

**DEPARTMENT OF ECONOMICS
INTERNATIONAL MONETARY THEORY**

Fall 2017

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Office Hours: Thursday, 11.00am-12.00pm, and by appointment

GOALS

The primary goal of this course is to motivate and initiate innovative graduate student research in the field of international macroeconomics. Lectures are therefore complemented by student presentations in class of research papers in the literature, and by students working towards the completion of an original research project. However, in the first seven weeks of the course, we also recognize that many students have limited backgrounds in international macroeconomics and attempt to provide a foundation for the research “from the ground up”, so that the course is self-contained. This part of the course does not attempt, therefore, to be an exhaustive review of research areas in international macroeconomics; it focuses on a few core topics to provide foundations for the second part of the course, and topics which illustrate the origins and development of some of the most exciting directions of the field. Both data and models are presented. Some of the readings are seminal, some are frontier research.

STRUCTURE

There is one, three hour class per week. In general, the first half of each class will be devoted to “lecture material” based largely on my own notes and overviews of recent research papers. Students are expected to complete any companion textbook or journal article readings independently.

The second half of each class is allocated to two or more student presentations of existing research papers. The presentations of existing literature are designed to improve reading, comprehension and presentation skills, and to familiarize students with the methods, models, and results in the established core and at the brink of this research field. Presentations should be submitted in hard copy or electronically, are graded, and constitute students’ assignments.

Finally, students develop an original research project during the semester. The paper should be developed along similar lines as a doctoral dissertation proposal. The

papers are due by the final examination date and must be presented in class during week 15 of the course.

PRE-REQUISITES

The pre-requisites for this class are ECONOMICS 602 and ECONOMICS 605.

TEXTBOOKS

The course does not follow any textbook. However, students may draw on and are expected to read specific chapters on the reading list from the following books:

Open Economic Macroeconomics (2017) by Martin Uribe and Stephanie Schmitt-Grohe, Princeton University Press

Foundations of International Macroeconomics (1996) by Maurice Obstfeld and Kenneth Rogoff, MIT Press: Cambridge

EVALUATION

Your final grade in the class will be determined as the following weighted average of your work throughout the semester:

- In-class presentation of a research paper in both parts of the course (40% of overall grade)
- Writing of a short term paper based on the material in either or both parts of the course and its class presentation in week 15 (60% of overall grade)

The research paper cannot be the same as that submitted to another class, in this or any other semester.

ACADEMIC CONDUCT

Plagiarism – presenting someone else’s ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences. Please familiarize yourself with the discussion of plagiarism in *SCampus* in Part B, Section 11, “Behavior Violating University Standards”, which can be found at this link:

<https://policy.usc.edu/student/scampus/part-b>.

Other forms of academic dishonesty are equally unacceptable. See additional information in *SCampus* and university policies on scientific misconduct, <http://policy.usc.edu/scientific-misconduct>.

Discrimination, sexual assault, intimate partner violence, stalking, and harassment are prohibited by the university. You are encouraged to report all incidents to the *Office of Equity and Diversity/Title IX Office* <http://equity.usc.edu> and/or to the *Department of*

Public Safety <http://dps.usc.edu>. This is important for the health and safety of the whole USC community. Faculty and staff must report any information regarding an incident to the Title IX Coordinator who will provide outreach and information to the affected party. The sexual assault resource center webpage <http://sarc.usc.edu> fully describes reporting options. Relationship and Sexual Violence Services <https://engemannshc.usc.edu/rsvp> provides 24/7 confidential support.

SUPPORT SYSTEMS

Several USC schools provide support for students who need help with scholarly writing. Check with your advisor or program staff to find out more. Students whose primary language is not English should check with the *American Language Institute* <http://ali.usc.edu>, which sponsors courses and workshops specifically for international graduate students. *The Office of Disability Services and Programs* <http://dsp.usc.edu> provides certification for students with disabilities and helps arrange the relevant accommodations. If an officially declared emergency makes travel to campus infeasible, *USC Emergency Information* <http://emergency.usc.edu> will provide safety and other updates, including ways in which instruction will be continued by means of Blackboard, teleconferencing, and other technology.

COURSE OUTLINE AND REQUIRED READINGS

WEEK 1. INTRODUCTION

- i) Field background and data
- ii) Where the course fits in
- iii) The basics - measuring macroeconomic openness

Reading: M. Obstfeld and K. Rogoff (2000) "The Six Major Puzzles in International Macroeconomics: Is There A Common Cause?" NBER Macroeconomics Annual, **15**, 339-412.

WEEK 2. INTERTEMPORAL TRADE AND CURRENT ACCOUNTS

- i) An open economy pure endowment model
- ii) An open economy model with endogenous production and investment

Readings: Obstfeld and Rogoff, chapters 1 and 2
Uribe and Schmitt-Grohe, chapters 2 and 3

WEEK 3. INTERNATIONAL CAPITAL FLOWS AND GROWTH

- i) The Lucas Paradox: cross-country data on relative incomes
- ii) Reconciling capital flows with relative income data

Readings: Obstfeld and Rogoff, chapter 3

Aizenmann, J., Y. Jinjark, and D. Park (2013) “Capital Flows and Economic Growth in the Era of Financial Integration and Crisis, 1990-2010,” *Open Economies Review* **24** 371-396.

Henry, P.B. (2003) “Capital Account Liberalization, the Cost of Capital, and Economic Growth,” *American Economic Review* **93**(2) 91-96.

Lucas, R.E. Jr. (1990) “Why Doesn’t Capital Flow from Rich to Poor Countries?” *American Economic Review*, **80** (2).

WEEK 4. INTERNATIONAL REAL BUSINESS CYCLES

- i) International business cycle data
- ii) The international real business cycle model

Readings: Uribe and Schmitt-Grohe, chapters 1 and 4

Aguiar, M. and G. Gopinath (2007), “Emerging Market Business Cycles: The Cycle is the Trend,” *Journal of Political Economy*, **115**, 69-102.

Backus, D. P. Kehoe and F. Kydland (1992) “International Real Business Cycles,” *Journal of Political Economy*, **100**, 745-775.

Chang, R. and A. Fernández (2013) “On the sources of aggregate fluctuations in emerging economies”, *International Economic Review* **54**(4) 1265-1293.

Garcia-Cicco, J. R. Pancazi, and M. Uribe (2010), “Real Business Cycles in Emerging Countries?” *American Economic Review*, **100**, 2510-2531.

Justiniano, A. and B. Preston (2010) “Can structural small open-economy models account for the influence of foreign disturbances?” *Journal of International Economics* **81(1)** 61-74.

Mendoza, E. (1991) “Real Business Cycles in a Small Open Economy,” *American Economic Review* **81**, 797-818.

WEEK 5. NOMINAL EXCHANGE RATES AND ASSET PRICES

- i) Nominal exchange rate data and puzzles
- ii) The Lucas model
- iii) International risk sharing

Readings: Obstfeld and Rogoff, chapters 5, 8, and 9

Engel, C. and K. West (2005), “Exchange Rates and Fundamentals.” *Journal of Political Economy*, 485-517.

Engel, C. N.C. Mark, and K.D. West (2007), “Exchange Rate Models Are Not as Bad as You Think,” NBER Macroeconomics Annual 2007, 381-441.

Heathcote, J. and F. Perri (2013) “The International Diversification Puzzle Is Not As Bad As You Think.” *Journal of Political Economy*, **118** (4), 1108-1159.

Lewis, K. (2000) “Why do Stocks and Consumption Imply such Different Gains from International Risk Sharing?” *Journal of International Economics*, **52**, 1-36.

Lucas, R.E. (1982) “Interest Rates and Currency Prices in a Two-Country World,” *Journal of Monetary Economics*, **10**, 335-60

WEEK 6. REAL EXCHANGE RATES: DATA AND THEORY

- i) Data and puzzles
- ii) Empirical real exchange rate research
- iii) Modeling real exchange rates

Readings: Obstfeld and Rogoff, Chapter 4
Uribe and Schmitt-Grohe, Chapters 8 and 9

Betts, C. and T. Kehoe (2008) “Real Exchange Rate Movements and the Relative Price of Non-Traded Goods”, NBER WP# 14437

Betts, C. and T. Kehoe (2006) “US Real Exchange Rate Fluctuations and Relative Price Fluctuations”, *Journal of Monetary Economics*, **53**, 1297-1326.

Crucini, M., C. Telmer, and M. Zachariadis (2005) “Understanding European Real Exchange Rates,” *American Economic Review*, **95**, 724-738.

Engel, C. (1999) “Accounting for US Real Exchange Rate Changes”, *Journal of Political Economy*, **107**, 507-538.

Engel, C. and J. Rogers (1996) “How Wide is the Border?” *American Economic Review*, **86**, 1112-1125.

Fernandez de Cordoba, G. and T. J. Kehoe, “Capital Flows and Real Exchange Rate Fluctuations Following Spain's Entry into the European Community,” *Journal of International Economics*, 51 (2000), 49-78.

Hellerstein, R. (2008) “Who Bears the Cost of a Change in the Exchange Rate? Pass-through Accounting for the Case of Beer,” *Journal of International Economics* **76(1)** 14-32.

WEEK 7. MONETARY MODELS OF EXCHANGE RATES

- i) Models with producer currency pricing
- ii) Models with local currency pricing

Readings: Obstfeld and Rogoff, chapter 10
Uribe and Schmitt-Grohe, chapter 9

Betts, C. and M. Devereux (2000) “Exchange Rate Dynamics in a Model of Pricing-to-Market,” *Journal of International Economics*, **50**, 215-244.

Corsetti, G., L. Dedola, and S. Leduc (2010) “Optimal Monetary Policy in Open Economies,” in *Handbook of Monetary Economics* v.3 eds. B. Friedman and M. Woodford.

Gopinath, G., O. Itskhoki, and R. Rigobon (2010) “Currency Choice and Exchange-rate Pass-through,” *American Economic Review* **100(1)** 304-336.

Obstfeld, M. and K. Rogoff (1995) “Exchange Rate Dynamics Redux,” *Journal of Political Economy*, **103**, 624-660.

