

ECON 585

International Macroeconomics

Department of Economics
Fall 2022

Instructor:

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DKH 10

Lectures: Monday and Wednesday, 9:30am-10:50pm. DKH 209

Office Hours: 11:00am, Mondays and Wednesdays.

Course Description: Macroeconomics has always thought about economics across time, but international macroeconomics also thinks about economics across space. In this class, we study macroeconomics, taking the space dimension into serious consideration, both across and within country or currency union borders.

Course Goals: This course has two major goals:

- 1) Give students an overview of key models and empirical strategies in international macroeconomics and spatial macroeconomics.
- 2) Help students develop research interests and projects in those fields.

Prerequisites: The first-year PhD sequence is suggested for taking this course. If you have not taken it, please discuss with the instructor before the end of the first week.

Credits: 3 credits

Course structure: The course will be a discussion of recent papers, as well as an overview of some important topics. Classes will be either on the board or with slides, but student participation is expected (and required). In particular, students should be treating everything as a seminar, in which they should be asking questions and challenging papers, in order to better understand papers, and where to build on them.

There will be a three-minute break in the middle of each class to stretch your legs or go to the bathroom.

Learning Resources: There is no assigned book, but the following book is a good resource, and if you plan to be an international macroeconomist, I highly recommend purchasing it:

- Uribe, Martin and Stephanie Schmitt-Grohe, *Open Economy Macroeconomics*

For many of the lectures, I will draw heavily on this book.

Additional materials, as well as assignments and practice materials will be available on Illinois Compass (<http://compass.illinois.edu>). Announcements about assignments, readings, and other course items will be posted on Compass.

Requirements:

- Assignments: There are five assignments in this class. They each reflect things that academic economists have to regularly do, and so are good preparation for the future. These assignments will determine the letter portion of your grade (A,B,C...)
 - In the second week of class, I am attending a hybrid conference at the Bank of Canada (10 percent of grade). The conference is being livestreamed, so please watch at least two or three papers.
<https://globalmigration.ucdavis.edu/events/workshop-macroeconomic-implications-migration>
Pick one to give a five minute presentation about. Briefly summarize their findings, and include a slide on what you personally found interesting.
 - You will be required to give a 15 minute presentation on a paper of your choosing. It should be recent and related to something you would be interested in pursuing. (20 percent of grade)
 - You will be required to write a three-page referee report on a paper that I assign you. I will tailor the paper to your interests based on the presentation you give. (15 percent of grade)
 - Here are some resources for writing referee reports:
<http://users.nber.org/~nikolovp/studentresources/refreport.pdf>
<https://www.aeaweb.org/content/file?id=222>
 - After Thanksgiving, you will be required to present a research proposal (30 percent of grade). The time will be announced later in the semester
 - In lieu of a final exam, you will be expected to write a 5-page literature review for your research proposal. (20 percent of grade)
- You are also expected to participate in class. The +/- aspect of your grade will depend on participation.

Concurrent Opportunities: It is highly encouraged for you to attend the macro seminar, usually on Tuesdays at 2:00pm.

You may also be interested in the macro lunch, Thursdays at 12:30.

Statement on Academic Integrity: We will follow Articles 1-401 through 1-406 of the *Student Code* (beginning at http://studentcode.illinois.edu/article1_part4_1-401.html). This rule defines infractions of academic integrity, which include, but are not limited to, cheating, fabrication, and plagiarism. You are responsible for following these guidelines (ignorance is no excuse). If you have any questions about whether something would be an infraction, consult with the instructor before proceeding.

Requests for Special Accommodations: To obtain disability-related adjustments and/or auxiliary aids, students with disabilities must contact the course instructor and the Disability Resources and Educational Services (DRES) as soon as possible. To contact DRES, you may visit 1207 S. Oak St., Champaign, call (217)-333-4603, email disability@illinois.edu or go to the DRES website.

Please also schedule a private meeting with the course instructor to discuss your needs and requirements. The instructor will attempt to meet all reasonable course accommodations once the student self-identifies. Please note that accommodations are not retroactive to the beginning of the semester, but begin the day you contact the instructor with a current letter of accommodation from DRES.

Emergency Response Recommendations: The university maintains guidelines for emergency responses. A list of recommendations when to evacuate and when to find shelter are available at: http://illinois.edu/cms/2251/general_emergency_response_recommendations_8_16_13_final.doc x Floor plans for specific buildings are available at: <http://police.illinois.edu/emergency-preparedness/building-emergency-action-plans/>

Community of Care: As members of the Illinois community, we each have a responsibility to express care and concern for one another. If you come across a classmate whose behavior concerns you, whether in regards to their well-being or yours, we encourage you to refer this behavior to the Student Assistance Center (217-333-0050 or <http://odos.illinois.edu/community-of-care/referral/>). Based on your report, the staff in the Student Assistance Center reaches out to students to make sure they have the support they need to be healthy and safe. Further, we understand the impact that struggles with mental health can have on your experience at Illinois. Significant stress, strained relationships, anxiety, excessive worry, alcohol/drug problems, a loss of motivation, or problems with eating and/or sleeping can all interfere with optimal academic performance. We encourage all students to reach out to talk with someone, and we want to make sure you are aware that you can access mental health support at the Counseling Center (<https://counselingcenter.illinois.edu/>) or McKinley Health Center (<https://mckinley.illinois.edu/>).

For mental health emergencies, you can call 911 or walk into the Counseling Center, no appointment needed.

Disruptive Behavior: Behavior that persistently or grossly interferes with classroom activities is considered disruptive behavior and may be subject to disciplinary action. Such behavior inhibits other students' ability to learn and an instructor's ability to teach. A student responsible for disruptive behavior may be required to leave class pending discussion and resolution of the

problem and may be reported to the Office for Student Conflict Resolution for disciplinary action.

Religious Observances: The Religious Observance Accommodation Request form is available at <https://odos.illinois.edu/community-of-care/resources/students/religious-observances/>. Submit the form to the instructor and to the Office of the Dean of Students (helpdean@illinois.edu) by the end of the second week of the course; in the case of exams or assignments scheduled after this period, students should submit the form to the instructor and to the Office of the Dean of Students as soon as possible.

Family Educational Rights and Privacy Act (FERPA): Any student who has suppressed their directory information pursuant to Family Educational Rights and Privacy Act (FERPA) should self-identify to the instructor to ensure protection of the privacy of their attendance in this course. See <http://registrar.illinois.edu/ferpa> for more information on FERPA. Student information and records will not be released to anyone other than the student unless the student has provided written approval or as required by law.

Sexual Misconduct Reporting Obligation: The University of Illinois is committed to combating sexual misconduct. Faculty and staff members are required to report any instances of sexual misconduct to the University's Title IX and Disability Office. In turn, an individual with the Title IX and Disability Office will provide information about rights and options, including accommodations, support services, the campus disciplinary process, and law enforcement options. A list of the designated University employees who, as counselors, confidential advisors, and medical professionals, do not have this reporting responsibility and can maintain confidentiality, can be found here:

<http://www.wecare.illinois.edu/resources/students/#confidential>.

Other information about resources and reporting is available here: <http://wecare.illinois.edu/>.

Student Support

The Counseling Center is committed to providing a range of services intended to help students develop improved coping skills in order to address emotional, interpersonal, and academic concerns. Please visit their website to find valuable resources and services: <https://counselingcenter.illinois.edu/>.

Counseling Center Information: 217-333-3704

Location: Room 206, Student Services Building (610 East John Street, Champaign IL)

McKinley Mental Health Information: 217-333-2705

Location: 3rd Floor McKinley Health Center 1109 South Lincoln, Urbana, IL

Emergency Dean: The Emergency Dean may be reached at (217) 333-0050 and supports students who are experiencing an emergency situation after 5 pm, in which an immediate University response is needed and which cannot wait until the next business day. The Emergency Dean is not a substitute for trained emergency personnel such as 911, Police or Fire. If you are

experiencing a life threatening emergency, call 911. Please review the Emergency Dean procedures: <http://odos.illinois.edu/emergency/>

Academic Dates and Deadlines: Students should make note of important academic deadlines for making changes to their courses (add, drop, credit/no-credit, grade replacement, etc.). <https://registrar.illinois.edu/academic-calendars>. Please check with your academic department regarding specific procedures and policies.

Course Schedule

August 22/24: Basics of the Current Account

- Nason and Rogers (2006). “The present-value model of the current account has been rejected: Round up the usual suspects” *Journal of International Economics*.
- Aguiar and Gopinath (2007). “Emerging Market Business Cycles: The Cycle is the Trend.” *Journal of Political Economy*
- Uribe and Schmitt-Grohe, Chapter 2.

August 29: Workshop on Macroeconomic Implications of Migration

<https://globalmigration.ucdavis.edu/events/workshop-macroeconomic-implications-migration>

August 31: Student Presentations from Workshop

Sept 5: No class, Labor Day

Sept 7: Class possibly online, but likely cancelled

Sept 12, 14: Terms of Trade and the Real Exchange Rate

- Uribe and Schmitt-Grohe, Chapters 7 and 8.

Sept 19, 21: Nominal rigidities, exchange rates, and unemployment

- Uribe and Schmitt-Grohe, Chapter 9.

Sept 26, 28: Sovereign Default

- Arellano (2008). “Default Risk and Income Fluctuations in Emerging Economies.” *American Economic Review*
- Aguiar and Amador (2014). “Sovereign Debt.” *Handbook of International Economics*. Chapter 11.

Oct 3, 5: Currency Unions

- Mundell (1961). “A theory of optimum currency areas.” *American Economic Review*.
- Farhi and Werning (2014). “Labor Mobility within Currency Unions.” NBER Working Paper
- Farhi and Werning (2017). “Fiscal Unions.” *American Economic Review*.
- Blanchard-Katz (1992) “Regional Evolutions.” *Brookings Paper on Economic Activity*.
- Howard (2020). “The Migration Accelerator: Labor Mobility, Housing, and Demand.” *American Economic Journal: Macroeconomics*

Oct 10, 12: Financial Crises

- Reinhart and Rogoff (2011). *This Time is Different*.
- Schularick and Taylor (2012). "Credit Booms Gone Bust: Monetary Policy, Leverage Cycles, and Financial Crises, 1870-2008," *American Economic Review*.
- Bianchi (2011). "Overborrowing and Systemic Externalities in the Business Cycle." *American Economic Review*
- Lorenzoni (2008). "Inefficient Credit Booms." *Review of Economic Studies*
- Korinek and Simsek (2016). "Liquidity Trap and Excess Leverage." *American Economic Review*.

Oct 17, 19: Safe Assets

- Caballero and Farhi (2018). "The Safety Trap." *Review of Economic Studies*.
- Gorton and Ordonez (2014). "Collateral Crises." *American Economic Review*.

Oct 24, 26: Student Presentations

Oct 31, Nov 2: Regional Convergence and Growth

- Barro and Sali-i-Martin (1991). "Convergence across States and Regions." *Brookings Papers on Economic Activity*.
- Barro and Sali-i-Martin (1992). "Convergence." *Journal of Political Economy*.
- Giannone (2020). "Skill-biased technical change and regional convergence"
- Eckert, Ganapati, and Walsh (2020). "Skilled scalable services: the new urban bias in economic growth"

Nov 14, 16: Housing

- Howard and Liebersohn (2020). "Why is the Rent so Darn High?" *Journal of Urban Economics*.
- Howard and Liebersohn (2020). "Regional Divergence and House Prices."
- Mian and Sufi (2009). "The consequences of mortgage credit expansion: Evidence from the US mortgage default crisis." *Quarterly Journal of Economics*
- Davidoff (2016). "Supply constraints are not valid instrumental variables for home prices because they are correlated with many demand factors." *Critical Finance Review*

Nov 7, 9: Migration and Location Choice

- Rosen, S.H. (1979). "Wage-based indexes of the urban quality of life." *Current Issues in Urban Economics*.
- Roback (1982). "Wages, rents and the quality of life." *Journal of Political Economy*
- Kennan and Walker (2011). "The effect of expected income on individual migration decisions." *Econometrica*
- Diamond (2016). "The Determinants and welfare implications of US workers' diverging location choices by skill: 1980-2000." *American Economic Review*.
- Howard and Shao (2022). "Internal Migration and the Microfoundations of Gravity"

Nov 21, 23: No Class, Thanksgiving

Nov 28, 30: Economic Geography

- Ganong and Shoag (2017). "What has regional income convergence in the U.S. declined?" *Journal of Urban Economics*
- Hsieh and Moretti (2019). "Housing Constraints and Spatial Misallocation" *American Economic Journal: Macroeconomics*

Dec 5, 7: Student Presentations on Research Proposals