

INTERNATIONAL ECONOMICS 2009-2010

ECONOMICS 280B (FALL 2009): 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: international risk sharing and capital flows; the intertemporal approach to the current account; home equity and consumption bias; the determination of real exchange rates and purchasing power parity; Empirical models of nominal exchange rates; Sovereign debt crises.

ECONOMICS 280C (SPRING 2010): 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 2009
Pierre-Olivier Gourinchas

COURSE SCHEDULE

Classes will be held every Wednesday from 10 to 12. Room: Evans 608-7

GRADING POLICY

PROBLEM SETS (30% OF GRADE).

REFEREE REPORTS (30% OF GRADE).

Class participants must write **two** referee reports on papers from the syllabus. You should refrain from picking on papers that are covered in detail in class. If you prefer to select a paper outside the reading list, you need to check with me first. Each report should be approximately 4-5 pages (double spaced). The first half of your report should summarize the main arguments of the paper in the context of the existing literature, highlight its contribution and outline any strengths or weaknesses. The second half of your report should describe how the authors should address the weaknesses (if possible) and make recommendations for change and improvements.

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 make use of [Recursive Macroeconomic Theory](#), 2nd ed., by Tom Sargent and Lars Ljungqvist, MIT Press 2004.

Finally, I may 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://bspace.berkeley.edu>).

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

TOPICS

1. Introduction; Baseline one-good model, complete markets – Aug 26

*[Backus, D., P. Kehoe and F. Kydland](#), "International Real Business Cycles", *Journal of Political Economy*, Aug. 1992, 100(4), 745-775

[Backus, D., P. Kehoe and F. Kydland](#), "Dynamics of the trade balance and the terms of trade: the J curve ?" *American Economic Review*, Mar 1994, 84(1), 84-103

[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

*Ljungqvist & Sargent, chapter 8

[Lucas, R.](#) "Interest Rates and Currency Prices in a Two-Country World", *Journal of Monetary Economics*, 1982, 10(3), 335-59

*Obstfeld and Rogoff, chapters 5

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

[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.

2. Extending the basic model: human capital, multiple goods – Sep. 02

[Baxter M. and U. Jerman](#), "The international diversification puzzle is worse than you think", *American Economic Review*, March 1997, 87(1) and [appendix](#)

*[Cole H. and M. Obstfeld](#), "Commodity Trade and International Risk Sharing: How much do Financial Markets Matter?", *Journal of Monetary Economics* Aug 1991, 28(1), pp3-24.

[Lewis K.](#), "What can explain the apparent lack of consumption risk sharing?" *Journal of Political Economy* Apr. 1996, 104(2), 267-97.

3. Frictions in asset markets I: risk-free bond-only economy - Sep. 09

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

[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*, Jan 2006, 68(1).

*Obstfeld and Rogoff chapters 1-2

4. Frictions in asset markets II: Capital Flows and Growth - Sep. 16

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

[Caballero R., E. Farhi and P-O. Gourinchas](#), "Financial Crash, Commodity Prices and Global Imbalances", *Brookings Papers on Economic Activity* Fall 2008.

[Gertler, M. and K. Rogoff](#), "North-South Lending and Endogenous Domestic Capital Market Inefficiencies," *Journal of Monetary Economics*, Oct 1990, 26(2), 245-266

[Gourinchas P-O. and O. Jeanne](#), "The Elusive Gains from International Financial Integration," *Review of Economic Studies*, Jul 2006, 73(3), 715-41.

*[Gourinchas P-O. and O. Jeanne](#), "Capital Flows to Developing Countries: the Allocation Puzzle", mimeo UCB, June 2009.

[Kose, A., E. Prasad, K. Rogoff, S. Wei](#), "Financial Globalization, a Reappraisal," IMF Working Paper 06/189, 2006

*[Lucas R.](#), "Why Doesn't Capital Flow from Rich to Poor Countries?" *American Economic Review*, May 1990, 80(2), 92-96

[Obstfeld, M.](#), "International Finance and Growth in Developing Countries: What Have we Learned?", World Bank Commission on Growth and Development, WP No 34, 2008

5. Frictions in asset markets III: Incomplete Markets – Sep.30

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

*[Aiyagari, R.](#), "Uninsured Idiosyncratic Risk and Aggregate Saving," *Quarterly Journal of Economics*, Aug. 1994, 109(3), 659-684

[Baxter, M. and M. Crucini](#), "Business Cycles and the Asset Structure of Foreign Trade," *International Economic Review*, Nov, 1995, 36(4)

[Devereux M. and A. Sutherland](#), "Country Portfolios in Open Economy Macro Models," , forth. *Journal of the European Economic Association*, 2009

[Mendoza, E.](#), "Real Business Cycles in a Small Open Economy," *American Economic Review*, Sep. 1991, 81(4), 797-818

[Mendoza, E., V. Quadrini and V. Rios-Rull](#), "Financial Integration, Financial Development and Global Imbalances", forth *Journal of Political Economy*.

[Schmitt-Grohe S. and M. Uribe](#), "Closing Small Open Economy Models", *Journal of International Economics*, Oct 2003, 61(1).

[Tille C. and E. van Wincoop](#), "International Capital Flows," NBER WP 12856, Sep. 2008

6. Frictions in asset markets IV: Limited Enforcement – Oct. 07

[Bodenstein, M.](#), "International asset markets and real exchange rate volatility" *Review of Economic Dynamics* Jul 2008, 11(3), 688-705.

[Bulow J. and K. Rogoff](#), "A constant recontracting model of sovereign debt" *Journal of Political Economy* Feb 1989, 97(1), 155-178.

[Bulow J. and K. Rogoff](#), "Sovereign Debt: is to forgive to forget?" *American Economic Review* Mar 1989, 79(1), 43-50

*[Eaton, J. and R. Fernandez](#), "Sovereign Debt", in *Handbook of International Economics*, Gene Grossman and Ken Rogoff, eds, North Holland, 1995

[Kehoe P. and F. Perri](#), "International Business Cycles with Endogenous Incomplete Markets", *Econometrica*, May 2002, 70, 907-928.

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

Ljungqvist and Sargent, Chapter 19 and 20

*Obstfeld and Rogoff, Chapter 6

7. Frictions in asset markets V: Default – Oct. 14

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

[Pouzo, D.](#), "Optimal Taxation with Endogenous Default under Incomplete Markets," mimeo, UC Berkeley, Dec. 2008

[Rogoff, K. and C. Reinhart](#), "This Time Is Different: A Panoramic View of Eight Centuries of Financial Crises", NBER Working Paper 13881, March 2008.

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

8. Frictions in goods markets I: Evidence – Oct. 21

[Atkeson, A. and A. Burstein](#), "Trade Costs, Pricing to Market, and International Relative Prices," *American Economic Review*, Dec. 2008, 98(5)

[Broda C. and D. Weinstein](#), "Understanding International Price Differences Using Barcode Data," May 2008, NBER working paper 14107

[Crucini, M., Telmer C. and M. Zachariades](#), "Understanding European Real Exchange Rates," *American Economic Review* 2005, 95, 724-738

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

[Engel C., J. Rogers](#), "How Wide is the Border?" *American Economic Review*, 1996, 86, 1112-1125.

*[Froot K. and K. Rogoff](#), "Perspectives on Long-run Real Exchange Rates," in *Handbook of International Economics*, Gene Grossman and Ken Rogoff, eds, North Holland, 1995

*[P. Goldberg and M. Knetter](#), "Goods Prices and Exchange Rates: What Have We Learned?" *Journal of Economic Literature* Sep 1997, 35(3), 1243-1272

[P. Goldberg and F. Verboven](#), "Market integration and convergence to the Law of One Price: evidence from the European car market", *Journal of International Economics* Jan 2005, 65(1), 49-73

*[Gopinath G., P-O. Gourinchas and C-T. Hsieh](#), "Estimating the Border Effect: Some New Evidence," April 2009, mimeo UC Berkeley.

[Imbs J., Mumtaz H., Ravn M. and H. Rey](#), "PPP Strikes Back: Aggregation and the Real Exchange Rate", *Quarterly Journal of Economics* Feb 2005, 120(1), 1-43

*Obstfeld and Rogoff Chapter 4

[Rogoff K.](#), "The Purchasing Power Parity Puzzle", *Journal of Economic Literature* Jun 1996, 34(2), 647-668

9. Frictions in goods markets II: Non-traded goods – Oct. 28

*[Backus D. and G. Smith](#), "Consumption and Real Exchange Rates in Dynamic Economies with Nontraded Goods", *Journal of International Economics*, Nov. 1993, 35(3-4), 297-316

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

[Stockman A., and H. Dellas](#), "International portfolio nondiversification and exchange rate variability", *Journal of International Economics*, May 1989, 26(3-4), 271-89

*[Stockman A., and L. Tesar](#), "Tastes and Technology in a Two-Country Model of the Business Cycle: Explaining International Comovements", *American Economic Review*, Mar. 1995, 85(1), 168-185

10. Frictions in goods markets III: Trade Costs – Nov. 13 (Special Day/Time)

[Adler M. and B. Dumas](#), "International Portfolio Choice and Corporation Finance: a Synthesis", *Journal of Finance*, Jun. 1983, 38(3), 925-984

[Coeurdacier N.](#), "Do trade costs in goods markets lead to home bias in equities?" *Journal of International Economics*, Feb. 2009, 77, 86-100

*[Coeurdacier N. and P-O. Gourinchas](#), "When Bonds Matter: Home Bias in Goods and Assets," mimeo UC Berkeley, Feb. 2009

[Corsetti G., L. Dedola and S. Leduc](#), "International Risk Sharing and the Transmission of Productivity Shocks", *Review of Economic Studies*, Mar. 2008, 75(2), 443-473

*[Dumas B.](#), "Dynamic Equilibrium and the Real Exchange Rate in a Spatially Separated World," *The Review of Financial Studies*, 1992, 5(2), 153-180

*[Fitzgerald D.](#), "Trade Costs, Asset Market Frictions and Risk Sharing: A Joint Test," mimeo, Stanford, 2007

*[Heathcote, J. and F. Perri](#), "The International Diversification Puzzle is not as bad as you think", mimeo U. Minnesota, Jun. 2009

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

11. Varieties, Heterogeneous Firms and Trade – Nov. 18 and 20 (Special Day/Time)

[Bernard A., S. Redding and P. Schott](#), "Comparative Advantage and Heterogeneous Firms," *Review of Economic Studies*, Jan. 2007, 74

*[Bernard A., J. Eaton, J.B. Jensen, S. Kortum](#), "Plants and Productivity in International Trade," *American Economic Review*, Sep. 2003, 93(4), 1268-1290

*[Chaney, T.](#), "Distorted Gravity: The Intensive and Extensive Margins of International Trade," *American Economic Review*, Sep. 2008, 98(4), 1707-1721

*[Eaton J, S. Kortum and F. Kramarz](#), "Dissecting Trade: Firms, Industries, and Export Destinations," *American Economic Review*, May 2004, 94(2), 150-154

[Eaton J., S. Kortum and F. Kramarz](#), "An Anatomy of International Trade: Evidence from French Firms," NBER Working Paper 14610, Dec. 2008

*[Krugman, P.](#), "Scale Economies, Product Differentiation, and the Pattern of Trade," *American Economic Review*, Dec. 1980, 70(5), 950-959

Helpman H. and P. Krugman., Market Structure and Foreign Trade, MIT Press, 1985

[Helpman H., M. Melitz, and Y. Rubinstein](#), "Estimating Trade Flows: Trading Partners and Trading Volumes," *Quarterly Journal of Economics*, May 2008, 123(2), 441-487

*[Melitz, M.](#), "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity," *Econometrica*, 2003, 71(6), 1695-1725

[Melitz, M. and G. Ottaviano](#), "Market Size, Trade, and Productivity," *Review of Economic Studies*, Dec. 2007, 75(1), 295-316

12. Extensive and Intensive Margins – Nov. 25

[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*, Apr. 1999, 47(2)

*[Ghironi F. and M. Melitz](#), "International Trade and Macroeconomic Dynamics with Heterogeneous Firms," *Quarterly Journal of Economics*, Aug. 2005, 120(3)

[Gagnon, J.](#), "Growth-Led Exports: Is Variety the Spice of Trade?" *B.E. Journal of Macroeconomics*, 2008, 8(1)

*Obstfeld and Rogoff, Chapter 4

13. Nominal Exchange Rates – Dec. 02

*Obstfeld and Rogoff Chapter 8.1-8.3

*[Engel, C. and K. West](#), "Exchange Rates and Fundamentals", *Journal of Political Economy*, Jun. 2005, 113(3), 485-517

*[Frankel, J.](#), "Measuring International Capital Mobility: A Review," *American Economic Review* May 1992, 82(2), 197-202

[Farhi E. and X. Gabaix](#), "Rare Disasters and Exchange Rates," NBER Working paper 13805, Feb. 2008

[Farhi E., S. Fraiberger, X. Gabaix, R. Ranciere and A. Verdelhan](#), "Crash Risk in Currency Markets," NBER Working paper 15602, Jun. 2009

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

[Mark, N.](#), "Exchange Rates and Fundamentals: Evidence on long-horizon predictability," *American Economic Review* Mar. 1995, 85(1), 201-218

[Meese R. and K. Rogoff](#), "Empirical Exchange Rate Models of the Seventies," *Journal of International Economics* Feb. 1983, 14(1-2), 3-24

[Lustig, H. and A. Verdelhan](#), "The Cross-Section of Foreign Currency Risk Premia and US Consumption Growth Risk," *American Economic Review*, Mar. 2007, 97(1)

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