

ECON662: INTERNATIONAL MONETARY ECONOMICS

Summer 2015

Instructor

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Office hours: TBA
Class schedule: May 4 through June 10
Lectures: 10:00-11:30
Student presentations: 13:00-14:30

Objectives

The main objectives for this course are:

1. To learn about models of: open economy macroeconomics and international finance.
2. To learn how to use these models to study the effects of various shocks and the effects of government policy.
3. To learn how to read and understand economics papers, including articles published in professional journals and working papers.
4. To learn about the tools used in economic research.

Grading

- 20%: In-class participation
- 40%: Presentation of a paper
- 40%: A paper

The paper requirement may be satisfied by one of the following:

1. An extended proposal (including literature review) for an MA Research Paper (i.e., the paper that is a requirement for graduation)
2. A critical review of a working paper. For this, you will require my prior approval of the working paper.

Academic Honesty

Students are expected to familiarize themselves with Concordia's policies on academic honesty:

- <http://provost.concordia.ca/academicintegrity/>
- <http://provost.concordia.ca/academicintegrity/code/>
- <http://provost.concordia.ca/academicintegrity/plagiarism/>
- <http://library.concordia.ca/help/howto/citations.html>
- <http://oor.concordia.ca/services/researchethicsandcompliance/>
- <http://cdev.concordia.ca/>

Text

The lecture portion of the course will draw upon:

Schmitt-Grohé, S. and Uribe, M. (2015). *Open Economy Macroeconomics*. Unpublished, Columbia University.

Schmitt-Grohé, S., Uribe, M., and Woodford, M. (2015). *International Macroeconomics*. Unpublished, Columbia University.

These texts can be downloaded from http://www.columbia.edu/~mu2166/lecture_notes.html

Reading List

The following lists potential papers for student presentations as well as working papers that could be the subject of a term paper.

Adam, K. (2011). Government debt and optimal monetary and fiscal policy. *European Economic Review*, 55(1):57–74.

Aschauer, D. and Greenwood, J. (1983). A further exploration in the theory of exchange rate regimes. *Journal of Political Economy*, 91(5):868–875.

Backus, D., Kehoe, P., and Kydland, F. (1989). International trade and business cycles. Working Paper 426, Federal Reserve Bank of Minneapolis.

Backus, D. K. and Kehoe, P. J. (1992). International evidence on the historical properties of business cycles. *The American Economic Review*, 82(4):864–888.

Backus, D. K., Kehoe, P. J., and Kehoe, T. J. (1991). In search of scale effects in trade and growth. Working Paper 451, Federal Reserve Bank of Minneapolis.

- Backus, D. K., Kehoe, P. J., and Kydland, F. E. (1992a). International real business cycles. *The Journal of Political Economy*, 100(4):745–775.
- Backus, D. K., Kehoe, P. J., and Kydland, F. E. (1992b). International real business cycles. *Journal of Political Economy*, 100(4):745–775.
- Backus, D. K., Kehoe, P. J., and Kydland, F. E. (1993). International business cycles: Theory vs. evidence. *Federal Reserve Bank of Minneapolis Quarterly Review*, Fall:14–29.
- Backus, D. K., Kehoe, P. J., and Kydland, F. E. (1994). Dynamics of the trade balance and the terms of trade: The J-curve? *The American Economic Review*, 84(1):84–.
- Backus, D. K. and Smith, G. W. (1993). Consumption and real exchange rates in dynamic economies with non-traded goods. *Journal of International Economics*, 35(3–4):297–316.
- Baxter, M. (1995). International trade and business cycles. NBER Working Papers 5025, National Bureau of Economic Research, Inc.
- Baxter, M. and Crucini, M. J. (1993). Explaining savings-investment correlations. *The American Economic Review*, 93(3):416–.
- Baxter, M. and Crucini, M. J. (1995). Business cycles and the asset structure of foreign trade. *International Economic Journal*, 36(4):821–854.
- Benigno, G. and Benigno, P. (2003). Price stability in open economies. *Review of Economic Studies*, 70(4):743–764.
- Benigno, G. and Paoli, B. D. (2010). On the international dimension of fiscal policy. *Journal of Money, Credit and Banking*, 42(8):1523–1542.
- Benigno, P. (2004). Optimal monetary policy in a currency area. *Journal of International Economics*, 63(2):293–320.
- Benigno, P. (2009). Price stability with imperfect financial integration. *Journal of Money, Credit and Banking*, 41(s1):121–149.
- Cardia, E. (1991). The dynamics of a small open economy in response to monetary, fiscal, and productivity shocks. *Journal of Monetary Economics*, 28(3):411.
- Cardia, E. (1992). Crowding out in open economies: Results from a simulation study. *The Canadian Journal of Economics*, 25(3):708.
- Chen, K.-J., Chu, A. C., and Lai, C.-C. (2014). Home production and small open economy business cycles. unpublished.
- Cole, H. L. and Obstfeld, M. (1991). Commodity trade and international risk sharing. *Journal of Monetary Economics*, 28:3–24.
- Corsetti, G., Dedola, L., and Leduc, S. (2008). International risk-sharing and the transmission of productivity shocks. *Review of Economic Studies*, 75(2):443–473.

- Engel, C. and Wang, J. (2011). International trade in durable goods: Understanding volatility, cyclicalities, and elasticities. *Journal of International Economics*, 83(1):37–52.
- Espada, J. F. C. (2006). Optimal fiscal policy in a small open economy with incomplete markets and interest rate shocks. Working Paper 2006-09, Banco de México.
- Farhi, E., Gopinath, G., and Itskhoki, O. (2011). Fiscal devaluations. Working Paper 17662, NBER.
- Farhi, E. and Werning, I. (2012a). Dealing with the trilemma: Optimal capital controls with fixed exchange rates. Working Paper 18199, NBER.
- Farhi, E. and Werning, I. (2012b). Fiscal multipliers: Liquidity traps and currency unions. Working Paper 18381, NBER.
- Farhi, E. and Werning, I. (2012c). Fiscal unions. Working Paper 18280, NBER.
- Ferrero, A. (2009). Fiscal and monetary rules for a currency union. *Journal of International Economics*, 77(1):1–10.
- Fève, P. and Langot, F. (1994). Unemployment and the business cycle in a small open economy. Technical Report 9431, Centre de Recherche en Economie et Statistique, Paris.
- Finn, M. G. (1990). On saving and investment dynamics in a small open economy. *Journal of International Economics*, 29(1/2):1.
- Galí, J. and Monacelli, T. (2005). Monetary policy and exchange rate volatility in a small open economy. *Review of Economic Studies*, 72(3):707–734.
- Galí, J. and Monacelli, T. (2008). Optimal monetary and fiscal policy in a currency union. *Journal of International Economics*, 76(1):116–132.
- Ghironi, F. (2006). Macroeconomic interdependence under incomplete markets. *Journal of International Economics*, 70(2):428–450.
- Ghironi, F. and Melitz, M. J. (2005). International trade and macroeconomic dynamics with heterogeneous firms. *The Quarterly Journal of Economics*, 120(3):865–915.
- Greenwood, J. and Williamson, S. D. (1989). International financial intermediation and aggregate fluctuations under alternative exchange rate regimes. *Journal of Monetary Economics*, 23:401–431.
- Heathcote, J. and Perri, F. (2002). Financial autarky and international business cycles. *Journal of Monetary Economics*, 49(3):601–627.
- Kehoe, P. J. and Perri, F. (2002). International business cycles with endogenous incomplete markets. *Econometrica*, 70(3):907–928.
- Kollmann, R. (1996). Incomplete asset markets and the cross-country consumption correlation puzzle. *Journal of Economic Dynamics and Control*, 20(5):945–961.

- Langot, F., Patureau, L., and Sopraseuth, T. (2012). Optimal fiscal devaluation. Discussion Paper 6624, IZA.
- Lubik, T. and Schorfheide, F. (2006). A bayesian look at the new open economy macroeconomics. In *NBER Macroeconomics Annual 2005*, pages 313–382. National Bureau of Economic Research.
- Matveev, D. (2011). Sovereign default risk in an open economy. Unpublished manuscript, Universitat Autònoma de Barcelona.
- Mendoza, E. G. (1991). Real business cycles in a small open economy. *American Economic Review*, 81(4):797–818.
- Mendoza, E. G. (1995). The terms of trade, the real exchange rate, and economic fluctuations. *International Economic Journal*, 36(1).
- Mendoza, E. G. and Tesar, L. L. (1998). The interntaional ramifications of tax reforms: Supply-side economics in a global economy. *American Economic Review*, 88(1):226–245.
- Mendoza, E. G. and Tesar, L. L. (2005). Why hasn’t tax competition triggered a race to the bottom? some quantitative lessons from the EU. *Journal of Monetary Economics*, 52(1):163–204.
- Mendoza, E. G., Tesar, L. L., and Zhang, J. (2013). Saving Europe?: The unpleasant arithmetic of fiscal austerity in integrated economies. University of Michigan.
- Obstfeld, M. and Rogoff, K. (1998). Risk and exchange rates. Working Paper 6694, NBER.
- Paoli, B. D. (2009). Monetary policy and welfare in a small open economy. *Journal of International Economics*, 77(1):11–22.
- Pappa, E. and Vassilatos, V. (2007). The unbearable tightness of being in a monetary union: Fiscal restrictions and regional stability. *European Economic Review*, 51(6):1492–1513.
- Rebelo, S. (1992). Growth in open economies. *Carnegie-Rochester Conference Series on Public Policy*, (36):5.
- Schmitt-Grohé, S. and Uribe, M. (2003). Closing small open economy models. *Journal of International Economics*, 61(1):163–185.
- Shi, S. (1994). Weakly nonseparable preferences and distortionary taxes in a small open economy. *International Economic Review*, 35(2):411–28.
- Stockman, A. C. and Tesar, L. L. (1995). Tastes and technology in a two-country model of the business cycle: Explaining international comovements. *American Economic Review*, 85(1):168.
- Sutherland, A. (2006). The expenditure switching eect, welfare and monetary policy in a small open economy. *Journal of Economic Dynamics and Control*, 30(7):1159–1182.

- Tesar, L. L. (1991). Savings, investment and international capital flows. *Journal of International Economics*, 31(1/2):55–.
- Tesar, L. L. (1993). International risk-sharing and non-traded goods. *Journal of International Economics*, 35(1/2):69–.
- Thoenissen, C. (2011). Exchange rate dynamics, asset market structure and the role of the trade elasticity. *Macroeconomic Dynamics*, Forthcoming.

Tentative