

EC421: Structured Research Assignment

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The designated research assignment for the international macroeconomics part of EC421 in the academic year 2025-26 focuses on the theme: “*Global Imbalances and Trade Policies*.” The U.S. has been running a persistent current account deficit, increasing its borrowing from the rest of the world every single year over the last 40 years. During this period, several countries have acted as major creditors and maintained sustained current account surpluses (e.g., China, Saudi Arabia, Russia, Germany, Japan). The persistence of these imbalances raises challenging questions within the conventional frameworks that rely on intertemporal consumption smoothing.

The new U.S. administration views these facts as *prima facie* evidence of market failure and a need for government intervention. This perspective largely explains the dramatic increase in U.S. tariffs in 2025. These developments raise a number of important policy questions that economists can help address. You are encouraged to interpret the topic broadly and identify a specific research question to guide your analysis. This may include, but is not limited to:

1. What are the sources of global imbalances?
2. Are global imbalances detrimental for the U.S. economy?
3. Do other countries benefit from them?
4. How can global imbalances close in the future? What does historical evidence suggest?
5. Can tariffs close the U.S. trade deficit?
6. What are the implications of global imbalances for optimal tariffs?
7. How do tariffs affect the exchange rate under alternative assumptions?
8. Will such policies help to boost U.S. manufacturing?

9. Is it optimal to use tariffs as a source of government revenue?
10. Can industrial policies be used to address global imbalances?

To enrich your analysis, I recommend staying informed through reputable economic news sources such as the Financial Times, Bloomberg, the Wall Street Journal, and The Economist. VoXEU columns offer concise summaries of recent academic work. It can also be valuable to follow experts operating at the intersection of academic research and policymaking (for example, on platforms such as X/Twitter). Some prominent voices in international macroeconomics include Gita Gopinath, Pierre-Olivier Gourinchas, Jason Furman, Jon Steinsson, Olivier Blanchard, Markus Brunnermeier, and Ricardo Reis. While this list is subjective, you are encouraged to explore additional sources.

Your essay may adopt a theoretical approach, focusing on specific mechanisms, or an empirical approach, documenting evidence for a particular hypothesis based on the existing literature. Ideally, a combination of theory and empirics works best. Aim to keep your model simple, for example limiting it to two periods and two regions (such as one country and the rest of the world). Exclude unnecessary components even if they are relevant in other contexts. It is desirable that your model can be solved analytically, but numerical solutions are acceptable. Empirical analysis may rely on aggregate or micro-level data. Begin by presenting stylized facts and use them to distinguish between alternative mechanisms.

Ultimately, a successful project is one that improves our understanding of global imbalances and contributes meaningfully to the broader discourse.