

# Syllabus - Open Macroeconomics

Xiaohan Wang

2024 Fall

- **Instructor:** Xiaohan Wang
- **Email:** wangxiaohan@mail.shufe.edu.cn
- **Office Hour:** By appointment
- **Time:** Wednesday 8:55-11:45am
- **Location:** Room 402, Teaching Building No.4

## Course Description

This is a doctoral level course. There are two parts for this course. The first part will introduce core topics in open macroeconomics, including international business cycle analysis, policy evaluation in open economy, financial frictions and instability, and sovereign default. In particular, we will mainly focus on small open economy models, though two-country models will also be discussed briefly. By the end of this course, students should be able to read and understand these strands of literature. In the second half, students present papers.

## Grading

Evaluation consists of

- two assignments (50%)
- one group presentation (25%)
- one referee report (25%)

The assignments should be done **independently**. You can discuss with your classmates, but should **NOT** submit in groups.

The presentation is a group task. Each group should have 2 members at most. You should pick one of the following **underlined paper** and give a 45-minute presentation. The presentation will start from Week 12. Each group should let me know which paper you'd like to present before the first class after the National Holiday break. The idea is to simulate the typical experience at a conference presentation, where you need to concisely and clearly communicate the main message of the paper. Two important pieces of advice on presentations in general are

- It's incredibly important to practice your slides. You should get your slides ready one week before your presentation and practice several times. Do not work to make your slides absolutely perfect until the last moment, but instead practice the slides you have.
- Get to the main point quickly. As a rule of thumb, you should motivate the paper in the first 1-2 slides, and then communicate the main contributions and message of the paper in the next 1-2 slides. You should also aim to have told the audience what is the main question, why they should care about it, and what it is that the paper does within the next 5 to 10 minutes.
- In addition, you should also explain the technical part in some details including the model setup, the novelty of the model, how does the model help illustrate the main point, etc. This part should take 25 to 30 minutes.
- In the last few minutes, talk about the interesting extensions or policy experiments. Then conclude.

Before the end of the semester, I will send you a few papers to write a detailed referee report. You could also choose an unpublished paper, but subject to my approval, to finish the task. The report should also be written and submitted by yourself.

# Topics

## 1. International business cycles

- [1] **Schmitt-Grohé, Uribe, and Woodford.** *International Macroeconomics*. <http://www.columbia.edu/~mu2166/UIM/index.html>: manuscript, 2021. Chap. 1-3.
- [2] **Uribe, Martin and Schmitt-Grohé, Stephanie.** *Open economy macroeconomics*. <http://www.columbia.edu/~mu2166/book/>, 2017. Chap. 1-8.
- [3] Enrique G Mendoza. “Real business cycles in a small open economy”. In: *The American Economic Review* (1991), pp. 797–818.
- [4] Stephanie Schmitt-Grohé and Martín Uribe. “Closing small open economy models”. In: *Journal of International Economics* 61.1 (2003), pp. 163–185.
- [5] Mark Aguiar and Gita Gopinath. “Emerging market business cycles: The cycle is the trend”. In: *Journal of Political Economy* 115.1 (2007), pp. 69–102.
- [6] Javier García-Cicco, Roberto Pancrazi, and Martín Uribe. “Real Business Cycles in Emerging Countries?” In: *American Economic Review* 100.5 (Dec. 2010), pp. 2510–31.
- [7] Emine Boz, Christian Daude, and C Bora Durdu. “Emerging market business cycles: Learning about the trend”. In: *Journal of Monetary Economics* 58.6-8 (2011), pp. 616–631.
- [8] Roberto Chang and Andrés Fernández. “On the sources of aggregate fluctuations in emerging economies”. In: *International Economic Review* 54.4 (2013), pp. 1265–1293.
- [9] Pablo A Neumeyer and Fabrizio Perri. “Business cycles in emerging economies: the role of interest rates”. In: *Journal of monetary Economics* 52.2 (2005), pp. 345–380.
- [10] Jesús Fernández-Villaverde et al. “Risk matters: The real effects of volatility shocks”. In: *American Economic Review* 101.6 (2011), pp. 2530–2561.

- [11] David K Backus, Patrick J Kehoe, and Finn E Kydland. “International real business cycles”. In: *Journal of political Economy* 100.4 (1992), pp. 745–775.
- [12] David Backus, Patrick Kehoe, and Finn Kydland. “Dynamics of the Trade Balance and the Terms of Trade: The J-Curve?” In: *American Economic Review* 84.1 (1994), pp. 84–103.
- [13] Marc J. Melitz. “The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity”. In: *Econometrica* 71.6 (2003), pp. 1695–1725.
- [14] Ghironi, Fabio and Melits, Marc J. “International Trade and Macroeconomic Dynamics with Heterogeneous Firms”. In: *The Quarterly Journal of Economics* 120.3 (Aug. 2005), pp. 865–915. ISSN: 0033-5533.
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- [16] Di Giovanni, Julian and Andrei A Levchenko. “Country size, international trade, and aggregate fluctuations in granular economies”. In: *Journal of Political Economy* 120.6 (2012), pp. 1083–1132.
- [17] Barattieri, Alessandro and Cacciatore, Matteo and Fabio Ghironi. “Protectionism and the business cycle”. In: *Journal of International Economics* 129 (2021), p. 103417.

## 2. Exchange-rate policy, capital control and monetary policy in open economies

- [18] **Uribe, Martin and Schmitt-Grohé, Stephanie.** *Open economy macroeconomics*. <http://www.columbia.edu/~mu2166/book/>, 2017. Chap. 9-11.
- [19] Luis Felipe Céspedes, Roberto Chang, and Andres Velasco. “Balance sheets and exchange rate policy”. In: *American Economic Review* 94.4 (2004), pp. 1183–1193.
- [20] Varadarajan V Chari, Patrick J Kehoe, and Ellen R McGrattan. “Can sticky price models generate volatile and persistent real exchange rates?” In: *The review of economic studies* 69.3 (2002), pp. 533–563.

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- [25] Ottonello, Pablo. “Optimal exchange-rate policy under collateral constraints and wage rigidity”. In: *Journal of International Economics* 131.C (2021), S0022199621000556.

### 3. Financial frictions and aggregate instability

- [26] **Uribe, Martin and Schmitt-Grohé, Stephanie.** *Open economy macroeconomics*. Princeton University Press, 2017. Chap. 12.
- [27] Enrique G Mendoza. “Sudden stops, financial crises, and leverage”. In: *American Economic Review* 100.5 (2010), pp. 1941–66.
- [28] Javier Bianchi. “Overborrowing and systemic externalities in the business cycle”. In: *American Economic Review* 101.7 (2011), pp. 3400–3426.
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- [33] Martín Uribe. “On Overborrowing”. In: *American Economic Review* 96.2 (May 2006), pp. 417–421. DOI: 10.1257/000282806777211829.
- [34] Benigno, Gianluca et al. “Financial crises and macro-prudential policies”. In: *Journal of International Economics* 89.2 (2013), pp. 453–470.
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## 4. Sovereign default

- [38] Uribe, Martin and Schmitt-Grohé, Stephanie. *Open economy macroeconomics*. 2017. Chap. 13.
- [39] Jonathan Eaton and Mark Gersovitz. “Debt with potential repudiation: Theoretical and empirical analysis”. In: *The Review of Economic Studies* 48.2 (1981), pp. 289–309.
- [40] Cristina Arellano. “Default risk and income fluctuations in emerging economies”. In: *The American Economic Review* (2008).
- [41] Satyajit Chatterjee and Burcu Eyigungor. “Maturity, indebtedness, and default risk”. In: *American Economic Review* (2012).
- [42] Jeremy Bulow and Kenneth Rogoff. “Sovereign debt: Is to forgive to forget?” In: *American Economic Review* 79.1 (1989), pp. 43–50.
- [43] Mark Aguiar and Gita Gopinath. “Defaultable debt, interest rates and the current account”. In: *Journal of international Economics* (2006).

- [44] Vivian Z Yue. “Sovereign default and debt renegotiation”. In: *Journal of international Economics* (2010).
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