International Economics and Finance – Master

Prof. Dr. Keith Kuester

Summer term 2020

Outline:
International macroeconomics is concerned with international linkages through trade in goods and services, and through financial markets. This course is a selective master-level primer of the field. It is selective because it focuses on the role of the international dimension in *cyclical fluctuations*. And it is selective because we will focus on *small open economies*. The aim is to understand the role of shocks and frictions in shaping business cycles in the open economy. And to understand policy options.

The course starts with stylized facts of flucuations in open economies. It, then, discusses the role of international financial markets in a real endowment economy. We will use the model to review state-contingent choice in detail, and introduce numerical solution techniques. Thereafter, the course studies the open-economy version of the real-business-cycle model. The course will introduce perturbation techniques to solve the model. Thereafter, we will briefly explore how different frictions and sources of shocks, including financial frictions, shape the business cycle in the open economy. Last, and importantly, we will introduce nominal rigidities. These give a role to the monetary policy regime and the nominal exchange rate. We will use this to discuss the effect of the monetary and fiscal policy mix for fluctuations.

Learning objectives:
After the course, students should have a good grasp of

- some of the workhorse models in international macroeconomics.
- techniques for solving these models.
- theory that links to policy-related discussions.

Lectures (current plan):
Th. 10.15-11.45, Fr. 8.30-10
First lecture : April 23, 2020. Last lecture: July 10, 2020.

No lectures on:

May 1 public holiday (Labor Day).

May 21 public holiday (Ascension day).

June 11 public holiday (Corpus Christi).

All of this to be discussed with students.

Exercises:

There will be problem sets. We will have an exercise session roughly every two weeks (at the time of the lecture). Many of the exercises will be computer exercises. Try and solve the exercises yourself at home (alone, or ideally (virtually) in groups). The exercises are an essential part of the course. They are meant to help prepare you for quantitative macro work later in your career. They are also valuable practice for the exam. Students are expected to present their solutions in class.

Office hours:

After the course or upon appointment (email: keith.kuester@uni-bonnn.de).

Course materials:

The **textbook** for the course will be "Open economy macroeconomics," by Martín Uribe and Stephanie Schmitt-Grohé; Princeton University Press (USG, henceforth).

The course will make use of **Matlab.** You can buy the Matlab student version (unbundled) for 35 Euro; next to this, I recommend the optimization toolbox, the statistics toolbox, and the symbolic math toolbox (at 7 Euro each). Alternatively, you can buy a bundle that includes Matlab and many packages at Euro 69.

There is also the option to use the department's classroom license (for this course only, you MUST delete it after the course is over). Slide pack "00_Outlook.pdf" on Ecampus provides details.

*Grading **UPDATED April 16, 2020***:

The final grade for the course will be either 25 percent of the grade on problem sets plus 75 percent of the grade on a term paper, or 100 percent term paper; whatever is more favorable to the student.

You are expected to submit your solutions to the problem sets and to present those solutions in "class." The main part of the grade will be awarded based on a **term paper.** You will choose the topic of the term paper yourself, starting from the material covered in class; and subject to approval by the professor by July 10th. The term paper is expected to have a length of roughly 10 pages (main text) + cover page, list of references, and appendix. In the term paper you will need to show that you can apply the techniques discussed in class (including your new-found programming skills) to a topic of current interest. You will have 6 weeks to write the term paper, starting with the date of approval.

Plan of the lecture

1. **Business-cycle facts**. USG, Ch. 1; mainly for self-study.
2. **The intertemporal model of the current account.** USG, Ch. 2.
3. **Open-economy RBC model.**, USG, Ch. 4
    - Decentralized version.
    - Planner version.
    - Solving by perturbation.
4. **Interest-rate shocks**, USG, Ch. 6
5. **Nominal rigidities**, USG, Ch. 9
6. **Exchange-rate policy, and other policy options**, USG, Ch. 10.