UNIVERSITY OF COLORADO
Department of Economics

ECON8423
International Finance

Spring 2009

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COURSE DESCRIPTION

ECON 8423 is a graduate course in open-economy macroeconomics and international finance. We will discuss a number of topics in these areas. Here is a partial list of issues that will be discussed:

1. Real and nominal exchange rates are highly correlated.
2. Exchange rates are volatile and persistent.
3. Forward exchange rates are poor and biased predictors of future spot exchange rates.
4. International differences in interest rates are large and persistent.
5. Portfolios are not internationally diversified.
6. The extent of international consumption risk-sharing is less than expected.
7. Savings and investment are highly correlated.
8. The trade balance and the current account are countercyclical.
9. Business cycles are highly correlated across countries.

EVALUATION

The assessment for this class consists of

Test: A take-home test will be distributed in class on 2 March and is due on 3 March at 16h00.

Report: You are required to write a 3-page referee report of an article in international macroeconomics. You will be presenting both the article and the report in class. The report is due on 16 March in class. The presentations will take place shortly after. I must approve your choice of article no later than 25 February.

Survey: To introduce you to recent research, you are required to write a 10 to 15-page survey of a topic in international macroeconomics. The survey is due on 29 April. I must approve you choice of topic and a preliminary list of papers no later than 25 February.

Final: The final examination is cumulative and will take place in Econ Room 5. Although I believe the final will be on 2 May at 1:30 pm, it remains to be confirmed.

The tentative schedule and the grade distribution are displayed in the table below.

Evaluation	**Date**	%
Take Home Test	2 March	20
Report	16 March	20
Survey	29 April	30
Final	2 May 1:30pm to 4:00pm	30

TEXTS

Mark, N. (2001) *International Macroeconomics and Finance: Theory and Econometric Evidence.* Malden: Blackwell Publishers Inc.

Obstfeld, M. and K. Rogoff (1996) *Foundations of International Macroeconomics.* Cambridge: The MIT Press.

Course Outline

1. INTRODUCTION

Mark Chapter 1.

Krugman, P. and M. Obstfeld (2005) *International Economics: Theory and Policy*. Boston: Addison-Wesley. Chapter 12.

Obstfeld, M. and K. Rogoff (2000) The six major puzzles in international macroeconomics: Is there a common cause? *NBER Macroeconomics Annual* **15**, 339–390.

2. THE INTERTEMPORAL APPROACH TO THE CURRENT ACCOUNT

Obstfeld and Rogoff Chapters 1 to 3.

Boileau, M. and M. Normandin (2008) Do tax cuts generate twin deficts? A multi-country analysis. mimeo.

Blanchard, O. (1985) Debt, deficits, and finite horizons. *Journal of Political Economy* **93**, 233–247.

Nason, J. and J. Rogers (2005) The present-value model of the current account has been rejected: Round up the usual suspects. *Journal of International Economics* **68**, 159–187.

Obstfeld, M. and K. Rogoff (1996) The intertemporal approach to the current account, in G. Grossman and K. Rogoff (eds.) *Handbook of International Economics,* vol. 3. Amsterdam: North-Holland.

Taylor, A. (2002) A century of current account dynamics. *Journal of International Money and Finance* **21**, 725–748.

3. INTERNATIONAL CAPITAL FLOWS

Barro, R., G. Mankiw and X. Sala-i-Martin (1995) Capital mobility in neoclassical models. *American Economic Review* **85**, 103–115.

Gourinchas, P.O. and O. Jeanne (2008) Capital flows to developing countries: The allocation puzzle. mimeo.

Lane, P. and G. Milesi-Ferretti (2001) Long term capital movements. mimeo.

Lucas, R. (1990) Why doesn't capital flow from rich countries to poor countries. *American Economic Review* **80**, 92–96.

4. INTERNATIONAL RISK SHARING

Obstfeld and Rogoff Chapter 5.

Backus, D. and G. Smith (1993) Consumption and real exchange rates in dynamic economies with non-traded goods. *Journal of International Economics* **35**, 297–316.

Brandt, M., J. Cochrane, and P. Santa-Clara (2006) International risk sharing is better than you think, or exchange rates are too smooth. *Journal of Monetary Economics* **53**, 671–698.

Cole, H. and M. Obstfeld (1991) Commodity trade and international risk sharing: How much do financial market matters? *Journal of Monetary Economics* **28**, 3–24.

Corsetti, G., Dedola, L., and S. Leduc (2008) International risk sharing and the transmission of productivity shocks. *Review of Economic Studies* **75**, 443–473.

Lewis, K. (1996) What can explain the apparent lack of international consumption risk sharing? *Journal of Political Economy* **104**, 267–297.

Obstfeld, M. (2007) International risk sharing and the costs of trade. **Ohlin Lecture**.

5. INTERNATIONAL BUSINESS CYCLES

Mark Chapter 5.

Ambler, S., Cardia, E., and C. Zimmermann (2004) International business cycles: What are the facts? *Journal of Monetary Economics* **51**, 257–276.

Backus, D., P. Kehoe and F. Kydland (1994) Dynamics of the trade balance and the terms of trade: The J-curve. *American Economic Review* **84**, 84–103.

Backus, D., P. Kehoe and F. Kydland (1992) International real business cycles. *Journal of Political Economy* **100**, 745–775.

Correia, I., Neves, J., and S. Rebelo (1995) Business cycles in a small open economy. *European Economic Review* **39**, 1089–1113.

Heathcote, J. and F. Perri (2002) Financial autarky and international business cycles. *Journal of Monetary Economics* **49**, 601–627.

Uribe, M. and S. Schmitt-Grohe (2003) Closing small open economy models. *Journal of International Economics* **61**, 163–185.

6. EXCHANGE RATES

Mark Chapters 3 and 4.

Obstfeld and Rogoff Chapters 8 and 9.

Devereux, M. (1997) Real exchange rates and macroeconomics: Evidence and theory. *Canadian Journal of Economics* **30**, 773–808.

Engel, C. and K. West (2005) Exchange rates and fundamentals. *Journal of Political Economy* **113**, 485–517.

Gourinchas, P.O. and H. Rey (2007) International financial adjustment. *Journal of Political Economy* **115**, 665–703.

Lucas, R. (1982) Interest Rates and Currency Prices in a Two-Country World. *Journal of Monetary Economics* **10**, 335–360.

7. NOMINAL RIGIDITIES

Mark Chapters 8 and 9.

Obstfeld and Rogoff Chapter 10.

Chari, V., Kehoe, P., and E. McGrattan (2002) Can sticky price models generate volatile and persistent real exchange rates? *Review of Economic Studies* **69**, 533–563.

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

Obstfeld and Rogoff (1995) Exchange Rate Dynamics Redux. *Journal of Political Economy* **103**, 624–660.

8. SOME ISSUES IN INTERNATIONAL TRADE

Burnstein, A. and A. Atkeson (2007) Pricing-to-market, trade costs, and international relative prices. mimeo.

Crucini, M., Telmer, C., and M. Zachariadis (2005) Understanding european real exchange rates. *American Economic Review* **95**, 724–738.

Engel, C. (1993) Real exchange rates and relative prices: An empirical investigation. *Journal of Monetary Economics* **32**, 35–50.

Ghironi, F. and M. Melitz (2005) International trade and macroeconomic dynamics with heterogeneous firms. *Quarterly Journal of Economics* **120**, 865–915.

Imbs, J., Mumtaz, H., Ravn, M., and H. Rey (2005) PPP strikes back: Aggregation and the real exchange rate. *Quarterly Journal of Economics* **120**, 1–43.

9. SOME ISSUES IN INTERNATIONAL FINANCE

Atkeson, A., Alvarez, F., and P. Kehoe (2008) Time varying risks, interest rates, and exchange rates in general equilibrium. mimeo.

Baxter, M. and U. Jermann (1997) The international diversification puzzle is worse than you think. *American Economic Review* **87**, 170–180.

French, K. and J. Poterba (1991) Investor diversification and international equity markets. *American Economic Review* **81**, 222–226.

Coeurdacier, N., Kollman, R., and P. Martin (2008) International portfolios, capital accumulation, and foreign asset dynamics. mimeo.

Devereux, M. and A. Sutherland (2006) Country portfolio dynamics. mimeo.

Heathcote, J. and F. Perri (2008) The international diversification puzzle is not as bad as you think. Mimeo University of Minnesota.

Lewis, K. (1995) Puzzles in international financial markets, in G. Grossman and K. Rogoff (eds.) *Handbook of International Economics,* Vol. 3, Amsterdam: North-Holland.