

Economics 246 — Fall 2006

International Macroeconomics

November 22, 2006

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| Instructor: | Marc-Andreas Muendler |
| Office: | Economics 312 |
| Office hours: | Tue 9:00a - 10:00a (or by appointment) |
| Phone: | (858) 534-4799 |
| E-mail: | muendler@ucsd.edu |
| Class Time: | MonWed 12:30p - 1:50p |
| Classroom: | Econ 210 |
| Class Web Page: | <i>econ.ucsd.edu/muendler/teach/06f/246</i> |

1 Course Objectives

This course examines open-economy macroeconomics and international finance. Topics include theories of the current account, international portfolio investments, the exchange rate, foreign exchange regimes, causes and potential remedies of financial crises. The course investigates real and monetary explanations, and implications of international capital market integration.

2 Prerequisites

Instructor's consent.

3 Readings

Textbook: Obstfeld and Rogoff (1996)

Readings: Nason and Rogers (2006); Goldberg and Knetter (1997); Ghironi and Melitz (2005); Antras (2003); Obstfeld and Rogoff (2001); Burstein, Eichenbaum, and Rebelo (2005); Neely and Sarno (2002); Cheung, Chinn, and Pascual (2005); Dornbusch (1976); Obstfeld (1996); Morris and Shin (1998); Diamond and Dybvig (1983); Caballero and Krishnamurthy (2003); Tirole (2003); Morris and Shin (2002); Obstfeld and Rogoff (1995); Lane (2001)

The readings will become available through the class web page.

4 Problem Sets

There will be three problem sets, due on scheduled dates throughout the quarter. You are encouraged to work on the problems with your classmates. Your

solutions to the problem sets will be checked (check/no check) but your performance on them does not become a formal part of the final grade.

5 Research Paper Proposal

You may choose to submit a short research paper proposal as part of your course work. I strongly encourage this.

The proposal should be around four to eight pages in length. The proposal can take many forms: you can use a model from class, alter a crucial assumption, and show how it leads to different implications; you can take a model from class and propose a novel estimation procedure on available data sets; you can construct a little sample economy from scratch to address an overlooked issue and explore its effects; you can explore new data sources and document how previously unaddressed issues could be brought closer to an answer. The proposal includes a brief review of the related literature, and a sketch of a theoretical model along with its conjectured implications *or* a discussion of an available data set and an estimation procedure along with its identifying assumptions. A draft of the paper proposal is due on Tuesday, Nov 28, 5:00p and the final proposal is due on Friday, Dec 1, 5:00p.

6 Assessment

There will be a final exam on Monday, Dec 4 from 2:00p-5:00p, but no midterm exam. The problem sets help you prepare for the final exam. The exam will take 180 minutes (180 points). You have two options for your assessment.

1. You can take the final exam only (12 points; score multiplied by 5/2 to 30.)
2. You can choose to submit a short research paper proposal. (A draft of the paper proposal is due on Tuesday, Nov 28, 5:00p and the final proposal is due on Friday, Dec 1, 5:00p.) Under this option, the final paper proposal counts for 60 percent of your grade (18 points) and the final exam for 40 percent (12 points).

The minimum standard of performance for a grade of Satisfactory is the same as the minimum for a grade of B-.

There will be a review section in the last week of classes.

7 Class Schedule

I. Microfoundations of International Macroeconomics

1. **Mon, Sep 25:** Intertemporal Trade in a Small Open Economy
(Obstfeld and Rogoff 1996/Ch. 1)
No class on Wed, Sep 27.
Instead, there will be a review section during last week.
2. **Mon, Oct 2:** Intertemporal Trade in a Two-Region World
(Obstfeld and Rogoff 1996/Ch. 1)
PROBLEM SET 1 OUT
3. **Wed, Oct 4:** Current Account Dynamics
(Obstfeld and Rogoff 1996/Ch. 2; Nason and Rogers 2006)
4. **Mon, Oct 9:** Firms, Investment and the Current Account
(Obstfeld and Rogoff 1996/Ch. 2)
5. **Wed, Oct 11:** The Real Exchange Rate, Nontraded Goods and Productivity
(Obstfeld and Rogoff 1996/Ch. 4; Goldberg and Knetter 1997)
6. **Mon, Oct 16:** The Terms of Trade and International Specialization
(Obstfeld and Rogoff 1996/Ch. 4)
7. **Wed, Oct 18:** International Risk Sharing with Complete Asset Markets
(Obstfeld and Rogoff 1996/Ch. 5)
PROBLEM SET 1 DUE
8. **Mon, Oct 23:** International Risk Sharing with Incomplete Asset Markets
(Obstfeld and Rogoff 1996/Ch. 5)
PROBLEM SET 2 OUT
9. **Wed, Oct 25:** Sovereign Risk and Foreign Lending
(Obstfeld and Rogoff 1996/Ch. 6)
10. **Mon, Oct 30:** Firm Heterogeneity and Foreign Direct Investment
(Ghironi and Melitz 2005; Antras 2003)
11. **Wed, Nov 1:** Puzzles, Trade Frictions, and Exchange Rate Pass-Through
(Obstfeld and Rogoff 2001; Burstein, Eichenbaum, and Rebelo 2005)

II. Monetary Foundations and Debt Denomination

12. **Mon, Nov 6:** Exchange Rates under Flexible Prices
(Obstfeld and Rogoff 1996/Ch. 8; Neely and Sarno 2002)
13. **Wed, Nov 8:** Exchange Rates, Inflation and Bubbles
(Obstfeld and Rogoff 1996/Ch. 8; Cheung, Chinn, and Pascual 2005)

- 14. Mon, Nov 13:** Price Rigidities and Exchange Rate Overshooting
(Dornbusch 1976; Obstfeld and Rogoff 1996/Ch. 9)
- 15. Wed, Nov 15:** Exchange Rate Intervention and First-generation Crisis Models (Obstfeld and Rogoff 1996/Ch. 8)
PROBLEM SET 2 DUE, PROBLEM SET 3 OUT
- 16. Mon, Nov 20:** Self-fulfilling Equilibria and Second-generation Crisis Models (Obstfeld 1996, Morris and Shin 1998)
- 17. Wed, Nov 22:** Bank Runs, Balance Sheet Effects, and Third-generation Crisis Models (Diamond and Dybvig 1983, Caballero and Krishnamurthy 2003)
- 18. Mon, Nov 27:** Contract Design and Transparency
(Tirole 2003, Morris and Shin 2002)
- Tue, Nov 28:** REVIEW SECTION, 2:00p-3:20p. Room: Econ 312
DRAFT OF PAPER PROPOSAL DUE
- 19. Wed, Nov 29:** Price Rigidities and World Economy Redux
(Obstfeld and Rogoff 1996/Ch. 10; Obstfeld and Rogoff 1995; Lane 2001)
PROBLEM SET 3 DUE
- Fri, Dec 1:** FINAL PAPER PROPOSAL DUE
- Mon, Dec 4:** FINAL EXAM, 2:00p-5:00p. Room: Econ 210

References

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