

September 25, 2023

Harvard University Economics Department
Econ 2530b: International Finance, Fall 2023
Professors Kenneth Rogoff
Tuesdays 9 am – 11:45 am, Room M17 Littauer
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Course website: <https://canvas.harvard.edu/courses/124486>

Note: This is an advanced graduate level course in international macroeconomics designed for students in a Ph.D. program. Most classes will include an outside speaker as listed below for at least one hour of the class.

Requirements: class participation, including short presentations/critiques (usually shared by two persons) of main paper of an outside speaker (30%), problem set (20%), final paper (50%), due December 15.

AI policy: This course encourages students to explore the use of generative artificial intelligence (GAI) tools such as ChatGPT for all assignments and assessments. Any such use must be appropriately acknowledged and cited. It is each student's responsibility to assess the validity and applicability of any GAI output that is submitted; you bear the final responsibility. Violations of this policy will be considered academic misconduct.

A good general resource for recent literature is
Handbook of International Economics vol. 6 (Gita Gopinath, Elhanan Helpman and Kenneth Rogoff, eds.), 2022 Elsevier.

The working papers from this volume are all available online. A few will be main readings

The Global Financial Cycle (Helene Rey and Silvia Miranda-Agrippino)

Dominant Currency Paradigm: A Review (Gita Gopinath and Oleg Itskhoki)

Rethinking Exchange Rate Regimes (Ethan Ilzetzki, Carmen M. Reinhart, and Kenneth Rogoff)

The Prudential Use of Capital Controls and Foreign Currency Reserves (Javier Bianchi, and Guido Lorenzoni)

International Macroeconomics with Imperfect Capital Markets (Matteo Maggiori)

CIP Deviations, the Dollar and Frictions in International Capital Markets (Wenxin Du and Jesse Schreger)

[International Dimensions of Financial Crises](#) (Alan M Taylor and Amir Sufi)

I. Exorbitant Privilege

Farhi, Emmanuel, and Maggiori, Matteo, 2018. “A Model of the International Monetary System,” *Quarterly Journal of Economics* 133 (1): 295-355.

Choi, Jason, Rishabh Kirpalani and Diego Perez, “US Public Debt and Safe Asset Market Power”, July 2023

Chahrour, R and R Valchev, 2022. “Trade Finance and the Durability of the Dollar,” *Review of Economic Studies* 89(4): 1873-1910

Chen, Zifang, Zhengyang Jiang, Hanno Lustig, Stijn Van Nieuwerburgh, and Mindy Z. Xiaolan, 2022. “Exorbitant Privilege Gained and Lost: Fiscal Implications.” NBER Working Paper 30059, May.

Kindleberger, Charles. 1986. International Public Goods without International Government, *American Economic Review* 76 (1), March: 1-13.

Kindleberger, Charles P. 1967. “The Politics of International Money and World Language.” *Princeton Essays in International Finance* No. 61, August.

Du, Wenxin, and Amy Wang Huber, 2023, “Dollar Asset Holding and Hedging Around the Globe,” mimeo NYU, June

Maggiori, Matteo, 2017. “Financial Intermediation, International Risk Sharing, and Reserve Currencies.” *American Economic Review* 107, pp 3038-3071.

Gourinchas, Pierre-Olivier, Helene Rey Nicolas Govillot, 2020. “Exorbitant Privilege and Exorbitant Duty” mimeo, LSE.

Corsetti, Giancarlo, Simon Lloyd, Emile Martin and Daniel Ostry, 2023 “U.S. Risk and Treasury Convenience,” July

Coppola, Antonio, Arvind Krishnamurthy and Chenzi Xu, 2023 “Liquidity, Debt Denomination, and Currency Dominance” Working paper Stanford University.

C Bertaut, S. Curucu, Ester Faia and P.O. Gourinchas, 2023. “The Global (Mis)Allocation of Capital, mimeo, IMF

Milesi-Ferretti, Gian Maria, 2021. “The is Increasingly a Net Debtor: Should We Worry?” Brookings, April 14.

Lane, Philip, and Gian Maria Milesi-Ferretti, 2018. “The External Wealth of Nations Revisited: International Financial Integration in the Aftermath of the Global Financial Crisis.” *IMF Economic Review* Vol 66, issue 1, n 7, 189-222.

Canzoneri, Matthew, Robert Cumby, Behzad Diba and David López-Salido, 2013, “Key currency status: An exorbitant privilege and an extraordinary risk,” *Journal of International Money and Finance* 37, 2013, pp. 371-393.

II. CIP Deviations

Du, Wenxin, and Jesse Schreger. 2022 “CIP Deviations, the Dollar and Frictions in International Capital Markets” in *Handbook of International Economics* vol. 6 (Gita Gopinath, Elhanan Helpman and Kenneth Rogoff, eds.), 2022 Elsevier.

Davila, Eduardo, Daniel F. Graves and Cecelia Parlatore, “The Value of Arbitrage,” NBER working paper 29744, February 2022.

Davies, Sally and Christopher Kent, “US dollar funding: an international perspective” Committee on the Global Financial System working paper 65, June 2020.

Du, Wenxin, Joanne Im and Jesse Schreger The U.S. Treasury Premium In *Journal of International Economics* [Volume 112](#), May 2018, Pages 167-181

Gabaix , Xavier and Matteo Maggiori, 2015. “International Liquidity and Exchange Rate Dynamics.” *Quarterly Journal of Economics* 1369-1420.

III. Exchange Rate Regimes

Reinhart, Carmen, and Kenneth Rogoff, "The Modern History of Exchange Rate Arrangements: A Reinterpretation," *Quarterly Journal of Economics* 119(1): 1-48, February 2004.

Ilzetzki, Ethan, Carmen M. Reinhart, and Kenneth S. Rogoff. 2019. “[Exchange Arrangements Entering the 21st Century: Which Anchor Will Hold?](#)” *Quarterly Journal of Economics* 134 (2): 599-646.

Gopinath, Gita, Elhanan Helpman, and Kenneth Rogoff. 2022. “[Rethinking Exchange Rates Regimes \(with Ethan Ilzetski and Carmen Reinhart\)](#).” *Handbook of International Economics* Vo. 5, Elsevier: North Holland. [Publisher's Version](#)

Fukui, Masao, Emi Nakamura and Jon Steinsson, 2023. “The Macroeconomic Consequences of Exchange Rate Depreciations”

Ilzetski, Ethan, Carmen Reinhart, and Kenneth Rogoff. 2020. “[Will The Secular Decline In Exchange Rate And Inflation Volatility Survive Covid-19?](#)” *Brookings Papers on Economic Activity*. Edited by Janice Eberly and James Stock Fall.

IV. Empirical Exchange Rate models

"Exchange Rate Reconnect," Andrew Lilley, Matteo Maggiori, Brent Neiman. And Jesse Schreger *The Review of Economics and Statistics* (2022) 104 (4): 845–855.

Lilley, Andrew and Gianluca Rinaldi. 2020. "Currency Betas and Interest Rate Spreads," , Harvard University.

Zhengyang Jiang, Arvind Krishnamurthy, Hanno Lustig. 2021, "Foreign Safe Asset Demand and the Dollar Exchange Rate". *Journal of Finance* 76:3, pp 1049-1089.

V. The Global Capital Allocation Project

Maggiori, Matteo, Brent Neiman and Jesse Schreger, 2020. "International Currencies and Capital Allocation." *Journal of Political Economy* 128 (6), June.

Coppola, Antonio , Matteo Maggiori, Brent Neiman and Jesse Schreger, 2020. Redrawing the Map of Global Capital Flows: The Role of Cross-Border Financing and Tax Havens” *Quarterly Journal of Economics* 136, August 2021.

VI. New explanations of long-standing exchange rate puzzles

The Story of The Real Exchange Rate, by Oleg Itskhoki, *Annual Review of Economics* vol 13 (NBER version)

Itskhoki, Oleg, and Dmitry Mukhin, 2022, Optimal Exchange Rate Policy, mimeo UCLA, January 30

Itskhoki, Oleg, and Dmitry Mukhin, 2021. The Mussa Puzzle Redux, mimeo UCLA, September 24

The Exchange Rate Disconnect in General Equilibrium, *Journal of Political Economy* 129, August 2021

Dominant Currency Paradigm: A Review by Gita Gopinath and Oleg Itskhoki, forthcoming *Handbook of International Economics* vol. 6 (Gita Gopinath, Elhanan Helpman and Kenneth Rogoff, eds.), 2022 Elsevier.

Basu, Suman, Emine Boz, Gita Gopinath, Francisco Roch, and Filiz Unsal, 2023, "Integrated Monetary and Financial Policies for Small Open Economies," mimeo, International Monetary Fund, April.

*Alfaro, Laura, Mauricio Calani, and Liliana Varela. "Granular Corporate Hedging Under Dominant Currency." NBER Working Paper Series, No. 28910,

*Froot, K. A., Scharfstein, D. S. and Stein, J. C. (1993), "Risk management: Coordinating corporate investment and financing policies", *The Journal of Finance* 48(5), 1629-1658.

Rampini, A. A. and Viswanathan, S. (2010), “Risk management, and the distribution of debt capacity”, *Journal of Finance* 65(6), 2293-2322.

+Salomao, J. and Varela, L. “Exchange Rate Exposure and Firm Dynamics” *The Review of Economic Studies*, 2022, Vol 89, Issue 1: 481:514.

VII. The Global Financial Cycle

Rey, Helene, “Dilemma not Trilemma: The Global Financial Cycle and Monetary Policy Independence,” *Proceedings of Kansas City Federal Reserve (Jackson Hole) Symposium*, 2013. (more recent version, NBER working paper 21162, May 2015)

The Global Financial Cycle (Helene Rey and Silvia Miranda-Agrippino) *Handbook of International Economics* vol. 6

US Monetary Policy and the Global Financial Cycle *Review of Economic Studies*, April 2020

VIII. The Special Role of the Dollar in Trade

Gopinath, Gita, “The International Price System,” *Proceedings of Kansas City Federal Reserve (Jackson Hole) Symposium*, 2013.

Gopinath, Gita, Emine Boz Camila Casas Federico Diez Pierre-Olivier Gourinchas Mikkel Plagborg-Moller. 2020. “Dominant Currency Paradigm.” *American Economic Review* 110 (3): 677-719.

Boz, Emine, Gita Gopinath, and Mikkel Plagborg-Moller, “Global Trade and the Dollar,” Working Paper, Harvard University, March 2018. See also Voxeu summary

IX. Financial Crises

Ferguson, Niall, Martin Kornejew, Paul Schmelzing and Moritz Schularick, 2023. “The Safety Net: Central Bank Balance Sheets and Financial Crises, 1578-2020” *Hoover Institution Economics Working Paper*, February.

Reinhart, Carmen M, and Kenneth S Rogoff. 2014. “**Recovery from Financial Crises: Evidence from 100 Episodes.**” *American Economic Review: Papers and Proceedings* 104 (5): 50-55.

X. Global Real Interest Rates

Rogoff, Kenneth S., Barbara Rossi, and Paul Schmelzing. 2023. “[Long-Run Trends in Long-Maturity Real Rates](#): 1311-2022.” Mimeo, Harvard University, July.

Holston, Kathryn, Thomas Laubach and John C. Williams, 2017. “Measuring the Natural Rate of Interest: International Trends and Determinants. *Journal of International Economics* 108 (May): S59-S75.

Holston, Kathryn, Thomas Laubach and John C. Williams, 2023. “Measuring the Natural Rate of Interest after COVID-19.” Federal Reserve Bank of New York Staff Report 1063, June.

Katie Baker, Logan Casey, Marco Del Negro, Aidan Gleich, and Ramya Nallamotu, “The Evolution of Short-Run r^* after the Pandemic” Liberty Street Economics, August 10, 2023

XI. Debt to China

Horn, Reinhart, Trebesch: **China’s Overseas Lending**, NBER WP 25060, July 2019 published in *Journal of International Economics*, November 2021

Horn, Reinhart, Trebesch: **Hidden Defaults**, *American Economic Review Papers & Proceedings* 2022a

Horn, Parks, Reinhart, Trebesch: **China as an International Lender of Last Resort**, NBER WP 31105 forthcoming in *American Economic Review Papers & Proceedings* 2023

XII. Sovereign Risk

*Bulow, Jeremy and Kenneth Rogoff, “[Sovereign Debt: Is to Forgive to Forget?](#)” *American Economic Review* 79 (March 1989), 43-50.

*Hebert, Benjamin, and Jess Schreger, 2017. “The Costs of Sovereign Default: Evidence from Argentina,” *American Economic Review* 107 (October 2017), 3119-45.

Meyer, Josefin, Carmen M. Reinhart and Christoph Trebesch, 2019. “Sovereign Bonds since Waterloo,” *The Quarterly Journal of Economics*, Volume 137, Issue 3, August 2022, pp 1615–1680.

Trebesch, Christoph, and Zabel, Michael. “The Output Costs of Hard and Soft Sovereign Default.” *European Economic Review* 92 (2017): 416-32.

Mitchener, Kris James, and Christoph Trebesch, 2023. “Sovereign Debt in the 21st Century,”
Journal of Economic Literature, forthcoming.

Sovereign Risk, Currency Risk and Corporate Balance Sheets, (Wenxin Du and Jesse Schreger),
The Review of Financial Studies, Volume 35, Issue 10, October 2022, Pages 4587–4629

The Costs of Sovereign Default: Evidence from Argentina in *American Economic Review* (2017)
by Benjamin Hebert and Jesse Schreger

Arellano, Cristina. "Default risk and income fluctuations in emerging economies." *American Economic Review* 98, no. 3 (2008): 690-712.

*Obstfeld and Rogoff, chapter 6, 363-379.

XIII. DIGITAL CURRENCIES

Rogoff, Kenneth, and Yang You. 2023. “**Redeemable Platforms Currencies.**” Review of
Economic Studies, volume 90, Issue 2, March 2023, pages 975-1008.

Graf von Luckner, Clemens, Carmen M. Reinhart, and Kenneth S. Rogoff. 2023. “**Decrypting New Age International Capital Flows.**” Forthcoming (with minor revisions) Journal of
Monetary Economics.

XIV. Networks in International Finance

Chau, Vu, 2021. International Portfolio Investments with Trade Networks (mimeo Harvard
University, January)

Vasco M. Carvalho^{1,2,3} and Alireza Tahbaz-Saleh, 2019. “Production Networks: A Primer
(northwestern.edu) “ *Annual Review of Economics*.

Richmond, Robert F., 2019 Trade Network Centrality and Currency Risk Premia - RICHMOND
- 2019 - The Journal of Finance - Wiley Online Library *The Journal of Finance* 74:3
(June) 1315-61.

Vu Chau, Ethan Ilzetski, and Kenneth Rogoff, “The Use of Vehicle Currencies in International
Trade and Finance,” draft, Harvard University, March 2021.

XV. OTHER TOPICS

Afrouzi, Hassan, Marina Halac, Kenneth Rogoff, and Pierre Yarad. 2023. “**Monetary Policy Without Commitment.**” May 2023. *NBER Working Paper 31207*

Rogoff, Kenneth S., and Yuanchen Yang. 2023. “**A Tale of Tier 3 Cities.**” February 2023.
(Earlier version published as NBER working paper 30519, September 2022). [NBER](#)

Gardner Camille, and Peter Henry, 2023. “The Global Infrastructure Gap: Potential, Perils, and a Framework for Distinction,” forthcoming *Journal of Economic Literature*.