
Open Economy Macroeconomics

Nikhil Damodaran

Spring 2021

Jindal School of Government and Public Policy
O.P. Jindal Global University

1. Course Synopsis

This course is an introductory course in open economy macroeconomics for masters in economics and public policy. We will focus our analysis on macroeconomic factors which explain trade interactions between two or more countries. We examine the current account balances and examine factors which affect them. We build a simple toy model which links the current account to micro-foundations in consumer and producer behavior, examine the empirical validity of the model and discuss its limitations. We dwell into the basics of exchange rate determination and conclude the course with lessons in macroeconomic policy from recent experiences of Asian economies.

2. Course Goals

1. Build a basic model for an open macro economy that helps you make sense of events all around the globe.
2. Discuss these events with the help of this model and comprehend aspects which need further thought.
3. Connect trade patterns with macroeconomic policies of a country and its trading partner.
4. Understand factors which determine relative prices, influence and are influenced by macroeconomic policy.
5. Understanding basic theories of exchange rate determination.
6. Present data which could test theories examined during the course of the semester.

3. Class Timing

Fall 2021, TBA

Pre-requisites: Macroeconomics 1 and 2, Calculus 1 and 2, Undergraduate course in International trade.

4. Instructors and Office Hours

Nikhil Damodaran

[Personal webpage](#)

E - ndamodaran[at]jgu[dot]edu[in]

Office: Cabin 6, T4, Academic Block, OP Jindal Global University

Office hours online on zoom.

5. Readings

Required Text:

Schmitt-Grohe, S., Uribe, M., and Woodford, M. (2021). International Macroeconomics. Princeton University Press, 1st edition. [SUW]

Additional References:

Feenstra, R. and Taylor, A. (2017). International Macroeconomics. Worth

Publishers.[FT]

Gandolfo, G. (2016). International finance and open-economy macroeconomics.

Obstfeld, M. and Rogoff, K. S. (1996). Foundations of international macroeconomics, volume 1. MIT press Cambridge, MA.

6. Assessment

Assessments include internal evaluations which account for 65% of your total grade and an external end term exam for the remaining 35%. The internal is divided into a maximum of:

- 1 Presentation 25% (presentation, report and peer review)
- 2 Assignments 30% (take home assessments)
- Class room participation 10%

Missed excusable reasons: under medical reasons will require approval from the academic dean along with a medical certificate.

Email Etiquette: For practical purposes as well as a practice, there is merit in writing a formal email to the instructor regarding the course. All emails for this course should have the following at the start of the subject:

EC XX OpenMacroeco: "subject"

Any emails without this subject title makes it difficult for me to search through emails and could lead to no replies.

All submissions of assignments should be done in a single PDF file with the name of the file as your complete name. If you name your file anything else, I have to rename it. This implies a penalty of 1 point. The email subject should be Problem Set #

7. Course Contents

This syllabus is intended to give the student guidance in what may be covered during the semester and will be followed as closely as possible. However, the instructor reserves the right to modify, supplement and make changes as

the course needs arise.

Weekly Schedule:

Topic 1: Open Economy Accounting and Stylized Facts of World Trade

Week 1: Open Economy Accounting Ch 5 FT

Imbalances in Merchandise Trade Ch 1, SUW

Week 2: Dark Matter and Current Account Imbalances SUW Ch1, Ch2

Topic 2: Inter-temporal Theory of Current Account - Demand for Imports

Week 3: Optimal interest rate parity conditions SUW, Ch 3, SUW

Additional Readings: FT Chapters 2

Week 4: Equilibrium in Small Open Economy SUW, Ch 3, SUW.

Week 5: Tariffs and Trade, Ch 4, SUW.

Topic 3: Inter-temporal Theory of Current Account - Supply of Exports

Week 6: Production in open economy, Ch 5, SUW.

Week 7: Equilibrium in a small production economy

Week 8: External shocks and domestic surges in productivity

Week 9: Review and Data Week

Week 10: The role of uncertainty, Ch 6, SUW

Week 11: Large open economies, Ch 7, SUW.

Topic 4: Exchange Rates

Week 12: Introduction to Exchange Rates, Ch 8 SUW.

Week 13: Further on Exchange Rates, Ch 3 & Ch 4 FT

Week 14: Presentations

Week 15: Presentations

We will cover *all* the chapters mentioned in the syllabus. Remaining topics would be covered from the text modified to suit the course objectives.