

SciencesPo - Master EPP: International Macroeconomics - M2, Spring 2016

Prof. Patrick Pintus (Banque de France) and Daniele Siena (Banque de France)

Syllabus:

The course deals with recent research on international macro

The first part (Lectures 1-6 taught by Patrick Pintus) deals with exchange rates, financial integration and international capital flows and it is divided in three sets of lectures. Lectures 1-2 provide an exposition of the purchasing power parity theory, which aims at explaining how exchange rates are determined. Lectures 3-4 deal with the history, causes and consequences of financial globalization. Lectures 5-6 focus on international capital flows and current account dynamics and examine global imbalances and international financial adjustment. All lectures blend data and analytical models to uncover real-world phenomena and their explanations.

The second part (Lectures 7-12 taught by Daniele Siena) will first focus on the international transmission of shocks in a financially integrated world and second on financial and sovereign debt crisis. Models are introduced as tools to understand the recent economic developments in the world. The course will start by presenting simple frameworks that allow to understand how the economies of different countries are interconnected and how shocks are transmitted across them in a world in which financial markets play an important role. Then, after a general introduction on financial crisis, which will present different types of crisis, the course will analyze in details currency and sovereign debt crisis.

Evaluation (to be decided):

1 mid-term homework (40%) - **to be handed back at lecture 8**

1 Final exam in class (60%)

Content and Readings

There will be no single set text, but there will be frequent citations from the following textbook: M. Obstfeld and K. Rogoff, *Foundations of International Macroeconomics* (MIT Press, 1996) (abbreviated OR in list of readings)

Part 1: January 28 – March 17, 2016 (Patrick Pintus)

Lectures 1-2. Real exchange rates and purchasing power parity

OR, 199-214

K. Rogoff, 'The purchasing power parity puzzle', *Journal of Economic Literature*, June 1996, 647-668.

Jean Imbs, Haroon Mumtaz Helene Rey, Morten Ravn "PPP Strikes Back: Aggregation and the Real Exchange Rate" *Quarterly Journal of Economics* February 2005.

Corsetti, G. P. Martin, and P. Pesenti, "Productivity spillovers, terms of trade and the home market effect", 2007, *Journal of International Economics*. 73, 99-127.

Gita Gopinath, Pierre-Olivier Gourinchas, Chang-Tai Hsieh, and Nicholas Li, *International Prices, Costs, and Markup Differences*, *American Economic Review* 101 (October 2011): 2450–2486

Gopinath, Gita, Oleg Itskhoki, and Roberto Rigobon. 2010. *Currency Choice and Exchange Rate Pass-through*. *American Economic Review* 100, no. 1: 304-336.

Fabio Ghironi and Marc J. Melitz, "International Trade and Macroeconomic Dynamics with Heterogeneous Firms," *Quarterly Journal of Economics* CXX (August 2005): 865-915.

Martin Berka, Michael B. Devereux, Charles Engel, 2014, *Real Exchange Rates and Sectoral Productivity in the Eurozone*; NBER Working Paper No. 20510.

Lectures 3-4. Financial integration: measures, causes and consequences

Financial integration: past and present

Lane, Philip R., and Gian Maria Milesi-Ferretti. 2007. "The External Wealth of Nations Mark II: Revised and Extended Estimates of Foreign Assets and Liabilities, 1970–2004." *Journal of International Economics*, 73(2): 223-250.

Lane, Philip R and Gian Maria Milesi-Ferretti, 2008, "The Drivers of Financial Globalization" *American Economic Review* (Papers and Proceedings), May 2008.

The case for financial integration

M. Ayhan Kose, Eswar Prasad, Kenneth S. Rogoff, Shang-Jin Wei, 2006, *Financial Globalization: A Reappraisal*, NBER Working Paper No. 12484

Peter Blair Henry, 2007. *Capital Account Liberalization: Theory, Evidence, and Speculation*, *Journal of Economic Literature*, American Economic Association, vol. 45(4), pages 887-935, December

Peter Blair Henry, 2003. *Capital-Account Liberalization, the Cost of Capital, and Economic Growth*, *American Economic Review*, 93(2), p 91-96.

Bekaert, Harvey and Lundblad, *Does Financial Liberalization Spur Growth?*, *Journal of Financial Economics* 77, 2005, 3-55.

P.-O. Gourinchas and O. Jeanne, *The Elusive Gains of International Financial Integration*, 2006, *Review of Economic Studies* 73, pp. 715-741

Obstfeld, M., 1994, *Risk-Taking, Global Diversification and Growth*, *American Economic Review*, 84, 1310-1329.

G. Saint-Paul, 1992, Technological choice, financial markets, and economic development, *European Economic Review*, Vol. 36, pp. 763-781

Kalemli-Ozcan, S., Sorensen B.E., Yosha, O., 2003, Risk-Sharing and Industrial Specialization: Regional and International Evidence, *American Economic Review*, 93.

Thesmar, D. And Thoenig, M., 2011, Contrasting Trends in Firm Volatility: Theory and Evidence. *American Economic Journal: Macroeconomics*.

Kalemli-Ozcan, S., Sorensen B.E. and Volosovych, V., 2010, Deep Financial Integration and Macroeconomic Volatility, NBER working paper 15900.

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

Lectures 5-6. International capital flows, current account dynamics and global imbalances

Part 1: Current account dynamics and international efficiency

The intertemporal approach to the current account

OR, pp. 1-39, 42-54, 59-70, 74-76, 79-89, 129-145, 161-163

Nason and Rogers, The Present-Value Model of the Current Has Been Rejected: Round up the Usual Suspects, *Journal of International Economics* 68, 159-187, 2006

A. Kraay, J. Ventura, Current Accounts in Debtor and Creditor Countries, *Quarterly Journal of Economics*, November 2000

International capital flows: assessing long-run efficiency

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

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

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

Part 2: Global imbalances and international adjustment

Olivier Blanchard and Gian Maria Milesi-Ferretti, 2009, Global Imbalances: In Midstream?

Obstfeld M. and K. Rogoff, 2009, Global Imbalances and the Financial Crisis: Products of Common Causes

International adjustment

Obstfeld M. and K. Rogoff, The Unsustainable US Current Account Position Revisited, NBER 2005

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

Corsetti, G. P. Martin, and P. Pesenti, "Varieties and imbalances: the extensive margins of the current account adjustment", with Giancarlo Corsetti and Paolo Pesenti. NBER WP 13795

Valuation effects and the US 'exorbitant privilege'

Lane, P. and G.M Milesi-Feretti, 2007, The External Wealth of Nations Mark II, Journal of International Economics, 73

Devereux and Sutherland, 2010, Valuation effects and the dynamics of net external assets, Journal of International Economics

Pavlova A. and R. Rigobon, 2010, An Asset-Pricing View of External Adjustment, Journal of International Economics

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

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

Rey, H., Gourinchas P-O, and Govillot, N., 2010, Exorbitant Privilege and Exorbitant Duty, mimeo LBS

New views on global imbalances [if time permits]

Coeurdacier, N., Guibaud, S. and Jin, K., 2013, Credit constraints and growth in a global economy, mimeo LSE.

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

Bacchetta, P. and Benhima, K., The Demand for Liquid Assets, Corporate Saving, and Global Imbalances, with Philippe Bacchetta, December 2010, DEEP Working paper n°10.12.

Part 2: March 24 – April 28, 2016 (Daniele Siena)

Lecture 7-8-9. Risk sharing, International real business cycles and the international transmission of shocks

Part 1: Baseline one-good model

*Obstfeld and Rogoff Chapter 5

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

Part 2: 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, 1991. Commodity Trade and International Risk Sharing: How much do Financial Markets Matter?", Journal of Monetary Economics 28 (August): 3-24.

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 [pdf]

Part 3: International transmission of shocks

Luca Dedola & Giovanni Lombardo, 2012, Financial frictions, financial integration and the international propagation of shocks, Economic Policy, vol. 27(70), pages 319-359, 04.

*van Wincoop, Eric. 2013. "International Contagion through Leveraged Financial Institutions." American Economic Journal: Macroeconomics, 5(3): 152-89.

Perri, Fabrizio and Vincenzo Quadrini, 2014, International Recessions, mimeo.

*Maggiore, Matteo and Xavier Gabaix. "International Liquidity and Exchange Rate Dynamics." Quarterly Journal of Economics (Forthcoming)

Neumeyer, Pablo A. and Perri, Fabrizio, 2005. "Business cycles in emerging economies: the role of interest rates," Journal of Monetary Economics, Elsevier, vol. 52(2), pages 345-380, March.

Lectures 10-11. Financial Crisis: Currency Crisis

Part 1. Financial crisis and currency crisis

Barry Eichengreen and Andrew K. Rose, 1999, Contagious Currency Crises: Channels of Conveyance, NBER Chapters, in: Changes in Exchange Rates in Rapidly Developing Countries: Theory, Practice, and Policy Issues (NBER-EASE volume 7), pages 29-56, National Bureau of Economic Research, Inc.

Bordo, M.D., B. Eichengreen, D. Klingebiel, and M.S. Martinez-Peria, 2001, Is the Crisis Problem Growing More Severe? Economic Policy, April

Fischer, Stanley, 2001, Exchange Rate Regimes: Is the Bipolar View Correct? Journal of Economic Perspectives, 15, 2 (Spring), 3-24. (Reprinted in Stanley Fischer, IMF Essays from A Time of Crisis, MIT Press, 2004.)

Barry Eichengreen and Andrew K. Rose, 2003, Does It Pay to Defend against a Speculative Attack?, NBER Chapters, in: Managing Currency Crises in Emerging Markets, pages 61-86, National Bureau of Economic Research, Inc.

Fischer, Stanley, 2004, Experience of and Lessons from Exchange Rate Regimes in Emerging Economies, in Monetary and Financial Integration in East Asia: The Way Ahead, Vol. 2, edited by Asian Development Bank. New York: Palgrave Macmillan Press, 91-138.

Barry Eichengreen, 2008. Exchange Rate Regimes and Capital Mobility: How Much of the Swoboda Thesis Survives?, NBER Working Papers 14100, National Bureau of Economic Research, Inc.

Michael D. Bordo and John S. Landon-Lane, 2010, The Global Financial Crisis of 2007-08: Is it Unprecedented?, NBER Working Papers 16589, National Bureau of Economic Research, Inc.

Carmen M. Reinhart and Kenneth S. Rogoff, 2011. From Financial Crash to Debt Crisis, American Economic Review, American Economic Association, vol. 101(5), pages 1676-1706, August.

* Barry Eichengreen and Andrew K. Rose, 2011, Flexing Your Muscles: Abandoning a Fixed Exchange Rate for Greater Flexibility, NBER Chapters, in: NBER International Seminar on Macroeconomics 2011, pages 353-391, National Bureau of Economic Research, Inc.

Fabrizio Perri, 2012, Financial crisis – Lecture notes (Bocconi University)

Part 2. Models of currency crisis:

First Generation:

Henderson, D. and Salant, S. 1978, Market anticipations of government policies and the price of gold. Journal of Political Economy 86, 627–48.

Krugman, P. 1979, A model of balance of payments crises, Journal of Money, Credit and Banking 11, 311–25.

Flood, R., and Garber, P. 1984, Collapsing exchange rate regimes: some linear examples, *Journal of International Economics* 17, 1–13.

Flood, R. and Marion, N. 1999, Perspectives on the recent currency crisis literature, *International Journal of Finance and Economics* 4, 1–26.

* Burnside, C., Eichenbaum, M. and Rebelo, S. 2001. Prospective deficits and the Asian currency crisis. *Journal of Political Economy* 109, 1155-98.

Second Generation:

Obstfeld, M. 1994, The logic of currency crises, *Cahiers Economiques et Monétaires* 43, 189–213.

Obstfeld, M. 1996, Models of currency crises with self-fulfilling features. *European Economic Review* 40, 1037–47.

Jeanne, O. 1997, Are currency crisis self-fulfilling? A test, *Journal of International Economics* 43, 263-286.

* Morris, S. and Shin, H. S., 1998, Unique Equilibrium in a Model of Self-Fulfilling Currency Attacks, *American Economic Review*, American Economic Association, vol. 88(3), pages 587-97

Barro, R. J. and Gordon, D. B., 1983. A Positive Theory of Monetary Policy in a Natural Rate Model," *Journal of Political Economy*, University of Chicago Press, vol. 91(4), pages 589-610, August.

Third Generation:

Krugman, Paul, 1999, Balance Sheets, the Transfer Problem, and Financial Crises, *International Tax and Public Finance* , 6, 459-472.

Eichengreen, B. and Hausmann, R. 1999, Exchange rates and financial fragility. Working Paper No. 7418. Cambridge, MA: NBER.

Burnside, C., Eichenbaum, M., and Rebelo, S. 2001, Hedging and financial fragility in fixed exchange rate regimes. *European Economic Review* 45, 1151–93.

*Aghion, Philippe, Bacchetta, Philippe, and Banerjee, Abhijit, 2004, A Corporate Balance-Sheet Approach to currency crises, *Journal of Economic Theory*, 119, 6-30.

Hausmann Ricardo and Panizza Ugo, 2011. Redemption or Abstinence? Original Sin, Currency Mismatches and Counter Cyclical Policies in the New Millennium, *Journal of Globalization and Development*, De Gruyter, vol. 2(1), pages 1-35.

Lectures 12. Sovereign debt crisis

Part 1. Sovereign Debt Crises with self-fulfilling features

G.A. Calvo, 1988, Servicing the public debt: The role of expectations. *American Economic Review* 78(4), 647–66.

Cole, H.L. and T. Kehoe, 2000, Self-fulfilling debt crises. *Review of Economic Studies*, 67(1), 91–116.

* Corsetti, G. and L. Dedola, 2012. "The "Mystery of the Printing Press" Monetary Policy and Self-fulfilling Debt Crises," Discussion Papers 1424, Centre for Macroeconomics (CFM), revised Aug 2014. (For presentation, focus on the monetary model)

* Lorenzoni, G. and I. Werning, 2013, Slow moving debt crises, mimeo.

Part 2. Asymmetric information, limited contract enforcement and no trade result:

Eaton, Jonathan and Gersovitz, Mark, 1981. "Debt with Potential Repudiation: Theoretical and Empirical Analysis," *Review of Economic Studies*, Wiley Blackwell, vol. 48(2), pages 289-309, April.

Bulow, Jeremy and Rogoff, Kenneth, 1989. "Sovereign Debt: Is to Forgive to Forget?," *American Economic Review*, American Economic Association, vol. 79(1), pages 43-50, March.

Michael, Tomz and Mark L. J. Wright, 2007. "Do Countries Default in "Bad Times," *Journal of the European Economic Association*, MIT Press, vol. 5(2-3), pages 352-360, 04-05.

*Mark Aguiar and Manuel Amador, 2013. "Sovereign Debt: A Review," NBER Working Papers 19388, National Bureau of Economic Research, Inc.