Economics 6356: International Finance and Macroeconomics
Fall 2023

Instructor: Camilo Granados
Class Time and Location: Monday 11:30-12:45 PM, PHY 1.103
Course Office Hours: Wednesday 2:00-3:00 PM or by appointment (in person or Teams)
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Course Description

This course explores modern topics in international finance and macroeconomics. The goal is to introduce the students to seminal research frameworks in the study of the international business cycles, the effect of policies in an open economy environment, as well as the determination of international prices and variables such as external borrowing, the exchange rate, and the terms of trade, among others.

We will initially study models of small open economies with flexible prices, focusing on the changes the frameworks undergo to adjust them to an international setting where step by step, we will be adding layers of variables that become relevant once we abandon the closed economy setup. Then we will cover models with financial frictions and nominal rigidities, focusing on the optimal determination of the -monetary and financial- policy actions that can be applied in the presence of exogenous shocks. After this, we will extend the framework to that of large open economies and discuss the potential international spillovers that can be transmitted between economies.

The course is designed as an advanced graduate class (Ph.D.) with a strong emphasis on developing research skills.

Prerequisites

The course will cover a sequence of mathematical models. This will require familiarity with multivariate calculus and constrained optimization. Techniques such as using the chain rule, setting up a Lagrangian, taking logarithms of functions of multiple variables, and differentiating <u>must be familiar to you</u>. If you have forgotten these topics, you should review them as soon as possible. The only other prerequisites are Intermediate Macroeconomics (undergrad) and Macroeconomic Theory (master level) -or similar courses- with a minimum grade of 2.0.

Workload expectations

You **can expect to work hard in this course**. This course is meant for students highly interested in advanced international finance and macroeconomics and willing to do a considerable amount of reading and use plenty of math. If, on the contrary, you are looking for a course at the last minute to fill your schedule, this may not be the right choice. Having said this, you should also know that I am more than happy to reward your effort as possible and that I am willing to work just as hard as I expect you to.

Another **important change with respect to other courses is the emphasis on research.** This course is designed as a Ph.D. class that revolves <u>entirely</u> around building research skills. As such, it is not the typical (undergrad or masters level) course with only problem sets and exams. Instead, the student is expected to engage in research activities by participating in research workshops, preparing research reports, and generating a research proposal or paper by the end of the semester.

Learning Objectives

After this class, you will have been **exposed to recent research in international finance and macroeconomics**, which will give you an idea of how macroeconomists and international policy institutions think about economic and policy-relevant questions in an open economy setting. You will recognize the necessary adjustments to extrapolate knowledge of closed economy setups into open economies questions. You will also get an overview of the mathematical and modeling tools involved in the analysis of these topics, as well as familiarity with the application of statistical (time series and panel) methods to support these theoretical analyses.

This course is designed as an advanced graduate (Ph.D.) class and thus emphasizes developing research skills. Therefore, aside from introducing the main topic of study, this course has the secondary **objective of familiarizing the students with the skills required for conducting research in macroeconomics**.

Group Work

Working in groups is highly encouraged. Informal study groups are encouraged for assignment preparations. However, you must submit your own individual work for all assignments.

Course Textbook

This course is based on several sources of materials, we will follow the "course textbook, lecture notes, and research papers. For each topic, the main source of reference will be announced. In addition, I also list a number of optional books that can be used to complement lecture topics:

- [Course Textbook (OEM) - Required] Uribe, Martin, and Schmitt-Grohé, Stephanie. *Open Economy Macroeconomics*. Modern Macroeconomics, Princeton University Press, Princeton, NJ, 2017.
- Obstfeld, Maurice, and Rogoff, Kenneth. *Foundations of International Macroeconomics and Finance: Theory and Econometric Methods*, MIT Press, Cambridge, MA, 1996.
- Additional supplementary handouts and study notes will be posted on the course website.

Assessments

The assessment will be entirely based on conducting research-related tasks. For this, there will be two course conferences with paper presentations, each with an additional activity, namely a discussion presentation for the first one and a technical report submission for the second. In addition, there will be a final research paper or article submission. The guidelines for these assignments are given as follows (example for these are available on the course website, and examples of presentations in a conference format will be shown in class during the first week of the semester).

- First workshop presentation (20%)

We will hold a workshop conference where each student will present an unpublished working paper (in international finance and economics) for 25 minutes. You must spend approximately twenty minutes explaining the main contribution of the paper and five minutes providing further comments (preferably of substance, indicating how to improve the paper or what further work you could do if you were the author).

To select a paper to present you can use one of the following resources:

NBER Working Papers (Link; or enter via NBER.org, Research, Working Papers, you may be have to create and

account on the website and sign in, or could try accessing the papers from the UTD library)
There look primarily for papers under the Group International Finance and Macroeconomics. Papers in other groups such as International Trade and Investment, Monetary Economics, and Asset Pricing may also be good selections (see note on JEL codes below)

CEPR Discussion Papers (Link): another interesting source are the CEPR discussion papers (filtering Programs by International Macroeconomics and Finance or International Macroeconomics). Unfortunately, having free access to the papers is more difficult. In this case I recommend looking at the library, or copying the name of the paper and looking it search engines (usually the same paper is available in different working paper series).

Papers from other sources can be presented, subject to my approval. In case you want to look for other sources (or in general) *consider that papers in international finance and macroeconomics usually have (Journal of Economic Literature) JEL codes starting with the letter E, and possibly F and G.*

The presentations will take place in Week # 6: 9/25 – 9/29.

Then, to have enough time, **you should have a selected paper by 9/1** (this early selection gives enough time in advance for discussant to prepare their presentations too).,

- Working Paper presentation discussion (10%)

After each presentation, another student will give a smaller discussion presentation (5-10 minutes) where the paper of reference is briefly summarized, and then comments are made on the paper. This will follow the typical conference discussion format where you will present as if you were a scholar giving the paper's author feedback.

The paper to be discussed will be one among those presented (with a longer format and time) by another student in the workshop. Thus, I will assign the paper you will discuss once the papers are selected.

- Second Workshop presentation (20%)

There will be a second presentation, this time of a *recently published article*. The idea is for you to observe the changes an article may undergo from its initial working paper versions until its final published version. The format is similar to that of the first workshop, you will have 25 minutes to present, now spending approximately fifteen minutes on the paper content and main points and ten in your own comments and feedback on the article.

You should select a paper published no more than about 8 years ago (in 2014 or afterward).

Some good sources for selecting the article:

- The bibliographic references of the Course Textbook (OEM): the OEM book was published in 2017 and cites several works that were working papers at the time (with bibliographic entries that include words such as "Working Paper", "Working Paper Series", mimeo, "Discussion Paper", among others). These may have been published by now.
- Papers recently published in the following journals: Journal of International Economics, American Economics Journal-Macroeconomics, Review of Economic Dynamics, Journal of Money Credit and Banking, Journal of International Money and Finance, Journal of Monetary Economics, International Economic Review, Economic Journal, IMF Economic Review, Journal of Banking and Finance, among others.
- You can pick articles from other sources as long as they are "recent" by our definition above and subject to my approval (you should have access to all these journals through the UTD library).

When looking for articles in these sources or in general, remember that our articles of interest usually have JEL codes starting with the letter E, and possibly F and G.

Second workshop date: **Week 12: 11/10-11/13**, the selection of papers must be made by 10/23.

- Research Article report (20%)

On the date of the second workshop (11/10) you must submit a report on your selected article (the one you are presenting). The sections and guidelines of the report are:

- Executive summary (1-3 pages): this section should introduce the article and explain the main points and results it contains. Additional comments can be made on the extent of their contribution and their place in the literature.
- Technical appendix (10-20 pages): the report should continue with an appendix detailing the mathematical results of the model developed in the paper, including the intermediate steps (usually skipped in the papers) involved in obtaining the main results.

Notice that the technical appendix implies that it will be easier to select papers that contain theoretical work and not only empirical estimations. Keep this in mind, as selecting an appropriate paper that allows for a good report is part of the skills to be assessed.

- Final research paper or proposal (30%)

There is a final submission for this course. It consists of a term paper or a research proposal (12-25 pages) showing your original work. This can consist of an extension of an existing paper or an exploration of one of your research ideas (on a topic related to the course). The approach can be either theoretical, empirical (or both). Guidelines or samples of each will also be posted on the course website.

Research paper (12-25 pages): This will be a self-contained working paper where you will introduce a research question and develop a methodology to analyze it; the method can be a model (theoretical), or an econometric estimation (empirical).

Research proposal (12-25 pages): This consists of a report where you establish a research question of interest, identify the literature sources it closely relates to, and sketch a plan for a research project. Part of the proposal should include some preliminary methodological attempts (theoretical or empirical) to explore your question of interest.

Importantly, there is no preference on my part for which of the options you pick for the final project (paper or proposal) you should judge yourself on, which allows for a better sample of your research skills and understanding of the class topics. For example, a clear and good proposal -even if based on preliminary modeling or data explorations- is preferred to a paper with very little original content.

- Participation (Extra Credit - 10%)

Students can receive an additional 10% full score credit for presenting an overview of the previous topic presented in the lectures. At the end of a week's lecture, two students will be selected, and the following week one of these will be randomly selected to give a 10-minute review lecture on the topic presented most recently. The student in charge can use the whiteboard or slides as deemed necessary.

-Teaching evaluation incentive:

A key component in the design of this course is the continuous revision and improvement of its materials

and delivery. For this task, having enough feedback and teaching evaluations is paramount. With that in mind, I will give an additional 1% full extra credit on the final grade if the response rate on the teaching evaluations exceeds 80%.

Grading Policy:

Grading scale: 100 >= A >= 93, 93 > A- >= 90, 90 > B+ >= 87, 87 > B >= 83, 83 > B- >= 80, 80 > C+ >= 77, 77 > C >= 73, 73 > C- >= 70, 70 > D+ >= 67, 67 > D >= 63, 63 > D- >= 60, 60 > F

Course Topics

Find below a list of the topics to cover (on a time-permitting basis). In each, the main reference for preparing the respective lecture is mentioned; such material will contain a more detailed list of bibliographic references you can consult.

1. Introduction: International Business Cycles Facts
    - Reference: OEM Chp 1
2. A Small Open Economy Model: Endowments and Model with Capital
    - Reference: OEM Chp 2, 3
3. A Small Open Economy Real Business Cycles Model and the Role of Financial Frictions in Emerging Markets
    - Reference: OEM Chp 4, Chp 5, Chp6
4. The Terms of Trade and the Deviations from the Purchasing Power Parity
    - Reference: Lecture notes
5. Terms of Trade, Traded and Non-Tradable Goods, and The Real Exchange Rate
    - Reference: OEM Chp 7, 8
6. Nominal Rigidities, Exchange Rates, and Unemployment
    - Reference: OEM Chp 9
7. The International Real Business Cycles Model with Large Economies
    - References: Obstfeld and Rogoff (1996, Chp 10), Lecture notes
8. International Policy Links and Macroeconomic Interdependence
    - References: Lecture notes
9. Exchange Rate Dynamics Determination
    - References: Lecture notes
10. Fixed Exchange Rates and Capital Controls
    - Reference: OEM Chp 10
11. Financial Frictions, Collateral Constraints and Debt Dynamics
    - Reference: OEM Chp 12
12. Final Remarks: Puzzles in International Finance and Macroeconomics
    - Reference: Lecture notes

About office hours

To prevent overlapping with other students, you must tell me in advance (via email) if you are attending office hours. You can email and meet me on the same day for the pre-defined Wednesday slots. However, for appointments at other times, you need to tell me at least 3 days before the time you expect to meet.

Academic Conduct Policy

The School of Economic, Political, and Policy Sciences – EPPS supports University policies regarding academic honesty and classroom behavior. Students of the course are expected to adhere to the University of Texas at Dallas' Policy on Academic Honesty, that can be found at https://conduct.utdallas.edu/dishonesty/

Class Recordings

Students are expected to follow appropriate University policies and maintain the security of passwords used to access recorded lectures. Unless the Office of Student AccessAbility has approved the student to record the instruction, students are expressly prohibited from recording any part of this course. Recordings may not be published, reproduced, or shared with those not in the class, or uploaded to other online environments except to implement an approved Office of Student AccessAbility accommodation. Failure to comply with these University requirements is a violation of the Student Code of Conduct.

Note: The instructor may record meetings of this course. These recordings will be made available to all students registered for this class if the intent is to supplement the classroom experience. If the instructor or a UTD school/department/office plans any other uses for the recordings, consent of the students identifiable in the recordings is required prior to such use unless an exception is allowed by law.

Withdrawal from Class

The administration at UT Dallas has established deadlines for withdrawal from any course. These dates and times are published in the Comet Calendar (http://www.utdallas.edu/calendar) and in the Academic Calendar (http://www.utdallas.edu/academiccalendar). It is the student's responsibility to handle withdrawal requirements from any class. In other words, a professor or another instructor cannot drop or withdraw any student unless there is an administrative drop such as the following:

- Not meeting the prerequisites for a specific course
- Not satisfying the academic probationary requirements, resulting in suspension
- An Office of Community Standards and Conduct request
- Not making appropriate tuition and fee payments
- Enrollment is in violation of academic policy
- Not admitted for the term in which they registered

It is the student's responsibility to complete and submit the appropriate forms to the Registrar's Office and ensure that he or she will not receive a final grade of "F" in a course if he or she chooses not to attend the class after being enrolled.

Incomplete Grade Policy

As per university policy, incomplete grades may be given at the discretion of the instructor of record for a course, when a student has completed at least 70% of the required course material but cannot complete all requirements by the end of the semester. An incomplete course grade (grade of 'I') must be completed within the time period specified by the instructor, not to exceed eight (8) weeks from the first day of the subsequent long semester. Upon completion of the required work, the grade of 'I' may be converted into a letter grade (A through F). If the grade of Incomplete is not removed by the end of the specified period, it will automatically be changed to a grade of F. The incomplete grade policy is included in the online UT Dallas Undergraduate Catalog, https://catalog.utdallas.edu/now/undergraduate/policies/academic#incomplete-grades and the Graduate Catalog, https://catalog.utdallas.edu/now/graduate/policies/grades#grade-of-i-incomplete.

Accommodations for Students with Disabilities

The University of Texas at Dallas is committed to providing reasonable accommodations for all persons with disabilities. The syllabus is available in alternate formats upon request. If you are seeking classroom accommodations under the Americans with Disabilities Act (2008), you are required to register with the Office of Student AccessAbility (OSA), located in the Administration Building, Suite 2.224. Their phone number is 972-883-2098, email: studentaccess@utdallas.edu and the website is https://studentaccess.utdallas.edu. To receive academic accommodations for this class, please obtain the proper Office of Student AccessAbility letter of accommodation and meet with the Director of OSA at the beginning of the semester.

The descriptions and timelines contained in this syllabus are subject to change at the discretion of the professor and, if done, will be announced during the lecture