

International Trade and Macro: Introduction

Before we get started...

- ▶ Me: Kim Ruhl
- ▶ School: B.S. Bowling Green (OH), Ph.D. U. Minnesota
- ▶ Work: Minn. FRB; U. Texas; NYU Stern Bus. School; Penn State
- ▶ Research: International finance and macro, trade, multinationals
 - ▶ Data + computational models
 - ▶ If you are curious: kimjruhl.com/research
- ▶ Not work: Fishing, hiking, robots, computers, beer

Question of the day

You: Name + year + research interest

Course Outline

- ▶ International trade? Macro? Finance?
 - ▶ In general, not a very useful taxonomy
- ▶ Course organized in two “parts” but it is all one integrated topic
- ▶ First half of course
 - ▶ Determinants of trade flows, policy, and aggregate implications
 - ▶ Organized around firm heterogeneity and dynamics
- ▶ Second half of course
 - ▶ International business cycles: Dynamics of the current account, relative prices
 - ▶ Organized around the idea of risk-sharing across countries

Course goals

- ▶ Main goal: Get started on your own research!
- ▶ Learn about models: Get familiar with models in the literature, including solving and estimating them.
- ▶ Learn about data: What data are out there? How are they used? Data informs modeling choices and models give us a way to organize the data.

Why international?

- ▶ Economics happens globally
 - ▶ US: 30% of manufacturing expenditures imported.
 - ▶ Large cyclical fluctuations in net exports.
 - ▶ Openness, fluctuations, development changed over time
- ▶ Closely related to other fields
 - ▶ Applied micro, labor, IO, macro,...
 - ▶ Clean shocks (external shocks, policy)
 - ▶ Based on heterogeneous impact across industries, regions, firms, individuals
 - ▶ Better data

Some questions

- ▶ Research revolves around questions. . .
- ▶ Integration: How distortionary are trade policy barriers? Are they more/less distortionary with heterogeneous firms?
- ▶ What are the barriers to trade? What has led to the increased integration of trade and financial markets? (policy, technology, or tastes?) Why don't we reduce all trade barriers (fiscal considerations/protection)? How do barriers move with the aggregate economy?
- ▶ What are SR & LR effects of a change trade policy? What are static & dynamic gains from trade?
- ▶ How does risk/uncertainty affect international trade?

More questions

- ▶ How does structural change interact with international trade & business cycle? [growth/development]
- ▶ How does trades effect the organization of production? [IO] Does trade matter for allocation/misallocation of resources across plants? Were firms waiting for the recession to off-shore? Is that why manufacturing employment declined so much?
- ▶ What are short-run/long-run distributional consequences of trade on workers?[labor] Do labor adjustment costs (policy/non-policy) affect the gains from trade? Do they hinder/help adjustment?

Some “macro” questions

- ▶ Can we learn about the sources of business cycles from international models/data?
 - ▶ Foreign shocks: productivity, fiscal, monetary, labor, trade
- ▶ How do shocks propagate across countries? Through trade in goods? assets? Information? Does the type of goods traded matter? Type of assets traded? Level of trade in goods or assets?
 - ▶ How did the U.S. financial crisis propagate to ROW? Would the recession have been better or worse in a closed economy?
 - ▶ Why did some countries have a huge drop in output? U.S. industrial production fell 13% in 2009, Japan fell about 40%.
 - ▶ Why was the recovery so different across countries?
- ▶ What can we learn from COVID? Did trade make it worse/better? How will uneven policy responses influence recover world economy?

More “macro” questions

- ▶ What is the role of the exchange rate and asset trade in international transmission? (Exchange rate disconnect?)
- ▶ What determines the exchange rate? Why are there big persistent movements in purchasing power?
- ▶ What explains large movements in energy prices (OPEC shocks)?
- ▶ Why have some countries been running persistent current account deficits?
- ▶ How is monetary policy different in an open economy?
- ▶ Does structure of trade costs or heterogeneity matter for the international transmission?

- ▶ These kinds of questions will be covered in the spring. . .

Class Materials

- ▶ Course web page is the place to be: kimjruhl.com/adv-international-econ-2021f-econ-871
 - ▶ Required reading and expanded reading list
 - ▶ No text book; some occasional notes from me
- ▶ Will try to post slides a few hours before class.
- ▶ Should we use Canvas for announcements/assignments?

Grading

1. (20%) **Problem sets.** Three or four problem sets, mostly solving models and studying data. Not meant to ruin your week, but coding can take time.
 2. (20%) **Short presentation.** Five slides / 20 minutes on a paper you and I agree on. First half of class.
 3. (40%) **Research write-ups.** Each week, you will write a short summary of a paper's main question and answer.
 4. (20%) **Long presentation.** 10 slides / 30 minutes. Ideally, this is your own work, work in progress, or research proposal. Could also be a critical presentation of a paper from the literature.
- ▶ Parts 1 & 3 meant to get practice doing research
 - ▶ Parts 2 & 4 meant to get practice presenting research

Expectations

- ▶ Attend class and participate. Class is small, so we have a lot of room for interaction.
- ▶ Attend the international seminars. I will point them out each week and try to place them into the context of the course.
- ▶ Attend (or watch video of) the [virtual international trade and macro seminar](#)