

## ECON 313: INTERNATIONAL MACROECONOMICS

Spring Semester, 2010-2011

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**Goals:** This course deals with economic activity in an open economy. We begin with basic concepts, including the balance of payments, exchange rates, and the impact of macroeconomic policies. We then examine the choices countries make in their choice of capital account and exchange rate regimes. Finally, we study currency and financial crises, including the role of the IMF.

One of the goals of the course is to learn how to read research papers. We will read recently published papers and working papers and discuss how their authors present their evidence.

**Prerequisites:** The prerequisites for the course are ECON 202 and 203. It will not be possible to take either of these courses concurrently with this course, as the theoretical models and empirical analyses we will discuss require familiarity with the material taught in ECON 202 and 203.

**Readings:** The main text for the course is:

Caves, Frankel and Jones, *World Trade and Payments* (10<sup>th</sup> ed.)

The other readings are posted on the course site.

**Requirements:** The course grade will be determined by the results of two exams (25% each), four problem sets (10% each), and a joint paper presentation (10%).

**Class Conference:** There is a Sakai site that we will use to post announcements, answer questions, etc. All class notes, problem sets, and exams are the intellectual property of instructor and should not be given or forwarded to any other party without prior consent.

**Office Hours:** Tuesdays from 2:30 – 3:30 p.m. and Thursdays from 3 – 4 p.m. and by appointment.

**Honor Code:** All members of the course are expected to adhere to the Honor Code of Wellesley College.

**Blogs:** There are many interesting blogs which cover international macroeconomic events and policies, including:

<i>Free Exchange (The Economist)</i>	<a href="http://www.economist.com/blogs/freeexchange/">http://www.economist.com/blogs/freeexchange/</a>
Paul Krugman's blog	<a href="http://krugman.blogs.nytimes.com/">http://krugman.blogs.nytimes.com/</a>
<i>Roubini Global Economics</i>	<a href="http://www.roubini.com">http://www.roubini.com</a>

## READINGS

Articles are posted at our class conference.

### I. Concepts and Relationships

- 1/25: Balance of Payments
- 1/28: Exchange Rate Markets
- 2/1: Fixed Exchange Rates
- 2/2: ALT Class

Caves, Frankel and Jones, Ch. 15, Ch. 16: p. 291-293

2/4: Paper Presentations

Obstfeld and Rogoff, 2010, "Global Imbalances and the Financial Crisis: Products of Common Causes," in Glick and Spiegel (eds.), *Asia and the Global Financial Crisis*  
Servén and Nguyen, 2010, "Global Imbalances Before and After the Global Crisis," World Bank Policy Research Working Paper no. 5354

### II. Macroeconomic Policies

- 2/8: IS/LM/BP
- 2/11: Macro Policies
- 2/15: External Shocks
- 2/16: ALT Class

Caves, Frankel and Jones, Ch. 17.1-3, 17.5, Appendix; Ch. 22.1-3; Ch. 23.1-3

#### **2/15: Problem Set #1**

2/18: Paper Presentations

Chinn and Ito, 2007, "Current Account Balances, Financial Development and Institutions: Assaying the World 'Saving Glut'," *Journal of International Money and Finance* 26 (4)

Freyer and Shambaugh, 2009, "Global Savings and Global Investment: The Transmission of Identified Fiscal Shocks," NBER Working Paper no. 15113

2/22: Policy Models

Caves, Frankel and Jones, Ch. 18: p. 333-336; Ch. 22: Appendix: p. 461-465

### III. International Capital

2/25: Capital Flows and Controls

3/1: Financial Globalization

3/2: ALT Class

3/4: Interest Rate Parity

Caves, Frankel and Jones, Ch. 21.3, Ch. 24.1, Ch. 21.4: 428-431, Ch. 27.1

Hallwood and MacDonald, *International Money and Finance* (3<sup>rd</sup> ed), Ch. 19.4: p. 398-401

Kose, Prasad, Rogoff and Wei, 2009, "Financial Globalization: A Reappraisal," *IMF Staff Papers* 56 (1)

Rodrik and Subramanian, 2009, "Why Did Financial Globalization Disappoint?" *IMF Staff Papers* 56 (1)

3/8: Paper Presentations

Alfaro, Kalemli-Ozcan and Volosovych, 2008, "Why Doesn't Capital Flow from Rich to Poor Countries? An Empirical Investigation," *Review of Economics and Statistics* 90 (2)

Cardarelli, Elekdag, and Kose, 2010, "Capital Inflows: Macroeconomic Implications and Policy Responses," *Economic Systems* 34 (4)

#### **3/11: Problem Set #2**

### IV. Exchange Rate Models and Regimes

3/11: Purchasing Power Parity

3/15: Review

**3/16: Mid-Term Exam (I – III)**

**Spring Break: March 18, 22, 25**

### IV. Exchange Rate Models and Regimes (continued)

3/29: Monetarist Model

4/1: Fixed vs. Flexible Rates

4/5: Monetary Unions

4/6: ALT Class

Caves, Frankel and Jones, Ch. 19.2-19.3, Ch. 27.2, Ch. 26.5

Catão, "Why Real Exchange Rates?" *Finance & Development*, September 2007

Stone, Anderson and Veyrune, "Exchange Rate Regimes: Fix or Float?" *Finance & Development*, March 2008  
Krugman, "Can Europe Be Saved?", *New York Times*, 1/12/2011

4/8: Paper Presentations

Cheung, Chinn and Fuji, 2009, "Pitfalls in Measuring Exchange Rate Misalignment," *Open Economies Review*, 20 (2)  
Eichengreen, 2008, "Exchange rate Regimes and Capital Mobility: How Much of the Swoboda Thesis Survives?", NBER Working Paper no. 14100

### **4/12: Problem Set #3**

## **V. Crisis and Response**

4/12: Currency Crises: 1<sup>st</sup> Generation Models  
4/15: Currency Crises: 2<sup>nd</sup> Generation Models  
4/20: ALT Class  
4/22: Twin Crises: 3<sup>rd</sup> Generation Models

Caves, Frankel and Jones, Ch. 24.2-24.4, 24.6  
Hallwood and MacDonald, *International Money and Finance* (3<sup>rd</sup> ed), Ch. 14.1-14.4, 14.8  
Mishkin, 1999, "Global Financial Instability," *Journal of Economic Perspectives*, 13 (4)  
Krugman, 2010, "Crises"

4/26: Paper Presentations

Ranciere, Tornell and Westermann, 2006, "Decomposing the Effects of Financial Liberalization: Crises vs. Growth," *Journal of Banking & Finance* 30 (12)  
Gupta, Mishra and Sahay, 2007, "Behavior of Output During Currency Crises," *Journal of International Economics* 72 (2)

## **VI. Role of IMF**

4/29: Organization and Policies

Caves, Frankel and Jones, Ch. 24.5, 24.8  
*The Economist*, "Mission: Possible," 4/8/09

### **5/3: Problem Set #4**

5/3: Paper Presentations

Dreher and Walter, 2010, “Does the IMF Help or Hurt? The Effect of IMF Programs on the Likelihood and Outcome of Currency Crises,” *World Development* 38 (1)

Mody and Saravia, 2008, “From Crisis to IMF-Supported Program: Does Democracy Impede the Speed Required by Financial Markets?”, IMF Working Paper no. 08/276

5/6: Changes in Global Financial System

**Final Exam: Self-scheduled (IV – VI)**