

**University of Notre Dame**  
**Department of Economics**

**Economics 70552 – International Macroeconomics**  
**Fall 2018**

<b>Instructor:</b> Prof. César Sosa-Padilla 3013 Jenkins Nanovic Hall +1 574-631-4784 (office) E-mail: <a href="mailto:csosapad@nd.edu">csosapad@nd.edu</a> Office hours: By appointment Homepage: <a href="https://sites.google.com/site/cesarsosapadilla/">https://sites.google.com/site/cesarsosapadilla/</a>	<b>Lecture Hours:</b> TR 9:30pm-10:45am <b>Lecture Room:</b> JNH 3005
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### **Background and Course Description**

The course is organized in two parts. Part I covers terms of trade determination, exchange rate determination, current account dynamics, and international business cycles. Part II is devoted to the study of financial frictions and international financial crises, with special emphasis on sovereign debt and default. Note that the course uses the optimization methods and builds on the asset pricing and business cycle models covered in the macroeconomics core courses from the 1st year of the Ph.D. program.

### **Textbooks and other reading materials**

The course does not follow a specific textbook, hence there is no book to purchase. The required readings will be a mix of lecture notes prepared by the instructors, journal articles, research papers and chapters from books. You will find links to some of these items on Avenue to Learn. Book chapters will come from:

Open Economy Macroeconomics. Martín Uribe and Stephanie Schmitt-Grohè. You can find materials and a link to buy the book in <http://www.columbia.edu/~mu2166>. I'll refer to this book as OEM.

Foundations of International Macroeconomics. Obstfeld and Rogoff. MIT Press, 1996.

Open Economy Macroeconomics in Developing Countries. Carlos Vegh. MIT Press, 2013.

Other (more specific) books that you may find useful are:

Dynamic Economics: Quantitative Methods and Applications. Adda and Cooper. MIT Press, 2003.

Debt Defaults and Lessons from a Decade of Crises. Sturzenegger and Zettelmeyer. MIT Press, 2006.

This Time is Different: Eight Centuries of Financial Folly. Reinhart and Rogoff. Princeton University Press, 2009.

### **Course web site and communication**

I will mostly use e-mail to make announcements regarding the course. Please check regularly your ND email account. Additionally, I will do my best to post all announcements on the course website. All the materials for this course will be posted on Sakai.

## **Tentative schedule and (some) readings**

**8/23:** Introduction and review of main stylized facts.

Readings: OEM chapter 1.

**8/28 - 9/4:** Small Open Economy (SOE) - Endowment model

Readings: OEM chapter 2.

**9/6 - 9/11:** Small Open Economy (SOE) - Adding Capital to the model

Readings: OEM chapter 3.

**9/13 - 9/25:** SOE-RBC: workhorse model.

Readings: OEM chapters 4 and 5, Mendoza (1991), Schmitt-Grohé and Uribe (2003), Aguiar and Gopinath (2007), García-Cicco et al. (2010).

**9/27 - 10/2:** Interest Rate Shocks

Readings: OEM chapter 6, Uribe and Yue (2006), Neumeyer and Perri (2005).

**10/4 - 10/9:** Tradables-NonTradables Model

Readings: OEM chapter 8.

**10/11:** Midterm Exam 1

**10/15 - 10/19:** Fall Break – No classes.

**10/23 - 10/25:** Financial Crises: Main stylized facts.

Readings: Reinhart and Rogoff (2009) chapters 2, 5, and 6, Sturzenegger and Zettelmeyer (2005) chapter 1, OEM chapter 13 (first part).

**10/30 - 11/6:** Sovereign Defaults: Main Theories (cont'd).

Readings: OEM chapter 13, Obstfeld and Rogoff (1996) chapter 6, Eaton and Gersovitz (1981), Arellano (2008), Aguiar and Gopinath (2006), Mendoza and Yue (2012).

**11/8 - 11/15:** Newer Issues and Developments in the Sovereign Debt literature.

Readings: Hatchondo et al. (2011), Benjamin and Wright (2008), D'Erasmus (2011), Yue (2010), Sosa-Padilla (2012), Chatterjee and Eyigungor (2011), Arellano and Ramanarayanan (2008), Cuadra et al. (forthcoming), Gennaioli et al. (2010).

**11/20:** Midterm Exam 2

**11/27 - 12/6:** Student Presentations.

## Paper presentations

Each student will present a paper from the list below. Presentations should be done professionally, as if you were presenting your own research in a conference/seminar. Slides are expected to be well organized and to be legible. Tedious mathematical derivations should be left to a written summary/handout. The use of Latex/Beamer is highly encouraged.

For each presentation day there will be 2 presentations, each taking up to 40 minutes. That time will be allocated as follows: the presenter will have 25 minutes to motivate the paper (putting it in context), present the research question(s) and explain the main results. Then a discussant will have 10 minutes to briefly summarize the paper and criticize it. The remaining time will be left for general Q&A. Each non-presenting student is expected to read the paper and provide at least 3 questions/suggestions related to the paper and the overall literature. Questions and comments during the presentation or the discussion of the papers are encouraged.

Here is a preliminary list of papers to choose from. They will be assigned on a first-come first-served basis:

- Mendoza, Enrique G., “Sudden Stops, Financial Crises and Leverage.” American Economic Review, Dec. 2010.
- Ernesto Talvi, Carlos A. Végh, “Tax base variability and procyclical fiscal policy in developing countries.” Journal of Development Economics, Volume 78, Issue 1, (2005): 156-190.
- Mendoza, Enrique G., and Vivian Z. Yue. “A general equilibrium model of sovereign default and business cycles.” The Quarterly Journal of Economics 127.2 (2012): 889-946.
- D’Erasmus, Pablo. “Government reputation and debt repayment in emerging economies.” Manuscript, University of Maryland, 2011.
- Bocola, Luigi. “The Pass-Through of Sovereign Risk.” Journal of Political Economy, Volume 124, Number 4, August 2016.
- Perez, Diego. “Sovereign Debt, Domestic Banks and the Provision of Public Liquidity.” Manuscript, NYU, 2016.

## Assessment and Grading Scheme

1. The assessment will be based on two midterm exams, a class presentation, and class participation. There will be no cumulative final exam.
2. Midterm Exam 1 is scheduled for February 28th and Midterm Exam 2 for April 6th.
3. Your grade for the course will be calculated as follows:

Item	Weight
Participation to class discussion	10%
Class presentation	20%
Better test	40%
Other test	30%

4. If a student fails to provide a satisfactory reason for missing a test or exam, he/she will get the mark zero for that test.

## Guidelines and Expectations

Students are expected to come to class and to participate in various ways in the lectures: either by asking questions, by pointing out errors on the slides, or by answering questions I ask during lectures.

Most of the time, I will deliver my lectures using slides. The slides will be posted on the course website after classes (and if I can, even before classes). Occasionally, I will use the blackboard/whiteboard to cover additional material. The slides are not lecture notes. They mainly provide an outline of what will be discussed in class.

A reading schedule is outlined in this syllabus (see below). Students are assumed to have read the material ahead of the lectures. Students should NOT expect me to talk about every single textbook page. The lectures will focus on the most important and challenging parts of the material. More basic material will be left for the students to study on their own. I will refer to this more basic material in the lectures, hence the need to read ahead to understand the lectures.

## Honor Code

Students are expected to understand and abide by the principles and procedures set forth in the University of Notre Dame Academic Code of Honor (<http://honorcode.nd.edu>) and uphold the pledge that “As a member of the Notre Dame community, I will not participate in or tolerate academic dishonesty.”

**At certain points in the course it may make good sense to modify the course content described above. The instructor reserves the right to modify elements of the course and will notify students accordingly (in class and post any changes Sakai).**

## References

- Aguiar, Mark and Gita Gopinath**, “Defaultable debt, interest rates and the current account,” *Journal of International Economics*, 2006, 69, 64–83.
- and —, “Emerging markets business cycles: the cycle is the trend,” *Journal of Political Economy*, 2007, 115 (1), 69–102.
- Arellano, Cristina**, “Default Risk and Income Fluctuations in Emerging Economies,” *American Economic Review*, 2008, 98(3), 690–712.
- and **Ananth Ramanarayanan**, “Default and the Maturity Structure in Sovereign Bonds,” 2008. Mimeo, University of Minnesota.
- Benjamin, David and Mark L. J. Wright**, “Recovery Before Redemption? A Theory of Delays in Sovereign Debt Renegotiations,” 2008. manuscript.
- Chatterjee, S. and B. Eyigungor**, “Maturity, Indebtedness and Default Risk,” 2011. Federal Reserve Bank of Philadelphia Working Paper 11-33.
- Cuadra, Gabriel, Juan M. Sanchez, and Horacio Sapriza**, “Fiscal policy and default risk in emerging markets,” *Review of Economic Dynamics*, forthcoming.
- D’Erasmus, Pablo**, “Government Reputation and Debt Repayment,” 2011. Manuscript, University of Maryland.

- Eaton, Jonathan and Mark Gersovitz**, “Debt with potential repudiation: theoretical and empirical analysis,” *Review of Economic Studies*, 1981, 48, 289–309.
- García-Cicco, Javier, Roberto Pancrazi, and Martín Uribe**, “Real Business Cycles in Emerging Countries?,” *The American Economic Review*, 2010, 100 (5), 2510–2531.
- Gennaioli, Nicola, Alberto Martin, and Stefano Rossi**, “Sovereign Default, Domestic Banks and Financial Institutions,” 2010. Working Paper, CREi.
- Hatchondo, Juan Carlos, Leonardo Martinez, and César Sosa-Padilla**, “Debt dilution and sovereign default risk,” 2011. manuscript, University of Maryland.
- Mendoza, E.G.**, “Real business cycles in a small open economy,” *The American Economic Review*, 1991, pp. 797–818.
- Mendoza, Enrique and Vivian Yue**, “A General Equilibrium Model of Sovereign Default and Business Cycles,” *Quarterly Journal of Economics*, 2012.
- Neumeyer, Pablo. and Fabrizio Perri**, “Business cycles in emerging economies: the role of interest rates,” *Journal of Monetary Economics*, 2005, 52, 345–380.
- Obstfeld, M. and K.S. Rogoff**, *Foundations of international macroeconomics*, The MIT Press, 1996.
- Reinhart, Carmen M. and Kenneth S. Rogoff**, *This Time is Different*, Princeton Press, 2009.
- Schmitt-Grohé, Stephanie. and Martin Uribe**, “Closing small open economy models,” *Journal of International Economics*, 2003, 61, 163–185.
- Sosa-Padilla, Cesar**, “Sovereign Defaults and Banking Crises,” 2012. Working Paper. McMaster University.
- Sturzenegger, Federico and Jeromin Zettelmeyer**, *Debt Defaults and Lessons from a Decade of Crises*, MIT Press, 2005.
- Uribe, Martín and Vivian Yue**, “Country spreads and emerging countries: Who drives whom?,” *Journal of International Economics*, 2006, 69, 6–36.
- Yue, Vivian**, “Sovereign default and debt renegotiation,” *Journal of International Economics*, 2010, 80, 176–187.