

Economics 662 – Fall 2009

International Macroeconomics

Course website: <http://www2.hawaii.edu/~noy/662.html>

Tuesday-Thursday 12:00-1:15

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Email is by far the best way to contact me for appointments, emergencies, questions or clarifications. In case the UH email system is down, you can email me at:

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Learning Objectives

The study of international economics is usually divided into two parts: trade (micro-analysis) and finance (monetary/open macroeconomics). We define the field and introduce the major concepts of macroeconomics as they relate to open economies (output, exchange rates, etc.). We then develop intertemporal models that help us evaluate policies that affect the determination of output, unemployment, price levels, and exchange rates. We continue with a survey of selected topics in international finance based on the class and the instructor's interests and preferences. Throughout, we also analyze the current state of the empirical literature. At the end of this course, students should be able to initiate their own research projects in the field of international macro.

Lectures should only be considered a supplement to the readings. The lectures are designed to cover the most fundamental issues and provide a foundation for the readings. The exam may include topics covered by the required readings that were not dealt with in class (required readings are indicated by an asterisk).

Readings

Required Textbook

[OR] Obstfeld, Maurice, and Kenneth Rogoff. *Foundations of International Macroeconomics* (Cambridge, Mass.: MIT Press, 1996).

Class Requirements

A. Presentations

Each student will present 3-4 papers chosen by the instructor (from the reading list). The presentation should include the main arguments and ideas of the paper, the methodology, a technical description of results and your own critique. A presentation should last about 30-40 minutes. If you want, your presentation can be posted online ahead of time.

B. Exam

A take-home exam will cover the first part of the course (date: TBA).

C. Final paper

The final paper will discuss a topic of your choice. It will describe the major contributions on the topic, the current state of the literature, and will propose in detail at least one possible extension/addition to that literature. The paper will be presented during the last week of class in the department's Graduate Research Conference.

Grading

Presentations	30%
Exam	20%
Final paper	30%
Attendance & participation	20%

Grades awarded will include +/- notation

Disability Needs

If you feel you need reasonable accommodations because of the impact of a disability, please, (1) contact the KOKUA program at 956-7511 or 956-7612 (rm. 013 at QLCSS) and (2) discuss with me any specific needs related to your documented disability.

THIS IS NOT A FINAL READING LIST AND IS SUBJECT TO ADDITIONS AND DELETIONS!

1. THE INTERTEMPORAL APPROACH TO THE CURRENT ACCOUNT

*OR, sections 1.1-1.5, 2.1-2.3, 2.5.

*Bergin, P. and Sheffrin, S., 2000. Interest rates, exchange rates and present value models of the current account. *Economic Journal*, 110, 535-558.

Kano, Takashi, 2008. A structural VAR approach to the intertemporal model of the current account. *Journal of International Money and Finance* 27, 757–779.

*Kano, Takashi, 2009. Habit formation and the present-value model of the current account: Yet another suspect. *Journal of International Economics*.

*Nason, James M. and John H. Rogers, 2006. The present-value model of the current account has been rejected: Round up the usual suspects. *Journal of International Economics* 68, 159–187.

Svensson, L., and A. Razin, 1983. The Terms of Trade and the Current Account: The Harberger-Laursen-Metzler Effect. *Journal of Political Economy*, 91, 97-125.

*Tornell, Aaron, and Philip Lane (1998). Are windfalls a curse? A Non-Representative Agent Model of the Current Account. *Journal of International Economics*, 44, 83-112.

2. EXCHANGE RATES AND PRICES

*OR, sections 4.2, 4.5, 5.1, 5.2, 5.3.

*Bacchetta, P. and van Wincoop, E., 2006. Can Information Heterogeneity Explain the Exchange Rate Determination Puzzle? *American Economic Review*, 96(3).

Bayoumi, Tamim, Jaewoo Lee, and Sarma Jayanthi, 2006. New Rates from New Weights. *IMF Staff Papers* 53(2).

*Cheung, Yin-Wong, Menzie Chinn, and Antonio Garcia Pascual (2003). Empirical Exchange Rate Models of the Nineties: Are Any Fit to Survive? *Journal of International Money and Finance*.

Chinn, M.D. and R.A. Meese, 1995, "Banking on Currency Forecasts: How Predictable is Change in Money," *Journal of International Economics* 38, 161–178.

Chinn, Menzie D. (2006). The (partial) rehabilitation of interest rate parity in the floating rate era: Longer horizons, alternative expectations, and emerging markets. *Journal of International Money and Finance* 25(1), 7-21.

*Crucini, Mario J., Chris I. Telmer, and Marios Zachariadis (2005), Understanding European Real Exchange Rates. *American Economic Review* 95(3).

Engels, Charles (1999). "Accounting for US Real Exchange Rate Changes," *Journal of Political Economy* 107, 507-538.

*Engels Charles and K. West (2005). "Exchange Rates and Fundamentals." *Journal of Political Economy* 113(3), 485-517.

Evans and Lyons (2002). Order Flow and Exchange Rate Dynamics. *Journal of Political Economy*. 110(1).

Goldberg, Penny K. and Michael Knetter (1997). "Goods Prices and Exchange Rates: What have we Learned?" *Journal of Economic Literature* 35, 1243-72.

*Gopinath and Rigobon (2008). Sticky Borders. *Quarterly Journal of Economics*.

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

Kilian, L. and M.P. Taylor (2003). "Why is it so Difficult to beat the Random Walk Forecast of Exchange Rates." *Journal of International Economics* 60, 85–108.

Lustig, Hanno and Adrien Verdelhan, 2007. The Cross Section of Foreign Currency Risk Premia and Consumption Growth Risk. *American Economic Review* 97(1).

*Parsley, David C. and Shang-Jin Wei, 2007. A prism into the PPP puzzles: The micro-foundations of Big Mac real exchange rates. *Economic Journal*, 117, 1336–1356.

Steinsson, Jón (2008). The Dynamic Behavior of the Real Exchange Rate in Sticky Price Models. *American Economic Review* 98:1, 519–533.

Taylor, Alan M. and Mark P. Taylor (2004). The Purchasing Power Parity Debate. *Journal of Economic Perspectives* 18(4).

3. MONEY AND THE NEW (NEO-KEYNESIAN) OPEN ECONOMY MODELS

*OR, sections 8.2, 9.2-9.3, 10.1-10.2.

*Corsetti, Giancarlo and Paolo Pesenti (2001). "Welfare and Macroeconomic Interdependence," *Quarterly Journal of Economics*, 421-445.

Obstfeld, Maurice (2002). "Exchange Rates and Adjustment: Perspectives from the New Open Economy Macroeconomics." NBER WP 9118.

Obstfeld, Maurice and Ken Rogoff (1995). "Exchange Rate Dynamics Redux." *Journal of Political Economy*, 102.

Obstfeld, Maurice and Kenneth Rogoff (2000). "New Directions in Stochastic Open Economy Models." *Journal of International Economics*, 48, 117-153

*Philip Lane (2001). "The New Open Economy Macroeconomics: A Survey." *Journal of International Economics*, 54, 235-266.

4. BALANCE OF PAYMENTS CRISES - THEORY

OR, pp. 558-67, 576-78, 648-653.

Aghion, Philippe, Philippe Bacchetta, Abhijit Banerjee. (2001). "Currency Crises and Monetary Policy in an Economy with Credit Constraints." *European Economic Review* (45)7, 1121-1150.

*Allen, Franklin, and Douglas Gale. (1998). Optimal Financial Crises. *Journal of Finance* 53, 1245-1284.

Allen, Franklin, and Douglas Gale (2000). Bubbles and Crises. *Economic Journal* 110, 236-255.

*Arellano, Cristina, 2008. Default Risk and Income Fluctuations in Emerging Economies. *American Economic Review* 98:3, 690–71.

Arellano, Cristina and Enrique Mendoza (2002). Credit Frictions and 'Sudden Stops' in Small Open Economies: An Equilibrium Business Cycle Framework for Emerging Markets Crises. NBER WP 8880.

*Burnside, Craig, Martin Eichenbaum and Sergio Rebelo (2001). Prospective Deficits and the Asian Currency Crisis. *Journal of Political Economy* 109(6).

Caballero, Ricardo and Arvind Krishnamurthy (2004). Smoothing Sudden Stops. *Journal of Economic Theory* 119(1), 104-127.

Calvo, Guillermo. (1998). "Capital Flows and Capital-Market Crises: The Simple Economics of Sudden Stops." *Journal of Applied Economics* 1, 35-54.

*Chang, Roberto and Andres Velasco (2001). "A Model of Financial Crises in Emerging Markets." *Quarterly Journal of Economics*, 489-518.

Chamley, Christophe, 2003. Dynamic Speculative Attacks. *American Economic Review*.

Corsetti, Giancarlo, Paolo Pesenti, and Nouriel Roubini. (1999). "Paper Tigers? A Model of the Asian Crisis." *European Economic Review*, 43, 1211-1236.

Dooley, Michael (2000). "A Model of Crises in Emerging Markets." *Economic Journal* 110, 256-272.

*Diamond, Douglas and Phillip Dybvig, 1983. "Bank Runs, Deposit Insurance, and Liquidity." *Journal of Political Economy*, 91(3), 401-419.

*Drazen, Allen and Paul Masson (1994). "Credibility of Policies versus Credibility of Policymakers." *Quarterly Journal of Economics* 109(3), 735-754.

Flood, Robert P., and Peter M. Garber, 1991, "The Linkage between Speculative Attacks and Target Zone Models of Exchange Rates." *Quarterly Journal of Economics*, 106, 1367-72.

*Gopinath, Gita (2004). "Lending Booms, Sharp Reversals and Real Exchange Rate Dynamics". *Journal of International Economics* 62, 1-23.

Hellwig, C., 2006. Self-Fulfilling Currency Crises: The Role of Interest Rates. *American Economic Review*, 96(5).

Krugman, Paul (1979). "A Model of Balance of Payment Crisis." *Journal of Money, Credit and Banking*, 11, 311-325.

Mendoza, Enrique G. 2006. Lessons from the Debt-Deflation Theory of Sudden Stops. *American Economic Review* 96(2), 411-416.

Morris, Stephen and Hyun Song Shin (1998). "Unique Equilibrium in a Model of Self-Fulfilling Currency Attacks." *American Economic Review* 88, 587-97.

Obstfeld, Maurice (1994). "The Logic of Currency Crises." *Cahiers économiques et monétaires* 43, 189-213.

*Obstfeld, M. (1996). Models of currency crises with self-fulfilling Features. *European Economic Review* 40 (1996) 1037- 1047.

Schneider, Martin and Aaron Tornell (2004). "Balance Sheet Effects, Bailout Guarantees and Financial Crises". *Review of Economic Studies* 71, 883-913.

Uhlig, Harald, 2009. A Model of a Systemic Bank Run. NBER Working Paper No. 15072.

5. FINANCIAL CRISES - EMPIRICS

Arteta, Carlos, and Barry Eichengreen (2002). "Banking Crises in Emerging Markets: Presumptions and Evidence." In: M. Blejer and M. Skreb (eds.) *Exchange Rate and Financial Vulnerability in Emerging Markets*.

*Ashcraft, A., 2005. Are Banks Really Special? New Evidence from the FDIC-Induced Failure of Healthy Banks. *American Economic Review*, 95(5).

Boyd, John, Gianni De Nicolò and Elena Loukoianova, 2009. Banking Crises and Crisis Dating: Theory and Evidence. IMF Working Paper.

*Calomiris, Charles, and Joseph Mason, 2003. Consequences of Bank Distress During the Great Depression. *American Economic Review* 93, 937-947.

Dell'Ariccia, Giovanni, Enrica Detragiache, and Raghuram Rajan, 2008. The Real Effect of Banking Crises, *Journal of Financial Intermediation*.

Demirgüç-Kunt, Asli, and Enrica Detragiache. (1998). "The Determinants of Banking Crises in Developing and Developed Countries." *IMF Staff Papers*, 45, 81-109.

*Demirgüç-Kunt, Asli, Enrica Detragiache and Poonam Gupta, 2006. Inside the crisis: An empirical analysis of banking systems in distress. *Journal of International Money and Finance* 25, 702-718.

Frankel, Jeffrey, and Andrew Rose. (1996). "Currency Crashes in Emerging Markets. An Empirical Treatment." *Journal of International Economics* 41, 351-366.

Forbes, Kristin (2002). "Cheap Labor Meets Costly Capital: The Impact of devaluations on Commodity Firms". *Journal of Development Economics* 69(2), 335-365.

*Hutchison, Michael, Reuven Glick and X. Guo, 2006. Currency Crises, Capital Account Liberalization, and Selection Bias. *Review of Economics and Statistics* 88(4): 698–714.

Hutchison, Michael and Ilan Noy (2005). "How Bad are Twins? Output Costs of Currency and Banking Crises". *Journal of Money, Credit and Banking* 37(4).

*Hutchison, Michael and Ilan Noy (2006). "Sudden Stops and the Mexican Wave: Currency Crises, Capital Flow Reversals and Output Loss in Emerging Markets." *Journal of Development Economics* 79(1), 225-248.

Iyer, Rajkamal and Manju Puri, 2008. Understanding Bank Runs: The Importance of Depositor-Bank Relationships and Networks. NBER Working Paper No. 14280.

Joyce, Joseph P., and Malhar Nabar. 2009. "Sudden Stops, Banking Crises and Investment Collapses in Emerging Markets." *Journal of Development Economics*.

Kaminsky, Graciela and Carmen M. Reinhart (1999). "The Twin Crises: The Causes of Banking and Balance of Payments Problems." *American Economic Review*, 89, 473-500.

*Manasse, Paolo, and Nouriel Roubini (2009). "Rules of thumb" for sovereign debt crises. *Journal of International Economics*.

Mauro Mecagni, Ruben Atoyán, David Hofman, 2009. The Persistence of Capital Account Crises. IMF working paper.

Randall S. Kroszner, Luc Laeven and Daniela Klingebiel, 2007. Banking crises, financial dependence, and growth. *Journal of Financial Economics* 84, 187–228.

Reinhart, Carmen, and Kenneth Rogoff (2008). Banking Crises: An Equal Opportunity Menace. NBER Working Paper 14587.

Milesi-Ferretti, Gian Maria, and Assaf Razin. (2000). "Current Account Reversals and Currency Crises: Empirical Regularities." In *Currency Crises*, edited by P. Krugman.

Noy, Ilan (2004). "Financial Liberalization, Prudential Supervision and the Onset of Banking Crises - Empirical Findings" *Emerging Markets Review* 5(3), 341-359.

Jeanne, Olivier (2000). "Foreign Currency Debt and the Global Financial Architecture." *European Economic Review* 44(4), 719-727.

6. MISCELLENOUS

*Obstfeld, Maurice and Kenneth Rogoff (2000). "The Six Major Puzzles in International Macroeconomics: Is there a Common Cause?" in Ben Bernanke and Kenneth Rogoff (eds.), *NBER Macroeconomics Annual 2000*. Also NBER WP 7777.

Aizenman, Chinn and Ito, 2008. Assessing the Emerging Global Financial Architecture: Measuring the Trilemma's Configurations over Time. Manuscript.

Gabaix, Xavier (2009). Variable Rare Disasters: An Exactly Solved Framework for Ten Puzzles in Macro-Finance. Manuscript.

*Barro, Robert, 2006. "Rare Disasters and Asset Markets in the Twentieth Century," *Quarterly Journal of Economics*, 121, 823-866.

*Barro, Robert, 2009. Rare Disasters, Asset Prices, and Welfare Costs. *American Economic Review* 99:1, 243–264

7. INTERNATIONAL MACRO AND NATURAL DISASTERS

TBA

8. ELECTIVES

- A. Currency Unions
- B. Exchange Rate Regimes
- C. Sovereign risk and Foreign Debt
- D. Foreign Direct Investment (FDI)
- E. Dollarization
- F. Official foreign Exchange Intervention
- G. History of the International Financial System
- H. Capital Flows and Capital Controls
- I. Open-Economy Monetary Policy