price:

Crucini and Shintani: Persistence in Law of one price deviations: evidence from micro data, *mimeo* Van der Bilt University.


Non-linear models:


*Kilian L. and Taylor M.: “Why is it so difficult to beat the random walk forecast of exchange rate?”, CEPR DP 3024.

Balassa Samuelson:


6) Exchange rate models: Short-run

*Obstfeld–Rogoff, 8.2.7
Mark chapter 3


Sticky price models:


7) Equity and exchange rate markets:

*Hau and Rey: “Equity Prices, exchange rates and capital Flows” at www.princeton.edu/~hrey


Brandt M., Cochrane J. and P. Santa Clara, 2001. International Risk Sharing is better than you think (or exchange rates are much too smooth), NBER WP 8404.

Pavlova Rigobon: “Exchange rate and asset prices”, mimeo MIT.


8) Foreign Exchange Microstructure and empirical evidence on capital flows and exchange rates.


9) Forward premium puzzle:


10) Speculative attacks,

Obstfeld and Rogoff chapters 8.4 and 9.5.4


Krugman P.: " Balance sheets, the transfer problem, and financial crises " at [http://www.wws.princeton.edu/~pkrugman/](http://www.wws.princeton.edu/~pkrugman/)


Empirical studies:

Eichengreen B., Rose A. and C. Wyplosz: " Contagious Currency Crises", NBER WP.


11) **New Open economy Macroeconomics**

*Obstfeld Rogoff: Chapters 8-9-10.

Papers listed at [http://www.geocities.com/brian_m_doyle/open.html](http://www.geocities.com/brian_m_doyle/open.html)

12) Monetary and exchange-rate policy in open economies.


Sutherland, Alan (2000): " Inflation Targeting in a Small Open Economy", CEPR DP 2726.


13) Quantitative evaluation and empirical evidence


14) Optimal Exchange Rate Regime and Monetary Union Issues

*Alesina A. and R. Barro, "Currency unions".