This is a doctoral level course in international finance and macroeconomics. Topics covered in the course include the intertemporal approach to the current account, international business cycles, international risk-sharing and home bias, purchasing power parity, models of exchange rate determination, balance of payments crises, financial market contagion and alternative exchange rate regimes.

Sources:

General reference materials for the course are:


The Handbook will be placed on reserve in Foster Library. Articles can be downloaded from the journal websites (link from the Economics Department homepage to Foster Library to the journals collection), from JSTORE, Science Direct, ProQuest or from the NBER Working papers site (http://www.nber.org/). If you have trouble locating a particular article, please let me know and I will make copies available.

Requirements:

1. Paper (40% of final grade). The purpose of the paper is to replicate the results of an article in international finance that has been published in a top general interest or international economics journal. You may choose an empirical paper and replicate the tables reported in the paper. Alternatively, you may choose an article that uses numerical methods, and you must reproduce the numerical solution or simulations. In either case, the article you wish to replicate and the proposed content of your paper must be cleared with me by the sixth week of the semester. If you decide to replicate a paper using a numerical method and the code that replicates the results of a particular journal article are readily available (e.g. from the authors), obviously you WILL NOT receive credit for replicating those results. You may, however, use that code to extend/modify the article’s findings in a significant way. The paper is due during finals week and must be in a format suitable for submission to a journal.

2. Final exam (40%)

3. Problem sets (20%). I will hand out problem sets periodically throughout the semester. Some may require computational work, so familiarity with GAUSS and/or MATLAB will be helpful.
Course Outline and Readings:

1. REAL MODELS OF INTERTEMPORAL TRADE AND CURRENT ACCOUNT DYNAMICS

1.A. Small open economy

FIM, chapters 1 – 3.


Obstfeld and Rogoff, “The intertemporal approach to the current account,” HIE ch. 1, sections 1 – 3.1.


1.B. Two-Country Models

FIM, chapter 3 (in particular sections 3.2-3.5).


2. INTERNATIONAL CONSUMPTION CORRELATIONS, GAINS FROM RISKSHARING AND HOME BIAS

FIM, Chapter 5.


Lewis, K., "What Can Explain the Apparent Lack of Consumption Risksharing?" *JPE* April 1996.


Davis, Nalewaik and Willen, “On the gains to international trade in risk financial assets,” NBER WP 7795.


Heathcote and Perri, “Financial Globalization and Real Regionalization”

3. THE LAW OF ONE PRICE, PPP AND EXCHANGE RATE PASS-THROUGH

FIM, Chapter 4 and Chapter 10, pp. 711-712.


Burstein, Eichenbaum and Reabelo, “Large devaluations and the real exchange rate,” UCLA working paper.
4. NOMINAL EXCHANGE RATES

4.1 Flexible price models and the empirical evidence:

FIM, Chapter 8, Sections 8.1-8.3.


Kilian and Taylor, “Why is it so difficult to beat the random walk forecast of exchange rates” *JIE* 2003.


4.2 Alternative models

FIM, Chapter 9.

See also Nelson Mark, chapter 9.


5. BALANCE OF PAYMENTS CRISES, SUDDEN STOPS AND CONTAGION


Bekaert, Harvey and Ng, “Market integration and contagion,” NBER WP 9510.

Chari and Kehoe, “Hot Money,” JPE 2003

Chari and Kehoe, “Financial crises as herds: Overturning the critiques,” NBER WP 9658


Mendoza and Smith, “Margin calls, trading costs and asset prices in emerging markets: The financial mechanics of the sudden stop phenomenon,” NBER WP 9286.


6. EXCHANGE RATE BASED STABILIZATIONS
