**Economics 745-A Macro Finance**

**Marianne Baxter Fall 2019**

# Reading List and Course Schedule

This course is going to be whatever the hell I want it to be, and there is nothing anyone can do about it. That was probably always true, but this year the quest for pleasing students and others is officially over. The goals of this course are (1) to make sure that I have fun; (2) to make sure that I am interested in what I’m talking about (3) to create an environment in which I can learn something new and in which the students can learn something new; (4) connect with students who are willing and able to learn; (5) teach the students what I think they need to know over what THEY think they need to know; and (6) get good teaching evaluations.

Prequisites: Students in this course must have completed the first-year classes in the Economics PhD program at Boston University. No exceptions.

## Course time and location:

This class meets in SSW 315, Tuesday and Thursday, 11:00-12:15.

Contact information:

Office: 270 Bay State Road, Room 505

E-mail: mbaxter@bu.edu

Office Hours:

**Course requirements:**

\section\*{Grading}

Your grade will be based on preparation for and participation in classroom discussions (25%) class presentation (25%), problem sets (20%), and a replication exercise (30%).

\section\*{Presentations}

You will have 25 minutes for your class presentation of your selected paper, using no more than 13 slides. You can not exceed your allotted time. You also cannot present for fewer than 22 minutes. This is designed to give you practice in timing a presentation on the fly in front of a real audience.

The presentation should cover concisely all of the four following points: (i) what is the motivation, (ii) what does the paper actually do (not what it says it does!), (iii) what are the results, (iv)your comments and criticisms of the paper. You should aim for no more than 13 slides. The key component of the presentation is to identify and clearly exposit the central point of the paper, as well as having something nontrivial and cogent to add to the discussion. The list of papers to present is below. Papers will be allocated to the first student requesting the paper.

Textbooks

Required: “Asset Pricing”, John Cochrane, (Princeton U Press).

Suggested: Campbell

\subsubsection\*{Week 1: Consumption-based asset pricing}

The standard CRRA, lognormal model and empirical challenges.

\item \textbf{Cochrane textbook: chapters 1 and 2.}

\item Cochrane, John (2016) “Macro Finance,” NBER Working Paper 22485, August 2016.

\item Cochrane, John, “The Dog that did not bite: A Defense of Return Predictability”, Review of Financial Studies 21(4) 2008.

\end{itemize}

• Week 2: General results on stochastic discount factor: existence, uniqueness, Hansen-Jagannathan and Alvarez-Jermann bounds and GMM Euler Equation Estimation

Cochrane chapter 3 and 4.

Ait-Sahalia, yacine, Jonathan A. Parker and Motohiro Yogo, “Luxury Goods and the Equity Premium”, Journal of Finance Vol. 59, No 6 (2004).

Cochrane chapters 10,11 and 20.

• Week 3: Campbell-Shiller price-dividend ratio decomposition and Habits model.

Campbell and Cochrane: “By Force of Habit: A Consumption-Based Explanation of Aggregate Stock Market Behavior”, 1999, Journal of Political Economy 107(2): 205-251.

Campbell: “Asset Prices, Consumption, and the Business Cycle” Handbook of Macroeconomics (or NBER w6485)

• Week 4: Long-Run Risk model. Time-varying uncertainty, time-varying probability of disas- ter.

Bansal and Yaron: “Risks for the Long Run: A Potential Explanation of Asset Pricing Puzzles”, 2004, Journal of Finance, 59(4): 1481-1509.

Nakamura, Sergeyev and Steinson, “Growth Rate and Uncertainty Shocks in Consumption: Cross-Country Evidence”, American Economics Journal: Macroeconomics, Forthcoming.

Gabaix, Xavier “Variable Rare Disasters: An Exactly Solved Framework for Ten Puzzles in Macro-Finance”, Quarterly Journal of Economics, 2012.

Wachter, Jessica A. “Can Time Varying Risk of Disaster Explain Aggregate Stock market Volatility”, Journal of Finance, 2013.

\section\*{International Finance Papers to Allocate}

\begin{itemize}

\item Baxter, M., (2012) “International risk-sharing in the short run and in the long run,” Canadian Journal of Economics.

Required reading: Lucas, Robert E., Jr. (1982) “Interest rates and currency prices in a two-country world,” Journal of Monetary Economics 10:336-360.

Required reading: Fama, E. F. (1984): “Forward and spot exchange rates,” Journal of Monetary Economics, 14, 319–338.

Required reading: Backus, D., S. Foresi and C. Telmer (2001) “Affine Term Structure Models and the Forward Premium Anomaly,” Journal of Finance 56:1 (February 2001), 279-304.

Required reading: Verdelhan, Adrien (2010) "A Habit-Based Explanation of the Exchange Rate Risk Premium," Journal of Finance, 2010, 65 (1), 123-145.

Required reading: Backus, David K., and Gregor W. Smith, 1993, Consumption and real exchange rates in dynamic economies with non-traded goods, Journal of International Economics 35, 297–316.

(survey) Engel, C. (2015): “Exchange Rates and Interest Parity,” Handbook of International Economics 4.

Backus, D., S. Foresi and C. Telmer (2001) “Affine Term Structure Models and the Forward Premium Anomaly,” Journal of Finance 56:1 (February 2001), 279-304.

Verdelhan, Adrien (2010) "A Habit-Based Explanation of the Exchange Rate Risk Premium," Journal of Finance, 2010, 65 (1), 123-145.

Required reading: Lewis, Karen K. and E. Liu (2015) “Evaluating International Consumption Return Gains: An Asset Return View,” Journal of Monetary Economics 71, 84-98.

Required reading: Lewis, Karen K. and E. Liu (2017) “Disaster risk and asset returns: An international perspective,” Journal of International Economics 2017.

Colacito, Riccardo and Mariano Croce (2013) “International Asset Prices with Recursive Preferences,” Journal of Finance 68:6 (December 2013), 2651-2686.

Engel, Charles (2016) “Exchange rates, interest rates, and the risk premium,” AER. (also NBER WP 21042)

Stathopoulis, A. (2017) “Asset Prices and Risk Sharing in Open Economies,” Review of Financial Studies 2017, 30(2), 363-413.

Alvarez, Fernando, Andrew Atkeson, and Patrick J. Kehoe, 2009, Time-varying risk, interest rates, and exchange rates in general equilibrium, Review of Economic Studies 76, 851–878.

Hassan and Mano (2015) “Forward and Spot Exchange Rates in a Multi-Country World,” manuscript, University of Chicago.

Hassan, Tarek (2013) “Country Size, Currency Unions, and International Asset Returns,” Journal of Finance 68:6 (December 2013), 2269-2308.

Sovereign Debt

Sovereign debt

(survey) Eaton, J. and R. Fernandez (1995) “Sovereign Debt.” In: Handbook of International Economics III, G. Grossman and K. Rogoff, Eds., (Amsterdam: North-Holland), pages 2031-2077.

(survey) Aguiar, M. and M. Amador (2013) “Sovereign Debt: a Review,” Handbook of International Economics.

\*Eaton/Gersovitz as presented in Eaton/Fernandez handbook chapter

Bulow, J. and K. Rogoff (1989) “Sovereign Debt: Is to Forgive to Forget?” American Economic Review 79 (March 1979), 43-50.

Arellano, C. (2008): “Default Risk and Income Fluctuations in Emerging Economies,” American Economic Review 98: 690-712.

Arellano, C. and A. Ramanarayanan (2012) “Default and the Maturity Structure in Sovereign Bonds,” Journal of Political Economy 2012.

Borri, N. and A. Verdelhan (2015) “Sovereign Risk Premia,” manuscript, MIT.

Arellano, C., Y. Bai and S. Lizarazo (2017) “Sovereign Risk Contagion,” NBER WP 24031, November 23017.

Arellano, C., Y. Bai and G. Mihalache (2017) “Default Risk, Sectoral Reallocation and Persistent Recessions,” NBER Working Paper 23835, September 2017.

Mendoza, E. G. (2010). Sudden stops, financial crises, and leverage. The American Economic Review, 100(5):1941-1966.

Engel, C. and J. Park (2018) “Debauchery and Original Sin: The Currency Composition of Sovereign Debt,” NBER Working Paper 24671, May 2018.

Na, S., S. Schmitt Grohe, M. Uribe, and V. Yue The Twin Ds: Optimal Default and Devaluation, forthcoming, American Economic Review. Link to slides, paper, replication files: http://www.columbia.edu/~mu2166/eg/index.htm

Aguiar, Mark, Manual Amador, Emmanuel Farhi, and Gita Gopinath. 2013. “Crisis and Commitment: InflationCredibility and the Vulnerability to Sovereign Debt Crises”.

Schreger, J. and B. Hebert (2016) "The Cost of Sovereign Default: Evidence from Argentina", manuscript.

Chatterjee, S. and Eyigungor, B. (2012). Maturity, indebtedness, and default risk. American Economic Review, 102(6):2674-99.

Maggiori, M., B. Neiman and J. Schreger (2018) "International Currencies and Capital Allocation" .

Portfolio Home Bias

Portfolio Home Bias

(survey) Coeurdacier, N. and H. Rey (2013) “Home Bias in Open Economy Financial Macroeconomics”, with Helene Rey, 2013 [pdf]. Journal of Economic Literature, 51(1), 63-115.

Baxter, M., and U. J. Jermann and R. King (1998) “Nontraded goods, nontraded factors, and international non-diversification,” Journal of International Economics 44, 211-229.

Coeurdacier, N. and P. Gourinchas (2016) “When Bonds Matter: Home Bias in Goods and Assets”, revised version April 2016 [pdf]. Journal of Monetary Economics.

van Nieuwerburgh, S. and L. Veldkamp (2010) “Information acquisition and under-diversification,” Review of Economics and Statistics.

Valchev, Rosen (2017) “Dynamic Information Acquisition and Home Bias in Portfolios,” manuscript, Boston College, 2017.

Burger, J., F. Warnock and V. Warnock (2017) “Currency Matters: Analyzing International Bond Portfolios,” NBER Working Paper 23175.

Stathopoulis, A. (2016) “Portfolio Home Bias and International Consumption Correlation,” manuscript, University of Washington, November 2016

van Wincoop, E. and F. Warnock (2010) “Can Trade Costs Explain Home Bias in Assets?”

Topics in Empirical International Finance

Schreger, J. and W. Du (2016) “Local Currency Risk Premia,” Journal of Finance, 71(3), June 2016, Pages 1027-1070.

Lustig, H., Stathopoulis, A., and A. Verdelhan (2017) “The Term Sructure of Currency Carry Trade Risk Premia,” NBER Working Paper 19623.

Du, W., J. Im and J. Schreger (2017) “The US Treasury Premium,” NBER Working Paper 23759.

Du, W. and A. Tepper, (2017) “Deviations from Uncovered Interest Rate Parity,” NBER Working Paper 23170.

\end{itemize}

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# Reading List

**This draft: 3/11/2019**

**This reading list will be updated as needed throughout the semester.**

## Empirics of Business Cycles in Open Economies: Filtering and Stylized Facts

Required Reading (survey) Baxter, Marianne (1995) "International trade and business cycles," *in: Handbook of International Economics* 3, (G. Grossman and K. Rogoff, eds.), December 1995, section on filtering and open economy business cycles.

(book/survey) Schmitt-Grohe, S. and M. Uribe (2016) “Open Economy Macroeconomics,” manuscript, Columbia University, 2016. http://www.columbia.edu/~mu2166/book/, Chapter 1.

Suggested Reading: Baxter, Marianne and Robert King (1999) “Measuring Business Cycles: Approximate Band-Pass Filters for Economic Time Series,” Review of Economics and Statistics, November 1999 81(4), 575-593.

Suggested Reading: Lawrence J. Christiano and Terry J. Fitzgerald, The Band Pass Filter, International Economic Review, 2003, 44(2), 435-465

Hamilton, James (2018) “Why you should never use the Hodrick-Prescott filter,” Review of Economics and Statistics, December 2018.

Backus, D. K. and Kehoe, P. J. (1992). International evidence on the historical properties of business cycles. The American Economic Review, 82:864-888.

Slides: Baxter, M. and Stockman, A. C. (1989). Business cycles and the exchange-rate regime: some international evidence. Journal of Monetary Economics, 23(3):377-400.

Imbs, J. (2010). The first global recession in decades. IMF economic review, 58(2):327-354.

Gali, J. and T. van Rens (2014) [“The vanishing procyclicality of labor productivity](file:///C:\Users\BaxterMarianne\Dropbox%20(Personal)\ec792s19\reading%20list\Gali%20and%20van%20Rens:%20the%20vanishing%20procyclicality%20of%20labor%20productivity;%20University%20of%20Warwick%20Working%20paper#1062, Januaey 2014.),” University of Warwick Working paper #1062, January 2014.

Suggested Reading: Aguiar, M. and Gopinath, G. (2007). Emerging market business cycles: The cycle is the trend. Journal of Political Economy, 115(1).

## Models of Small Open Economies

Required reading: Baxter, Marianne (1995) "International trade and business cycles," *in: Handbook of International Economics* 3, (G. Grossman and K. Rogoff, eds.), December 1995, section on SOE models.

(book/survey) Schmitt-Grohe, S. and M. Uribe (2016) “Open Economy Macroeconomics,” manuscript, Columbia University, 2016. http://www.columbia.edu/~mu2166/book/, Chapters 2-4.

Mendoza, E. G. (1991). Real business cycles in a small open economy. The American Economic Review, pages 797-818.

Suggested Reading: f, E. G. (1995). The terms of trade, the real exchange rate, and economic fluctuations. International Economic Review, pages 101-137.

Slides: Schmitt-Grohé, S. and Uribe, M. (2003). Closing small open economy models. Journal of international Economics, 61(1):163-185.

Rothert, J. (2015). International business cycles in emerging markets. Unpublished Manuscript.

Alessandria, G., Pratap, S., and Yue, V. Z. (2013). Export dynamics in large devaluations. Unpublished Manuscript.

Chang, R. and Fernández, A. (2013). On the sources of aggregate fluctuations in emerging economies. International Economic Review, 54(4):1265-1293.

Suggested Reading: Garcia-Cicco, J., Pancrazi, R., and Uribe, M. (2010). Real business cycles in emerging countries? The American economic review, 100(5):2510-2531.

Justiniano, A. and Preston, B. (2010). Can structural small open-economy models account for the influence of foreign disturbances? Journal of International Economics, 81(1):61-74.

## General Equilibrium Models of Open Economies: Basic Mechanisms

Required reading: Baxter, Marianne (1995) "International trade and business cycles," *in: Handbook of International Economics* 3, (G. Grossman and K. Rogoff, eds.), December 1995; large open economy sections

(book/survey) Schmitt-Grohe, S. and M. Uribe (2016) “Open Economy Macroeconomics,” manuscript, Columbia University, 2016. <http://www.columbia.edu/~mu2166/book/>,

Suggested Reading: Backus, David K.; Kehoe, Patrick J. and Kydland, Finn E. (1992) "International Real Business Cycles." Journal of Political Economy, August 1992, 100(4), pp. 745-75.

Suggested Reading: Backus, D. K., P. J. Kehoe, and F. E. Kydland (1994): “Dynamics of the Trade Balance and the Terms of Trade: The J Curve?” American Economic Review 84: 84-103.

Suggested Reading: Backus, David K., and Gregor W. Smith, 1993, Consumption and real exchange rates in dynamic economies with non-traded goods, Journal of International Economics 35, 297–316.

Slides: Baxter, Marianne and Dorsey D. Farr (2006) “Variable factor utilization and international business cycles,” Journal of International Economics, January 2006, and NBER Working Paper 8475.

Suggested Reading: Baxter, M., and M. J. Crucini (1993): “Explaining Saving-Investment Correlations,” *American Economic Review* 83: 416-436.

## 2/5/2019 and 2/7/2019 Macro of Open Economies: Asset Markets, Transmission, and Comovement

\*(survey) Baxter, Marianne (1995) "International trade and business cycles," *in: Handbook of International Economics* 3, (G. Grossman and K. Rogoff, eds.), December 1995.

Required reading: Baxter, M., and M. Crucini (1995): “Business Cycles and the Asset Structure of Foreign Trade,” *International Economic Review* 36: 821-853.

Slides: Ishise, H. “Heathcote, J., and F. Perri (2002): “Financial Autarky and International Business Cycles,” *Journal of Monetary Economics* 49: 601-627.

Suggested reading: Kim, J., and S. H. Kim (2003): “Spurious Welfare Reversals in International Business Cycle Models,” *Journal of International Economics* 60: 471-500.

Suggested reading: Crucini, Mario (1997) “Country size and economic fluctuations,” Review of International Economics 5(2), 204-220.

Suggested reading: Ishise, H. (2014) “The World Has More Than Two Countries,” manuscript. (in dropbox)

Ghironi, F. (2006): “Macroeconomic Interdependence under Incomplete Markets,” *Journal of International Economics* 70: 428-450.

Enders, Z., and G. J. Müller (2009): “On the International Transmission of Technology Shocks,” *Journal of International Economics* 78: 45-59.

Engel, C., and J. Wang (2011): “International Trade in Durable Goods: Understanding Volatility, Cyclicality, and Elasticities,” *Journal of International Economics* 83: 37-52.

Kose, M. A., C. Otrok, and E. Prasad (2012): “Global Business Cycles: Convergence or Decoupling?” *International Economic Review* 53: 511-538.

Benigno, G., and C. Thoenissen (2008): “Consumption and Real Exchange Rates with Incomplete Markets and Non-Traded Goods,” *Journal of International Money and Finance* 27: 926-948.

Corsetti, G., L. Dedola, and S. Leduc (2008): “International Risk-Sharing and the Transmission of Productivity Shocks,” *Review of Economic Studies* 75: 443-473.

Engel, C., and J. Wang (2011): “International Trade in Durable Goods: Understanding Volatility, Cyclicality, and Elasticities,” *Journal of International Economics* 83: 37-52.

Baxter, M. and M. Kouparitsas, (2005) “[Determinants of business cycle comovement: a robust analysis](https://www.sciencedirect.com/science/article/pii/S0304393204001175)”, Journal of Monetary Economics, 2005 .

Kouparitsas, M. (2008) “North-South Business Cycles,” working paper, FRB of Chicago.

Kose, M., Ayhan, and Kei-Mu Yi. 2001. "International Trade and Business Cycles: Is Vertical Specialization the Missing Link?" *American Economic Review*, 91 (2): 371-375.

Kose, M. A., C. Otrok, and E. Prasad (2012): “Global Business Cycles: Convergence or Decoupling?” *International Economic Review* 53: 511-538.

Raffo, A. (2008): “Net Exports, Consumption Volatility and International Business Cycle Models,” *Journal of International Economics* 75: 14-29.

Kose, M. A., and K.-M. Yi (2006): “Can the Standard International Business Cycle Model Explain the Relation between Trade and Comovement?” *Journal of International Economics* 68: 267-295.

Suggested reading: Di Giovanni, J., A. Levchenko and I. Mejean (2018) “The Micro Origins of International Business Cycle Comovement,” *American Economic Review,* 108:1 (January 2018), 82-108.  
[*Final Working Paper Version (including supplementary online appendix)*](https://alevchenko.com/diGiovanni_Levchenko_Mejean_Comovement.pdf)*(February, 2017)*, *AER P&P* companion paper: [*"Large Firms and International Business Cycle Comovement"*](https://alevchenko.com/diGiovanni_Levchenko_Mejean_AERPP.pdf)*(May, 2017);* A non-technical summary: [*VoxEU.org*](http://www.voxeu.org/article/international-business-cycle-transmission-firm-level-evidence)

Suggested reading: Levchenko, A., Z. Huo and N. Pandalai-Nayar (2018) “The Global Business Cycle: Measurement and Transmission,” manuscript, University of Michigan; draft [here](https://alevchenko.com/Huo_Levchenko_Pandalai-Nayar.pdf).

## International Risk Sharing

(survey) Lewis, K. K. (1995): “Puzzles in International Financial Markets,” in G. M. Grossman and K. Rogoff (eds.), *Handbook of International Economics*, vol. 3, pp. 1913-1971, Amsterdam: Elsevier.

Slides: Cole, H. L., and M. Obstfeld (1991): “Commodity Trade and International Risk Sharing: How Much Do Financial Markets Matter?” *Journal of Monetary Economics* 28: 3-24.

Required reading: Baxter, M., (2012) “International risk-sharing in the short run and in the long run,” Canadian Journal of Economics.

Suggested reading: (survey) Heathcote, J. and Perri, F. (2013). Assessing international efficiency. Handbook of International Economics. [Working Paper Version](https://www.minneapolisfed.org/research/sr/sr480.pdf)

## 2/14/2019: International Asset Pricing

Suggested reading: (survey) Cochrane, John (2016) “Macro Finance,” NBER Working Paper 22485, August 2016.

## International Asset Pricing: part 1

# (survey) Cochrane, John (2016) “Macro Finance,” NBER Working Paper 22485, August 2016. This is a well written and possibly provocative summary of the literature—best read after Part I of asset pricing.

(survey) Engel, C. (2015): “Exchange Rates and Interest Parity,” *Handbook of International Economics 4*.

Required reading: Lucas, Robert E., Jr. (1982) “Interest rates and currency prices in a two-country world,” *Journal of Monetary Economics* 10:336-360.

Required reading: Fama, E. F. (1984): “Forward and spot exchange rates,” *Journal of Monetary Economics*, 14, 319–338.

Required reading: Backus, D., S. Foresi and C. Telmer (2001) “Affine Term Structure Models and the Forward Premium Anomaly,” Journal of Finance 56:1 (February 2001), 279-304.

Required reading: Verdelhan, Adrien (2010) "A Habit-Based Explanation of the Exchange Rate Risk Premium," Journal of Finance, 2010, 65 (1), 123-145.

Required reading: Backus, David K., and Gregor W. Smith, 1993, Consumption and real exchange rates in dynamic economies with non-traded goods, Journal of International Economics 35, 297–316.

(survey) Engel, C. (2015): “Exchange Rates and Interest Parity,” *Handbook of International Economics 4*.

Suggested reading: Dornbusch, Rudiger. (1976) “Expectations and exchange rate dynamics,” Journal of Political Economy 84:6, 1161-1186.

Engel, Charles (2016) “Exchange rates, interest rates, and the risk premium,” AER. (also NBER WP 21042)

Required reading: Backus, D., S. Foresi and C. Telmer (2001) “Affine Term Structure Models and the Forward Premium Anomaly,” Journal of Finance 56:1 (February 2001), 279-304.

Slides: Brandt, M., J. Cochrane and P. Santa-Clara (2006) “International risk sharing is better than you think, or exchange rates are too smooth”, Journal of Monetary Economics 53 (2006) 671–698.

Required reading: Verdelhan, Adrien (2010) "A Habit-Based Explanation of the Exchange Rate Risk Premium," Journal of Finance, 2010, 65 (1), 123-145.

Required reading: Lewis, Karen K. and E. Liu (2015) “Evaluating International Consumption Return Gains: An Asset Return View,” Journal of Monetary Economics 71, 84-98.

Required reading: Lewis, Karen K. and E. Liu (2017) “Disaster risk and asset returns: An international perspective,” Journal of International Economics 2017.

Colacito, Riccardo and Mariano Croce (2013) “International Asset Prices with Recursive Preferences,” Journal of Finance 68:6 (December 2013), 2651-2686.

Engel, Charles (2016) “Exchange rates, interest rates, and the risk premium,” AER. (also NBER WP 21042)

Stathopoulis, A. (2017) “Asset Prices and Risk Sharing in Open Economies,” Review of Financial Studies 2017, 30(2), 363-413.

Alvarez, Fernando, Andrew Atkeson, and Patrick J. Kehoe, 2009, Time-varying risk, interest rates, and exchange rates in general equilibrium, Review of Economic Studies 76, 851–878.

Hassan and Mano (2015) “Forward and Spot Exchange Rates in a Multi-Country World,” manuscript, University of Chicago.

Hassan, Tarek (2013) “Country Size, Currency Unions, and International Asset Returns,” Journal of Finance 68:6 (December 2013), 2269-2308.

International Money and Finance 29 (2010) 1108-11023.

## Sovereign debt

(survey) Eaton, J. and R. Fernandez (1995) “Sovereign Debt.” In: Handbook of International Economics III, G. Grossman and K. Rogoff, Eds., (Amsterdam: North-Holland), pages 2031-2077.

(survey) Aguiar, M. and M. Amador (2013) “Sovereign Debt: a Review,” Handbook of International Economics.

\*Eaton/Gersovitz as presented in Eaton/Fernandez handbook chapter

Bulow, J. and K. Rogoff (1989) “Sovereign Debt: Is to Forgive to Forget?” American Economic Review 79 (March 1979), 43-50.

Arellano, C. (2008): “Default Risk and Income Fluctuations in Emerging Economies,” *American Economic Review* 98: 690-712.

Arellano, C. and A. Ramanarayanan (2012) “Default and the Maturity Structure in Sovereign Bonds,” *Journal of Political Economy* 2012.

Borri, N. and A. Verdelhan (2015) “Sovereign Risk Premia,” manuscript, MIT.

Arellano, C., Y. Bai and S. Lizarazo (2017) “Sovereign Risk Contagion,” NBER WP 24031, November 23017.

Arellano, C., Y. Bai and G. Mihalache (2017) “Default Risk, Sectoral Reallocation and Persistent Recessions,” NBER Working Paper 23835, September 2017.

Mendoza, E. G. (2010). Sudden stops, financial crises, and leverage. The American Economic Review, 100(5):1941-1966.

Engel, C. and J. Park (2018) “Debauchery and Original Sin: The Currency Composition of Sovereign Debt,” NBER Working Paper 24671, May 2018.

Na, S.,  [S. Schmitt Grohe](http://www.columbia.edu/~ss3501/), [M. Uribe](http://www.columbia.edu/~mu2166/), and V. Yue The Twin Ds: Optimal Default and Devaluation, forthcoming, *American Economic Review*. Link to slides, paper, replication files: http://www.columbia.edu/~mu2166/eg/index.htm

Aguiar, Mark, Manual Amador, Emmanuel Farhi, and Gita Gopinath. 2013. “Crisis and Commitment: InflationCredibility and the Vulnerability to Sovereign Debt Crises”.

Schreger, J. and B. Hebert (2016) "The Cost of Sovereign Default: Evidence from Argentina", manuscript.

Chatterjee, S. and Eyigungor, B. (2012). Maturity, indebtedness, and default risk. American Economic Review, 102(6):2674-99.

Maggiori, M., B. Neiman and J. Schreger (2018) "[*International Currencies and Capital Allocation*](http://faculty.chicagobooth.edu/brent.neiman/research/MNS.pdf)"*.*

## Portfolio Home Bias

(survey) Coeurdacier, N. and H. Rey (2013) “Home Bias in Open Economy Financial Macroeconomics”, with Helene Rey, 2013 [pdf]. Journal of Economic Literature, 51(1), 63-115.

Baxter, M., and U. J. Jermann and R. King (1998) “Nontraded goods, nontraded factors, and international non-diversification,” Journal of International Economics 44, 211-229.

Coeurdacier, N. and P. Gourinchas (2016) “When Bonds Matter: Home Bias in Goods and Assets”, revised version April 2016 [pdf]. Journal of Monetary Economics.

van Nieuwerburgh, S. and L. Veldkamp (2010) “Information acquisition and under-diversification,” Review of Economics and Statistics.

Valchev, Rosen (2017) “Dynamic Information Acquisition and Home Bias in Portfolios,” manuscript, Boston College, 2017.

Burger, J., F. Warnock and V. Warnock (2017) “Currency Matters: Analyzing International Bond Portfolios,” NBER Working Paper 23175.

Stathopoulis, A. (2016) “Portfolio Home Bias and International Consumption Correlation,” manuscript, University of Washington, November 2016

van Wincoop, E. and F. Warnock (2010) “Can Trade Costs Explain Home Bias in Assets?”

## Macroeconomic Models of Open Economies: New Keynesian Models and Other Frictions

Dornbusch, Rudiger. (1976) “Expectations and exchange rate dynamics,” Journal of Political Economy 84:6, 1161-1186.

Obstfeld, M., and K. Rogoff (1995): “Exchange Rate Dynamics Redux,” *Journal of Political Economy* 103: 624-660.

Kehoe, P. J., and F. Perri (2002): “International Business Cycles with Endogenous Incomplete Markets,” *Econometrica* 70: 907-928.

Chari, V. V., P. J. Kehoe, and E. McGrattan (2002): “Can Sticky Price Models Generate Volatile and Persistent Real Exchange Rates?” Review of Economic Studies 69: 533-563.

Steinsson, Jon (2007) “The Dynamic Behavior of the Exchange Rate in Sticky Price Models”, mimeo, Columbia University.

Eichenbaum, M.; B. Johanssen and S. Rebelo (2017) “Monetary Policy and the Predictability of Nominal Exchange Rates,” NBER Working Paper 23158, February 2017.

Colacito, R., Max Croce, Steven Ho, Philip Howard, (2017) “BKK the EZ Way International Long-Run Growth News and Capital Flows”, manuscript, https://papers.ssrn.com/sol3/papers.cfm?abstract\_id=2177231.

Itskhoki, O. and D. Mukhin (2017) “Exchange rate disconnect in general equilibrium,” manuscript, Princeton University.

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