

**INTERNATIONAL ECONOMICS
2008-2009**

ECONOMICS 280B (FALL 2008): PIERRE-OLIVIER GOURINCHAS.

This sequence develops core models of international finance and open-economy macroeconomics, and surveys selected current research topics in the field. Topics treated in the first semester include: the intertemporal approach to the current account; international risk sharing and capital flows; home bias and international CAPM; the determination of real exchange rates and purchasing power parity; International Real Business Cycle Models, Empirical models of nominal exchange rates; Sovereign debt crises; Capital Flows.

ECONOMICS 280C (SPRING 2009): MAURY OBSTFELD

This course covers advanced topics in open-economy monetary economics and in international finance. Topics treated include: money and exchange rate regimes; changes of regimes; sticky prices and stabilization policies; optimal policies, accommodation and credibility; economics of currency areas; the new open economy macroeconomics.

ECON280B, FALL 2008
Pierre-Olivier Gourinchas

COURSE SCHEDULE

Classes will be held every Thursday from 12 to 2. Room: Evans 639

GRADING POLICY

PROBLEM SETS (30% OF GRADE).

SHORT REPORT (30% OF GRADE).

Class participants will be asked to choose one among a small selection of papers and write a short report. Depending on the paper, you will be asked to provide critical missing intermediate steps, re-calibrate a simulation model or check core empirical results. The short report should be at most 10-12 double space pages. You should devote 1 to 3 pages to a critical assessment of the paper, establishing its value added to the literature in the manner of a referee report.

FINAL (40% OF GRADE).

COURSE MATERIAL

The textbook for the course is Foundations of International Macroeconomics, by Maurice Obstfeld and Kenneth Rogoff, MIT Press, October 1996. It is available at the [Student Store](#), as well as at <http://www.amazon.com/> and <http://www.barnesandnoble.com/>.

Another useful reference is: "[International Macroeconomics and Finance: Theory and Empirical Methods](#)" by Nelson Mark, Blackwell Publisher, September 2001.

I will also distribute at irregular intervals lecture notes riddled with typos, inconsistencies and omissions!

READING LIST

The following reading list gives a guide to the material that will be covered in the course. All articles are available on-line (follow the links).

The web page for this class is accessed through Bspace (<http://bpace.berkeley.edu>).

The course web page can be accessed via the department web page (<http://emlab.berkeley.edu/econ/chpr.shtml>).

TOPICS

1. Introduction; Current Account & Global Imbalances

(Aug. 28 and Sept. 04)

*[Obstfeld M. and K. Rogoff](#), "The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?", NBER Macro Annual 2000, also NBER working paper 7777.

*Obstfeld and Rogoff chapters 1-3;

*[Caballero R., E. Farhi and P-O. Gourinchas](#), "An Equilibrium Model of Global Imbalances and Low Interest Rates", *American Economic Review*, 98(1), March 2008.

Caballero R., E. Farhi and P-O. Gourinchas, "Financial Crash, Commodity Prices and Global Rebalancing", forth. Brookings Panel on Economic Activity. September 2008.

Obstfeld M. and K. Rogoff, "The Intertemporal Approach to the Current Account", in *Handbook of International Economics*, Gene Grossman and Ken Rogoff, ed, North Holland, 1995, also available as [NBER working paper 4893](#).

[Nason J. and J. Rogers](#), "The Present-Value Model of the Current Account Has Been Rejected: Round Up the Usual Suspects", *Journal of International Economics*, 68(1), January 2006.

[Mendoza, E., V. Quadrini and V. Rios-Rull](#), "Financial Integration, Financial Deepness and Global Imbalances", NBER WP 12909, February 2007

[Engel C. and J. Rogers](#). "The U.S. Current Account Deficit and the Expected Share of World Output", *Journal of Monetary Economics*, 53(5), July 2006.

[Gourinchas, P-O and H. Rey](#), "From World Banker to World Venture Capitalist: US External Adjustment and The Exorbitant Privilege," in "G7 Current Account Imbalances: Sustainability and Adjustment," R. Clarida ed., 2007

2. Real Exchange Rates, Terms of Trade and the Current Account

(Sept. 11 and 18)

*Obstfeld and Rogoff Chapter 4

*[Engel C.](#) "Accounting for US Real Exchange Rate Changes," *Journal of Political Economy* 107(3), June 1999, pages 507-38;

*[Ghironi F. and M. Melitz](#), "International Trade and Macroeconomic Dynamics with Heterogeneous Firms," *Quarterly Journal of Economics*, Aug 2005

[Rogoff K.](#) "The Purchasing Power Parity Puzzle", *Journal of Economic Literature* Vol. 34, No. 2. (Jun., 1996), pp. 647-668;

[Canzoneri M., R. Cumby and B. Diba](#), "Relative labor productivity and the real exchange rate in the long run: evidence for a panel of OECD countries", *Journal of International Economics*, 47(2), April 1999

[Acemoglu D. and J. Ventura](#), "The World Income Distribution", *Quarterly Journal of Economics*, May 2002.

[Gagnon, J.](#), "Growth-Led Exports: Is Variety the Spice of Trade? " *International Finance Discussion Paper 822*, 2004.

[Dornbusch R., S. Fisher and P. Samuelson](#), "Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods", *American Economic Review* Vol. 67, No. 5. (Dec., 1977), pp. 823-839

[Fitzgerald, D.](#), "Terms-of-Trade Effects, Interdependence and Cross-Country Differences in Price Levels", mimeo UC Santa Cruz, 2004.

[Atkeson, A. and A. Burstein](#), "Trade Costs, Pricing to Market, and International Relative Prices", forthcoming, *American Economic Review*, 2008

Gopinath G., P-O. Gourinchas and C-T. Hsieh, "Cross Border Prices, Costs and Mark-ups", mimeo UC Berkeley, July 2008.

3. International Risk Sharing & Portfolio Diversification

(Sept. 25, Oct. 2 and 9)

a. Complete Markets and Risk Sharing

*Obstfeld and Rogoff, chapter 5.

[Svensson, L.](#): "Trade in Risky Assets", *American Economic Review*, pp. 375-394, (June) 1988

[Backus D. and G. Smith](#), "Consumption and Real Exchange Rates in Dynamic Economies with Nontraded Goods", *Journal of International Economics*, 25, 1993.

[Brandt M., Cochrane J. and P. Santa Clara](#), "International Risk Sharing is better than you think (or exchange rates are much too smooth) ", *Journal of Monetary Economics*, May 2006.

[Lewis K.](#) (1996), "What can explain the apparent lack of consumption risk sharing?" *Journal of Political Economy* 104 (April): 267-97.

[Obstfeld, M.](#), "Are Industrial Country Consumption Risks Globally Diversified?", in L. Leiderman and A. Razin, eds, *Capital Mobility, The Impact on Consumption, Investment and Growth*, Cambridge University Press, New York, 1994.

b. International Portfolios

*[Cole H. and M. Obstfeld](#), "Commodity Trade and International Risk Sharing: How much do Financial Markets Matter?", *Journal of Monetary Economics* 28 (August): 3-24, 1991.

[French K. and J. Poterba](#), 1991, "Investor diversification and international equity markets", *American Economic Review* 81, 222-226.

[Baxter M. and U. Jerman](#), 1997, "The international diversification puzzle is worse than you think", *American Economic Review*, 87(March) and the [appendix](#).

[Heathcote, J. and F. Perri](#), "The International Diversification Puzzle is not as bad as you think", mimeo NYU Stern, Aug 2004.

[Adler M and B. Dumas](#), "International Portfolio Choice and Corporation Finance: a Synthesis", *Journal of Finance*, 38, 925-984

[Lewis K.](#), "International Home Bias in International Finance and Business Cycles", NBER WP #6351, January 1998, or with the title "Trying to Explain Home Bias in Equities and Consumption" *Journal of Economic Literature* 37, June 1999, 571-608.

c. Consumption and Portfolio Home Bias: Are They Linked?

*[Obstfeld, M.](#), "International Risk Sharing and the Costs of Trade," Ohlin Lectures, May 2007

*[Coeurdacier N. and P-O. Gourinchas](#), "When Bonds Matter: Home Bias in Goods and Assets, " mimeo June 2008

[Coeurdacier N.](#), "Do trade costs in goods markets lead to home bias in equities?" mimeo LBS, July 2008.

[Baxter M, U. Jermann and R. King](#), "Nontraded Goods, Nontraded factors and International Nondiversification", *Journal of International Economics*, April 1998, 211-229.

[Dellas, H and A. Stockman](#), "International portfolio nondiversification and exchange rate variability", *Journal of International Economics*, 26(3-4), pp271-89, May 1989

d. Solving International Portfolio Models

*[Devereux M. and A. Sutherland](#), "Solving for Country Portfolios in Open Economy Macro Models", mimeo UBC, October 2006

[Tille C. and E. van Wincoop](#), "International Capital Flows," NBER WP 12856, January 2007.

[Pavlova A and R. Rigobon](#), "Asset Prices and Exchange Rates", *Review of Financial Studies*, 20(4), 2007

4. International Real Business Cycle

(Oct. 16 and 23)

*[Backus, D., P. Kehoe and F. Kydland](#), "International Business Cycles: Theory and Evidence", quarterly review, fall 1993

*[Aguar M. and G. Gopinath](#), "Emerging Market Business Cycles: the Cycle is the Trend", *Journal of Political Economy*, 115(1), February 2007

[Backus, D.K., P. Kehoe and F. Kydland](#), "International Real Business Cycles", *Journal of Political Economy*, August 1992.

[Backus, D., P. Kehoe and F. Kydland](#), "Dynamics of the trade balance and the terms of trade: the J curve ?" *American Economic Review*, March 1994

[Baxter M. and M. Crucini](#), "Explaining Saving –Investment Correlations", *American Economic Review* June 1993, p 416-436.

[Baxter, M. and M. Crucini](#), "Business Cycles and the Asset Structure of Foreign Trade", *International Economic Review*, 1995

[Schmitt-Grohe S. and M. Uribe](#), "Closing Small Open Economy Models", *Journal of International Economics*, Oct 2003.

5. Empirical Models of Nominal Exchange Rates

(Oct. 30, Nov. 06 and 13)

*Obstfeld and Rogoff, 8.1-8.3

*[Engel, C. and K. West](#), "Exchange Rates and Fundamentals", *Journal of Political Economy*, 113, p485-517, 2005.

*[Gourinchas P-O. and H. Rey](#), "International Financial Adjustment", *Journal of Political Economy*, 115(4), August 2007.

*[Lucas R.](#), "Interest Rates and Currency Prices in a Two-Country World", *Journal of Monetary Economics*, 10, 335-59, 1982.

*[Mark, N.](#) 1995. "Exchange Rates and Fundamentals: Evidence on long-horizon predictability". *American Economic Review* 85: 201-218.

[Meese R. and K. Rogoff](#), "Empirical Exchange Rate Models of the Seventies", *Journal of International Economics* 14 3-24, 1983

[Engel C., N. Mark and K. West](#), "Exchange Rate Models Are Not as Bad as You Think", NBER Macro Annual, 2007.

[Gourinchas P-O. and A. Tornell](#), "Exchange Rate Puzzles and Distorted Beliefs," *Journal of International Economics*, *Journal of International Economics*, Dec 2004.

[Lustig, H. and A. Verdelhan](#), "The Cross-Section of Foreign Currency Risk Premia and US Consumption Growth Risk," *American Economic Review*, March 2007.

[Burnside C., M. Eichenbaum, I. Kleshchelski and S. Rebelo](#), "The Returns to Currency Speculation," NBER Working paper 12916, Feb 2007.

[Bacchetta P. and E. van Wincoop](#), "Can Information Heterogeneity Explain the Exchange Rate Determination Puzzle?", *American Economic Review*, June 2006

6. Endogenous Incomplete Markets and Sovereign Debt

(Dec. 04 and 11)

*Obstfeld and Rogoff, Chapter 6;

*[Kehoe P. and F. Perri](#), "International Business Cycles with Endogenous Incomplete Markets", *Econometrica*, May 2002 70, p907-928.

*[Arellano C.](#), "Default Risk, the Real Exchange Rate and Income Fluctuations in Emerging Economies", *American Economic Review*, 98(3), June 2008

*[Kletzer K. and B. Wright](#), "Sovereign Debt as Intertemporal Barter", *American Economic Review*, 90, June 2000.

[Atkeson A.](#), "International Lending with moral hazard and risk of repudiation", *Econometrica*, Vol. 59, No. 4. (Jul., 1991), pp. 1069-1089

[Bulow J. and K. Rogoff](#), "A constant recontracting model of sovereign debt" *Journal of Political Economy* Vol. 97, No. 1. (Feb., 1989), pp. 155-178.

[Bulow J. and K. Rogoff](#), "Sovereign Debt: is to forgive to forget", *American Economic Review* Vol. 79, No. 1. (Mar., 1989), pp. 43-50

Eaton, J. and R. Fernandez, "Sovereign Debt", in Handbook of International Economics, Gene Grossman and Ken Rogoff, ed, North Holland, 1995; also [NBER working paper 5131](#);

[Yue V.](#), "Sovereign Debt and Renegotiation", mimeo NYU, 2006

[Rogoff, K. and C. Reinhart](#), "This Time Is Different: A Panoramic View of Eight Centuries of Financial Crises", mimeo, Harvard, April 2008.

7. Capital Flows

(Time permitting)

*[Gourinchas P-O. and O. Jeanne](#) "The Elusive Gains from International Financial Integration", *Review of Economic Studies*, July 2006.

*[Gourinchas P-O. and O. Jeanne](#), "Capital Flows to Developing Countries: the Allocation Puzzle", mimeo UCB, April 2008.

[Matsuyama, K.](#) "Financial Market Globalization and the Endogenous Inequality of Nations", *Econometrica*, May 2004.

[Caballero R. and P. Antras](#), "Trade and Capital Flows: A Financial Friction Perspective", mimeo MIT, November 2007

[Caballero R. and A Krisnamurthy](#), "Bubbles and Capital Flow Volatility: Causes and Risk Management," *Journal of Monetary Economics*, Jan 2006 also NBER WP 11618

[Obstfeld, M.](#) "International Finance and Growth in Developing Countries: What Have we Learned?", mimeo August 2008

Parente S. and E. Prescott, Barriers to Riches, MIT Press, 2000.

[Rodrik D.](#), Has Globalization Gone too Far?, Institute for International Economics, Washington, DC, 1997.