

## International Economics

Academic year 2024-2025

## Macroeconomics B

### EI060 - Spring - 6 ECTS

Wednesday 10h15 - 12h00

## Course Description

This course is the continuation of the macroeconomics sequence for MIS students with an extension to the open economy. It provides a perspective on some major topics in international macroeconomics.

The course starts by introducing the concepts of balance of payments and international investment positions. It then considers models of real variables, covering the intertemporal approach to the current account, imbalances, risk sharing, and real exchange rate determinants.

The course then brings money and prices in the framework, and presents the analysis of nominal exchange rate, as well as the workings and design of monetary policy in an open economy context.

## > PROFESSOR

[Cédric Tille](#)

[Office hours](#)

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## > ASSISTANT

Joshua Eitan Ostry

[Office hours](#)

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## IMPORTANT

**Regular attendance** is compulsory, and any absence must be promptly communicated to the teacher. In the event of missing more than two sessions, students are expected to provide well-documented justifications for unforeseeable circumstances (e.g. illness, accident, death of a relative), directly to the Direction of Studies. Failure to justify absences beyond two sessions will result in the assignment of code N.

Students are also reminded of the following legal rules:

The teacher owns the **copyright** on the material they created for this course. As such, any reproduction or distribution of this document, in whole or in part, as well as of any other material created by the teacher for the course, is prohibited unless permission is granted by the author.

Recording (as video or audio) a course without the consent of the teacher and other participants is strictly forbidden.

# Syllabus

## Organisation of the classes

Conducting research in macroeconomics requires a familiarity with technical tools. The course therefore is structured to provide both economic intuition and the workings of the models. Shortly before the day of each class, we'll make the slides available on moodle, along with a question to think about. The class will start with a discussion of the question, before going through the slides. Having the slides in advance allows you to focus your attention on understanding the concepts covered.

In addition to the slides, the moodle page will provide a technical note with the detailed steps of the most technical sections. This is not mandatory material, but instead is available to help you go in depth in the workings of the models if you want. The moodle page also includes two weekly quizzes. The first is on economic intuition, and the second is a series of short technical exercises. These are not graded, but intended to allow you to get a self-evaluation of your understanding. Solutions will be provided before the following class.

Weekly review sessions with the teaching assistant will cover the class materials in more details.

## Evaluation

The final grade for the course is calculated on the basis of a closed book mid-term exam (35%), a closed book final exam (35%) and two problem sets (15% each). Problem sets are aimed at getting students to use the tools developed in class, while the exams focus more on economic intuition.

## Readings

Readings with a (\*) are mandatory and are on the class Moodle page. The remaining material is optional.

The course will rely on 3 textbooks, as well as papers:

Philipp Harms (2016). *International Macroeconomics*. 2<sup>nd</sup> edition.

This is a main book, with both the technical aspects and economic intuition. It is available online through the library:

[https://iheid.swisscovery.slsp.ch/permalink/41SLSP\\_IID/kut10p/alma991002552496105523](https://iheid.swisscovery.slsp.ch/permalink/41SLSP_IID/kut10p/alma991002552496105523)

Obstfeld, Maurice, and Kenneth Rogoff (1996). *Foundations of International Macroeconomics*, MIT Press, Cambridge.

While a bit dated, this is also a main book that goes deeper than the Harms in several dimensions.

It is reserved at the library (330.1(035) HEIA 9980).

Vegh, Carlos (2014). *Open Economy Macroeconomics in Developing Countries*, MIT Press, Cambridge.

This book is a secondary one that provides an extensive coverage of modelling focusing on emerging economies. It is reserved at the library (332.4 HEIA 96671).

If you want to also look at a textbook focusing on intuition with limited technicalities, you can use Paul Krugman, Maurice Obstfeld, and Marc Melitz, *International Economics Theory and Policy* 12<sup>th</sup> edition (hereinafter KOM). It is reserved at the library (339(035) HEIA 121301), and available online through the library: [https://iheid.swisscovery.slsp.ch/permalink/41SLSP\\_IID/kut10p/alma991002663785905523](https://iheid.swisscovery.slsp.ch/permalink/41SLSP_IID/kut10p/alma991002663785905523)

## **1. Balance of payments and international positions**

Harms, chapter II1-II.3

Bertaut, Carol, Stephanie Curcuru, Ester Faia, and Pierre-Olivier Gourinchas (2024). "New Evidence on the US Excess Return on Foreign Portfolios", CEPR discussion paper 19709  
<https://cepr.org/publications/dp19709>

\* BIS Committee on the Global Financial System (2021). "Changing patterns of capital flows", report 66  
<https://www.bis.org/publ/cgfs66.htm>

Eugeni, Sara (2024). "Nominal exchange rates and net foreign assets' dynamics: The stabilization role of valuation effects", *Journal of International Money and Finance* 141.  
<https://www.sciencedirect.com/science/article/pii/S0261560624000056>

Gelos, Gaston, Pietro Patelli, and Ilhyock Shim (2024). "The US dollar and capital flows to EMEs" BIS quarterly review, September.  
[https://www.bis.org/publ/qtrpdf/r\\_qt2409d.htm](https://www.bis.org/publ/qtrpdf/r_qt2409d.htm)

Milesi-Ferretti, Gian Maria (2024). "Rising stock market valuations raise cross-border assets and liabilities" Brookings  
<https://www.brookings.edu/articles/rising-stock-market-valuations-raise-cross-border-assets-and-liabilities/>

Milesi-Ferretti, Gian Maria (2023). "Many Creditors, One Large Debtor: Understanding the Buildup of Global Stock Imbalances After the Global Financial Crisis" *IMF Economic Review* 72, pp. 509-553  
<https://link.springer.com/article/10.1057/s41308-023-00229-4>

Milesi-Ferretti, Gian-Maria (2022). "International finance in the 21st century: Global imbalances, valuation effects, and financial integration", Brookings  
<https://www.brookings.edu/research/international-finance-in-the-21st-century-global-imbalances-valuation-effects-and-financial-integration/>

\* Milesi-Ferretti, Gian-Maria, and Cédric Tille (2011). "The great retrenchment: international capital flows during the global financial crisis", *Economic Policy* 66, pp. 287-342.  
<http://onlinelibrary.wiley.com/doi/10.1111/j.1468-0327.2011.00263.x/abstract>

## **2. Intertemporal approach to the current account**

Harms, chapter III.1-III.9, IV.3, VI.2

Obstfeld and Rogoff, chapters 1-2 sections (1.1-1.3 and 2.1-2.3.3)

## **3. Real exchange rate and terms of trade**

Harms, chapter IV.4, VII.1-VII.6

Obstfeld and Rogoff, chapter 4 (sections 4.1-4.2.3, 4.3-4.5.4)

## **4. International financial markets**

### 4.1. Uncertainty.

Harms, chapter IV.5

Obstfeld and Rogoff, chapter 5

Vegh, chapter 2 (especially 2.4)

### 4.2. Frictions.

Harms, chapter VI

Obstfeld and Rogoff, chapter 6 (sections 6.1-6.2 and 6.4)

Akinci, Ozge, and Albert Queralto (2024). "Exchange Rate Dynamics and Monetary Spillovers with Imperfect Financial Markets," *The Review of Financial Studies* 37(2), pp. 309–355.  
<https://academic.oup.com/rfs/article/37/2/309/7318229>

Céspedes, Luis Felipe, and Roberto Chang (2024). "Optimal Foreign Reserves and Central Bank Policy under Financial Stress", *American Economic Journal: Macroeconomics* 16(3), pp. 230-267.  
<https://www.aeaweb.org/articles?id=10.1257/mac.20210117>

\* Scheubel, Beatrice, Livio Stracca, and Cédric Tille (2024). "The global financial cycle and capital flows: Taking stock", *Journal of Economic Surveys*  
<https://onlinelibrary.wiley.com/doi/full/10.1111/joes.12621>

## **5. Money and the exchange rate: flexible prices**

### **5.1. Nominal exchange rate.**

Harms, chapter VIII.1-VIII-6

Obstfeld and Rogoff, chapter 8 (sections 8.1-8.2 and 8.3.8 and 8.4).

Vegh, chapter 17 (sections 17.1-17.4, 17.7).

\* Engel, Charles, and Steve Pak Yeung Wu (2024). "Exchange Rate Models are Better than You Think, and Why They Didn't Work in the Old Days", miemo  
<https://users.ssc.wisc.edu/~cengel/WorkingPapers/BetterThanYouThink.pdf>

Itskhoki, Oleg, and Dmitry Mukhin (2024). "What Drives the Exchange Rate?" *IMF Economic Review*.  
<https://link.springer.com/article/10.1057/s41308-024-00251-0>

### **5.2. Crises.**

Harms, chapter X.2

\* Krugman, Paul (1979). "A Model of Balance-of-Payments Crises", *Journal of Money, Credit, and Banking* 11(3), pp. 311-25.  
[http://www.columbia.edu/~rhc2/Spring2006/G6904/Papers/Krugman\\_79.pdf](http://www.columbia.edu/~rhc2/Spring2006/G6904/Papers/Krugman_79.pdf)

Obstfeld, Maurice (1996). "Models of currency crises with self-fulfilling features", *European Economic Review* 40, pp. 1037-1047.  
<http://www.nber.org/papers/w5285>

### **5.3. Foreign exchange intervention.**

Adler, Gustavo, Kyun Suk Chang, Rui Mano, and Yuting Shao (2021). "Foreign Exchange Intervention: A Dataset of Public Data and Proxies", IMF working paper 2021/047.  
<https://www.imf.org/en/Publications/WP/Issues/2021/02/19/Foreign-Exchange-Intervention-A-Dataset-of-Public-Data-and-Proxies-50017>

\* Fratzscher, Marcel, Oliver Gloede, Lukas Menkhoff, Lucio Sarno, and Tobias Stöhr (2019). "When is foreign exchange intervention effective? Evidence from 33 countries", *American Economic Journal: Macroeconomics* 11(1), pp. 132-156.  
<https://www.aeaweb.org/articles?id=10.1257/mac.20150317>

## **6. Equilibrium and policy under sticky prices**

### **6.1. Mundell-Fleeming: IS-LM in open economy.**

Harms, chapter IX.1

Obstfeld and Rogoff, chapter 9 (section 9.1-9.4)

\* Dornbusch, Rudiger (1976). "Expectations and Exchange Rate Dynamics", *Journal of Political Economy* 84(6), pp. 1161-1176.  
<http://jpkc.sysu.edu.cn/guojinrong/ckwx/5/Expectation%20and%20exchange%20rate%20dynamic.pdf>

### **6.2. "New open economy macroeconomics": micro-founded models, and optimal policy.**

Harms, chapter IX.2

Obstfeld and Rogoff, chapter 10 (section 10.1-10.2)

Corsetti, Giancarlo, Luca Dedola, and Sylvain Leduc (2010). "Optimal monetary policy in open economies", in *Handbook of Monetary Economics*.

<https://sites.google.com/site/giancarlocorsetti/main/handbook-codele.pdf?attredirects=0>

- \* Corsetti, Giancarlo and Paolo Pesenti (2007) "The simple geometry of transmission and stabilization in closed and open economy", NBER International Seminar on Macroeconomics 2007

<http://ideas.repec.org/h/nbr/nberch/3000.html>

Itskhoki, Oleg, and Dmitry Mukhin (2023). "Optimal Exchange Rate Policy", NBER Working Papers 31933.

<https://www.nber.org/papers/w31933>

### 6.3. International financial frictions and spillovers.

Devereux, Michael, and James Yetman (2010) "Leverage Constraints and the International Transmission of Shocks", *Journal of Money, Credit and Banking* 42, pp. 71-105.

<https://onlinelibrary.wiley.com/doi/10.1111/j.1538-4616.2010.00330.x>

### 6.4. The policy trilemma.

- \* Aizenman, Joshua (2019). "International Reserves, Exchange Rates, and Monetary Policy: From the Trilemma to the Quadrilemma", Oxford research encyclopedia.

<https://oxfordre.com/economics/view/10.1093/acrefore/9780190625979.001.0001/acrefore-9780190625979-e-313?print=pdf>

Aizenman, Joshua, Menzie Chinn, and Hiro Ito (2022). "The Impacts of Crises on the Trilemma Configurations", NBER working paper 30406

<https://www.nber.org/papers/w30406>

Data: [http://web.pdx.edu/~ito/trilemma\\_indexes.htm](http://web.pdx.edu/~ito/trilemma_indexes.htm)

Klein, Michael, and Jay Shambaugh (2015). "Rounding the Corners of the Policy Trilemma: Sources of Monetary Policy Autonomy", *American Economic Journal: Macroeconomics* 7(4), pp. 33-66.

<https://www.aeaweb.org/articles?id=10.1257/mac.20130237>