

# **Advanced International Macroeconomics**

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**M2, Fall 2018, Master in Economics**

## **TOPICS COVERED**

Long-term Capital Flows, Global imbalances, and External Adjustment

International real business cycles and international risk-sharing

International financial crisis and sovereign debt

Policies in open economies and New Open Economy Macroeconomics

## **TEXTBOOKS**

Readings below and frequent citations from the following textbooks:

Handbook of International Economics, Volume 4 1st Edition, 2014  
by Gita Gopinath, Elhanan Helpman, Kenneth Rogoff

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

## **EVALUATION**

Problem set(s) (30%) and a final examination (70%).

## **READINGS**

### **I. Long-term Capital Flows, Global Imbalances and External Adjustment**

Gopinath, Helpman, Rogoff. Chapter 9 (2&3)

Gopinath, Helpman, Rogoff. Chapter 10

### **Long-Term Capital Flows in the Neoclassical Growth Model**

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

Heathcote, J. and Perri, F., 2013, Assessing International Efficiency. Sections 2 and 3. Handbook of International Economics

Gourinchas, P-O, and Jeanne, O., 2013. Capital Flows to Developing Countries: The Allocation Puzzle, Review of Economic Studies.

## **Models of Global Imbalances**

Caballero, R.J., E. Farhi, and P. O. Gourinchas. 2008. An Equilibrium Model of 'Global Imbalances' and Low Interest Rates, *American Economic Review* 98(1): 358–93.

Coeurdacier, N., Guibaud, S. and Jin, K., 2015, Credit constraints and growth in a global economy, *American Economic Review*

Mendoza E., Quadrini V. & Rios-Rull J.V., 2009, Financial Integration, Financial Development and Global Imbalance, *Journal of Political Economy*

Storesletten, Song and Zilibotti, 2011. Growing Like China, *American Economic Review*, vol. 101(1), pp. 196-233,

Bachetta, P. and Benhima, K., The Demand for Liquid Assets, Corporate Saving, and International Capital Flows, *Journal of the European Economic Association*, 2015

## **External Balance Sheets, Valuation Effects, and Adjustment**

P-O Gourinchas and H. Rey, 2005, 'From world banker to world venture capitalist: US external adjustment and the "exorbitant privilege"', CEPR DP 5220.

Gourinchas PO and H. Rey, International Financial Adjustment, *Journal of Political Economy*, 115(4), August 2007

P-O Gourinchas, Valuation effect and external adjustment: a review, 2009

## **II. International risk-sharing and business cycles**

Obstfeld and Rogoff Chapter 5

Gopinath, Helpman, Rogoff Chapter 9 (4)

### **Baseline one-good model: complete markets**

Backus, D., P. Kehoe and F. Kydland, "International Business Cycles: Theory and Evidence", *quarterly review*, fall 1993 (1st part)

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

### **Incomplete markets: risk-free bond-only economy**

Kollmann, R., 1996, Incomplete Asset Markets and the Cross-Country Consumption Correlation Puzzle, *Journal of Economic Dynamics and Control*, Vol.20, pp.945-962.

Baxter, M. and Crucini, M., 1995. Business Cycles and the Asset Structure of Foreign Trade, *International Economic Review*

## **International real business cycles with multiple goods**

### **Terms-of-trade and risk-sharing with complete markets**

\*Backus, D., P. Kehoe and F. Kydland, "International Business Cycles: Theory and Evidence", quarterly review, fall 1993 (2nd part)

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

Backus, D., and G.W. Smith, 1993, "Consumption and Real Exchange Rates in Dynamic Economies with Non-traded Goods", Journal of International Economics, 35, 297-316.

### **Incomplete markets**

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.

Heathcote, J. and F. Perri, 2002, "Financial Autarky and International Business Cycles", Journal of Monetary Economics, 49 (3), 601-627.

Kollmann, R., 1995, Consumption, Real Exchange Rates and the Structure of International Asset Markets, Journal of International Money and Finance, 1995, Vol. 14, pp.191-211.

Corsetti G., Dedola L. and Leduc S., 2007, International Risk Sharing and the transmission of productivity shocks, Review of Economic Studies

### **Empirical evidence on international business cycles**

Devereux, M.B. and Hnatkovska, V., 2011. Consumption Risk-Sharing and the Real Exchange Rate: Why does the Nominal Exchange Rate Make Such a Difference? NBER WP 17288

Imbs, J., 2004, Trade, Finance, Specialization and Synchronization, Review of Economics and Statistics, 86(3), pp.723-734.

Kalemli-Ozcan, Papaioannou and Peydro, 2011. Financial Regulation, Financial Globalization and the Synchronization of Economic Activity, Journal of Finance, forthcoming.

### **International Portfolios and International Risk-Sharing**

Coeurdacier, N. and Rey, H. Home Bias in Open Economy Financial Macroeconomics, 2013, Journal of Economic Literature

French K. and J. Poterba, 1991, Investor diversification and international equity markets, American Economic Review 81, 222-226

Lewis, Trying to Explain Home Bias in Equities and Consumption, Journal of Economic Literature 37, June 1999, 571-608.

Obstfeld M. and K. Rogoff, 2000, The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?, NBER Macroeconomics Annual

Coeurdacier N., Do trade costs in goods markets lead to home bias in equities?, Journal of International Economics, 2009

Van Wincoop, E. and F. Warnock, 2007, Is Home Bias in Assets Related to Home Bias in Goods?, Journal of International Money and Finance, forthcoming.

Baxter, M. et U. Jermann, 1997, The international portfolio diversification is worse than you think, American Economic Review, 87 (1), 170-80

Heathcote, J. and F. Perri, 2013. The International Diversification Puzzle is not as bad as you think, Journal of Political Economy.

Coeurdacier, Kollmann and Martin, 2010, International Portfolios, Capital Accumulation and Foreign Assets Dynamics, Journal of International Economics

Engel and Matsumoto, 2009, The International Diversification Puzzle When Prices are Sticky: It's Really about Exchange-Rate Hedging not Equity Portfolios, American Economic Journal: Macroeconomics 1, 155-188

Coeurdacier N and Gourinchas, P.O, 2016, When Bonds Matter: Home Bias in Goods and Assets, Journal of Monetary Economics.

### **Methodology for portfolio models**

Devereux, M. and A. Sutherland, 2011, Country Portfolios in Open Economy Macro Models, JEEA.

Tille, C. and E. Van Wincoop, 2010, International Capital Flows, Journal of International Economics, 80(2), 157-175

### **III. International Financial Crisis and Sovereign Defaults**

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

#### **Financial crisis**

Jeanne, Olivier D., Currency Crises: A Perspective on Recent Theoretical Developments, Princeton Special Papers in International Economics 20, 2000.

Krugman, P., 1979, 'A model of balance of payment crises', Journal of Money, Credit and Banking, Vol. 11, pp. 311-325.

R. Chang and A. Velasco, 2001, 'A model of Financial crises in emerging markets', Quarterly Journal of Economics, Vol. 116(2), pp. 489-517.

Aghion, P., Bacchetta, P., and Banerjee, A., 2000, 'A simple model of monetary policy and currency crises', *European Economic Review*, vol. 44, pp. 728-738

P. Krugman, Balance Sheets, the Transfer Problem, and Financial Crises, *International Tax and Public Finance*, Volume 6, Number 4, November 1999 , pp. 459-472(14)

P. Martin and H. Rey "Globalization and Emerging Markets: With or without Crash?" 2006, *American Economic Review*, December, vol 96, n5, 1631-51 [if time permits]

### **Sovereign risk and sovereign defaults**

Gopinath, Helpman, Rogoff. Chapter 11

Eaton ,J. and R. Fernandez, Sovereign Debt, in *Handbook of International Economics*, Gene Grossman and Ken Rogoff, eds, North Holland, 1995

Gopinath, G. and Aguiar, M., Defaultable Debt, Interest Rates and the Current Account, *Journal of International Economics*, June 2006, Volume 69(1), pp. 64-83

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

Broner, Martin and Ventura, 2010. Sovereign Risk and Secondary Markets, *American Economic Review*

Reinhart, Carmen M., Kenneth Rogoff and Miguel A. Savastano, Debt Intolerance, in William Brainard and George Perry (eds.), *Brookings Papers on Economic Activity 1: 2003*, 1-74.

Rose, Andrew K., 2005, "One Reason Countries Pay their Debts: Renegotiation and International Trade." *Journal of Development Economics*.

### **IV. New Open Economy Macroeconomics and the international transmission of fiscal and monetary policy**

OR Chapter 10

Obstfeld M. and K. Rogoff, 1995, "Exchange Rate Dynamics Redux", *Journal of Political Economy*, 103 (3), 624-660.

Corsetti, G., and P. Pesenti, 2001, "Welfare and Macroeconomic Interdependence", *Quarterly Journal of Economics*, 116 (2), 421-445.

Lane, P., 2003, *The New Open Economy Macroeconomics: a Survey*, *Journal of International Economics*, 54 (2), 235-266.