

ECON 313: INTERNATIONAL MACROECONOMICS
Spring Semester, 2011-2012

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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* (10th 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: Wednesdays from 2:30 – 3:30 and Thursdays from 3 – 4 and by appointment.

Classroom Environment: We meet in the classroom to collectively learn the material. Do not send text messages or e-mails, or check your messages. Please refrain from leaving the room unless necessary. All members of the course are expected to adhere to the Honor Code of Wellesley College.

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

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

READINGS

Articles are posted at our class conference.

I. Concepts and Relationships

1/27: Balance of Payments

Caves, Frankel and Jones, Ch. 15

1/31: Exchange Rate Markets

2/3: Fixed Exchange Rates

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

2/7: 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

2/8: ALT Class

II. Exchange Rate Models and Regimes

2/10: Purchasing Power Parity

Caves, Frankel and Jones, Ch. 19.2-19.3

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

2/14: Monetarist Model

Caves, Frankel and Jones, Ch. 27.2

2/17: Problem Set #1

2/17: Fixed vs. Flexible Rates

Caves, Frankel and Jones, Ch. 26.5: 559-562

Stone, Anderson and Veyrune, "Exchange Rate Regimes: Fix or Float?" *Finance & Development*, 3/08

Ghosh and Ostry, 2009, "Choosing An Exchange Rate Regime," *Finance & Development*, 12/09

2/21: Monetary Unions

Caves, Frankel and Jones, Ch. 26.5: 562-567

Krugman, "Can Europe Be Saved?", *New York Times*, 1/12/2011

2/22: ALT Class

2/24: Paper Presentations

Cheung, Chinn and Fuji, 2009, "Pitfalls in Measuring Exchange Rate Misalignment," *Open Economies Review*, 20 (2)

Fratzscher, 2009, "What Explains Global Exchange Rate Movements During the Financial Crisis?", *Journal of International Money and Finance* 28 (1)

III. International Capital

2/28: Capital Flows

Caves, Frankel and Jones, Ch. 24.1

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)

3/2: Capital Controls

Caves, Frankel and Jones, Ch. 21.1, Ch. 24.7

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

3/6: Interest Rate Parity

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

3/7: ALT Class

3/9: Problem Set #2

3/9: 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)

Reinhart and Reinhart, 2009, "Capital Flow Bonanzas" in Frankel and Pissarides, *NBER International Seminar in Macroeconomics 2008*

3/13: Review

3/16: Mid-Term Exam (I – III)

Spring Break: March 20, 23

IV. Macroeconomic Policies

3/27: IS/LM/BP

3/28: ALT Class

3/30: Macro Policies

4/3: External Shocks

Ch. 22.1-4; Ch. 23: 1-3

4/6: Paper Presentations

Chinn, Eichengreen and Ito, 2011, “A Forensic Analysis of Global Imbalances,” NBER Working Paper no. 17513

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

4/10: Policy Models

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

4/13: Problem Set #3

V. Crisis and Response

4/13: Currency Crises: 1st Generation Models

4/11: ALT Class

4/17: Currency Crises: 2nd Generation Models

4/20: Monday Schedule

4/24: Twin Crises: 3rd Generation Models

Caves, Frankel and Jones, Ch. 24.2-24.4, 24.6

Hallwood and MacDonald, *International Money and Finance* (3rd ed), Ch. 14.1-14.4, 14.8

Mishkin, 1999, “Global Financial Instability,” *Journal of Economic Perspectives*, 13 (4)

4/27: Paper Presentations

Gupta, Mishra and Sahay, 2007, “Behavior of Output During Currency Crises,” *Journal of International Economics* 72 (2)

Claessens, Dell’Ariccia, Igan and Laeven, 2010, “Cross-Country Experiences and Policy Implications from the Global Financial Crisis,” *Economic Policy* 25 (62): 267-93

5/1: Problem Set #4

5/1: IMF: Organization and Policies

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

5/2 ALT Class

5/4: 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

Final Exam: Self-scheduled (IV – VI)