

EC874.01

TOPICS IN INTERNATIONAL MACROECONOMICS

Syllabus

Spring 2013

Lectures:

Tuesday and Thursday, 1:30 – 3:00 pm; Maloney Hall, Room 480P

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Office Hours: Tuesday, 3:30 – 5:30 pm, and by appointment

Course Objectives and Description

This course covers topics in international macroeconomics. Its purpose is to expose students to recent developments in the study of international business cycle transmission, the effect and conduct of macroeconomic policies in open economies, the joint determination of international trade and macroeconomic dynamics, and international financial adjustment.

We will first study models of international interdependence under flexible prices, focusing on the role of different assumptions on the structure of financial asset markets in the international propagation of shocks. Exogenous shocks to technology will be the main source of fluctuations in these models. We will then introduce nominal rigidity and a role for monetary policy shocks in the models. This will lead us to study the conduct of optimal monetary policy in open economies under different assumptions about the nature of nominal rigidity. Next, we will turn to pricing to market and the role of distribution sectors as a foundation for deviations from the law of one price. We will then move to models of international macroeconomic and trade dynamics that attribute a role to producer entry and exit in the transmission of international fluctuations. This will be followed by work on international financial adjustment, the current account, and valuation effects. We will conclude the course by discussing the wave of crises that started in 2007 and its implications for policy (with special reference to fiscal policy) and future research in international macroeconomics.

A good reference textbook for background reading is Maurice Obstfeld and Kenneth Rogoff's *Foundations of International Macroeconomics*, Cambridge: MIT Press, 1996. I also recommend Nelson Mark's, *International Macroeconomics and Finance: Theory and Econometric Methods*, Blackwell Publishers, 2001, and Martin Evans' *Exchange-Rate Dynamics*, Princeton: Princeton University Press, 2011. However, lectures will be based mainly on articles from the reading list below.

Course Requirements

Readings: Starting with the second lecture of the course, I will expect you to have read the papers I will cover in advance of the relevant lecture. (At the end of each lecture, I will announce the readings for the following lecture.) There will be no homework for this course, but you must read these papers with pencil and paper, making sure you can reproduce all arguments and derivations whenever feasible. I will expect you to be able to do that for the final exam.

Discussions: We will hold two Course Conferences – on Friday, March 15, and Friday, April 19, time and room TBA. In each of these conferences, you must give a thirty-minute discussion of an unpublished working paper. Papers in the reading list that you can discuss are marked with a smile (☺), but you can also discuss other recent papers that you find on your own outside the reading list, subject to my approval. (You are also free to discuss papers from parts of the reading list that we have not covered.) You must spend approximately ten minutes explaining the key contribution of the paper and twenty minutes on your comments, focusing on issues of substance. (Papers discussed on March 15 cannot be discussed on April 19. You cannot cooperate in preparing discussions. In each conference, there can be at most two discussions of the same paper, and the choice of paper to be discussed will be on a first-come, first-served basis.)

Short paper: You must write a single-authored, short paper (between 15 and 20 pages, double spacing, plus appendix and references) on a topic in international macroeconomics. You must discuss your idea with me before starting. Your paper must clearly state the issue of interest, briefly discuss the relevant literature, describe your planned contribution, and develop the latter as far as you can. Pdf files of the papers must be e-mailed to me by noon on Friday, May 31.

Final exam: There will be a three-hour final exam on a date/time TBA.

Discussions, short paper, and final exam will be graded on a scale 0-100. The weights of these requirements in your final course grade will be as follows:

Discussions: 20 percent;

Short paper: 40 percent;

Final exam: 40 percent.

A Course and a Seminar That May Be of Interest

If you are seriously interested in international macroeconomics for your research, and you are not familiar with the history of the international monetary system, you should consider attending EC377.01: The World Economy: From the Gold Standard to Globalization (Tuesdays and Thursdays, 10:30-11:45 am, Stokes Hall, room 295S). It is an upper-level, undergraduate elective course on the history and functioning of international monetary arrangements from the 19th century to the present day. If you have not had a similar course in the past, sitting in these lectures should be useful to give you a better idea of the evolution of important policy questions over time. (The course also presents some models that I do not cover in this graduate class.)

A Seminar That May Be of Interest

If you are seriously interested in international macroeconomics for your research, you should also consider attending the International Economic Policy and Political Economy seminar (Mondays, 4:00-5:30 pm, Stokes Hall, room 195S). This seminar focuses on present-day policy questions and “substance” over technique. The schedule of presentations for this semester is at <http://fmwww.bc.edu/EC-J/SemS2013/ec.ILA.s2013.php>. You can also access the archive of past

presentations and materials from that page (including recordings of most of the Fall 2012 presentations).

Some Other Important Information

The reading list below obviously includes many more papers (and more topics) than we will be able to cover in class. (For instance, we will not cover the macroeconomics of emerging markets, exchange rate and financial crises—other than the wave that started in 2007—, and models of debt repudiation.) The list below is meant also as a reference source for additional readings if you become especially interested in any given topic. If you take a comprehensive exam in the international area that includes international macroeconomics, you will be expected to have read a much larger selection of the papers below than we cover in this class. If you plan to make international macroeconomics your primary research field and/or go on the job market with a paper in international macroeconomics and have me as advisor, I will expect you to have taken the comprehensive exam in international economics (or, if it is offered, the comprehensive exam in international finance and macroeconomics).

Course Topics and Readings

1. Asset Markets and the International Transmission of Shocks

Baxter, M., and M. Crucini (1995): “Business Cycles and the Asset Structure of Foreign Trade,” *International Economic Review* 36: 821-853.

Bodenstein, M. (2011): “Closing Large Open Economy Models,” *Journal of International Economics* 84: 160-177.

Cole, H. L., and M. Obstfeld (1991): “Commodity Trade and International Risk Sharing: How Much Do Financial Markets Matter?” *Journal of Monetary Economics* 28: 3-24.

Ghironi, F. (2006): “Macroeconomic Interdependence under Incomplete Markets,” *Journal of International Economics* 70: 428-450.

Heathcote, J., and F. Perri (2002): “Financial Autarky and International Business Cycles,” *Journal of Monetary Economics* 49: 601-627.

Kehoe, P. J., and F. Perri (2002): “International Business Cycles with Endogenous Incomplete Markets,” *Econometrica* 70: 907-928.

Kim, J., and S. H. Kim (2003): “Spurious Welfare Reversals in International Business Cycle Models,” *Journal of International Economics* 60: 471-500.

Schmitt-Grohé, S., and M. Uribe (2003): “Closing Small Open Economy Models,” *Journal of International Economics* 61: 163-185.

2. International Real Business Cycles

Backus, D. K., P. J. Kehoe, and F. E. Kydland (1992): “International Real Business Cycles,” *Journal of Political Economy* 100: 745-775.

- Backus, D. K., P. J. Kehoe, and F. E. Kydland (1994): “Dynamics of the Trade Balance and the Terms of Trade: The J Curve?” *American Economic Review* 84: 84-103.
- Backus, D. K., and G. W. Smith (1993): “Consumption and Real Exchange Rates in Dynamic Economies with Non-Traded Goods,” *Journal of International Economics* 35: 297-316.
- Baxter, M. (1995): “International Trade and Business Cycles,” in G. M. Grossman and K. Rogoff (eds.), *Handbook of International Economics*, vol. 3, pp. 1801-1864, Amsterdam: Elsevier.
- Baxter, M., and M. J. Crucini (1993): “Explaining Saving-Investment Correlations,” *American Economic Review* 83: 416-436.
- Benigno, G., and C. Thoenissen (2008): “Consumption and Real Exchange Rates with Incomplete Markets and Non-Traded Goods,” *Journal of International Money and Finance* 27: 926-948.
- Corsetti, G., L. Dedola, and S. Leduc (2008a): “International Risk-Sharing and the Transmission of Productivity Shocks,” *Review of Economic Studies* 75: 443-473.
- Corsetti, G., L. Dedola, and S. Leduc (2008b): “Productivity, External Balance, and Exchange Rates: Evidence on the Transmission Mechanism among the G7 Countries,” in Reichlin, L., and K. West (eds.), *NBER International Seminar on Macroeconomics 2006*, Cambridge: MIT Press, 117-178.
- © Corsetti, G., L. Dedola, and S. Leduc (2009): “The International Dimension of Productivity and Demand Shocks in the U.S. Economy,” *mimeo*, University of Cambridge, European Central Bank, and Federal Reserve Bank of San Francisco.
- Enders, Z., and G. J. Müller (2009): “On the International Transmission of Technology Shocks,” *Journal of International Economics* 78: 45-59.
- Engel, C., and J. Wang (2011): “International Trade in Durable Goods: Understanding Volatility, Cyclicalities, and Elasticities,” *Journal of International Economics* 83: 37-52.
- Kose, M. A., C. Otrok, and E. Prasad (2012): “Global Business Cycles: Convergence or Decoupling?” *International Economic Review* 53: 511-538.
- Kose, M. A., and K.-M. Yi (2006): “Can the Standard International Business Cycle Model Explain the Relation between Trade and Comovement?” *Journal of International Economics* 68: 267-295.
- Mandelman, F. S., P. Rabanal, J. F. Rubio-Ramírez, and D. Vilán (2011): “Investment-Specific Technology Shocks and International Business Cycles: An Empirical Assessment,” *Review of Economic Dynamics* 14: 136-155.
- Mendoza, E. G. (1991): “Real Business Cycles in a Small Open Economy,” *American Economic Review* 81: 797-818.
- © Perri, F., and V. Quadrini (2008): “Understanding the International Great Moderation,” *mimeo*, University of Minnesota and University of Southern California.
- Raffo, A. (2008): “Net Exports, Consumption Volatility and International Business Cycle Models,” *Journal of International Economics* 75: 14-29.

© Raffo, A. (2010): “Technology Shocks: Novel Implications for International Business Cycles,” International Finance DP 992, Board of Governors of the Federal Reserve System.

Stockman, A. C., and L. L. Tesar (1995): “Tastes and Technology in a Two-Country Model of the Business Cycle: Explaining International Co-Movements,” *American Economic Review* 85: 168-185.

3. The Law of One Price, Purchasing Power Parity, and the Real Exchange Rate

Broda, C., and D. E. Weinstein (2008): “Understanding International Price Differences Using Barcode Data,” NBER WP 14017.

Burstein, A. T., M. Eichenbaum, and S. Rebelo (2005): “Large Devaluations and the Real Exchange Rate,” *Journal of Political Economy* 113: 742-784.

© Burstein, A. T., and N. Jaimovich (2009): “Understanding Movements in Aggregate and Product-Level Real Exchange Rates,” *mimeo*, UCLA and Duke University.

Engel, C. M. (1993): “Real Exchange Rates and Relative Prices: An Empirical Investigation,” *Journal of Monetary Economics* 32: 35-50.

Engel, C. M. (1999): “Accounting for U.S. Real Exchange Rate Changes,” *Journal of Political Economy* 107: 507-538.

Engel, C. M. (2000): “Long Run PPP May Not Hold After All,” *Journal of International Economics* 51: 243-273.

Engel, C. M., and J. H. Rogers (1996): “How Wide Is the Border?” *American Economic Review* 86: 1112-1125.

Finn, M. G. (1999): “An Equilibrium Theory of Nominal and Real Exchange Rate Comovement,” *Journal of Monetary Economics* 44: 453-475.

Gopinath, G., P.-O. Gourinchas, C.-T. Hsieh, and N. Li (2011): “International Prices, Costs and Mark-up Differences,” *American Economic Review* 101: 2450-2486.

Gorodnichenko, Y., and L. L. Tesar (2009): “Border Effect or Country Effect? Seattle Is 110 Miles from Vancouver After All,” *American Economic Journal: Macroeconomics* 1: 219-241.

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

Mussa, M. (1986): “Nominal Exchange Rate Regimes and the Behavior of Real Exchange Rates: Evidence and Implications,” *Carnegie-Rochester Conference Series on Public Policy* 25: 117-213.

Rogoff, K. (1996): “The Purchasing Power Parity Puzzle,” *Journal of Economic Literature* 34: 647-668.

© Strasser, G. (2007): “The Efficiency of the Global Market for Capital Goods,” *mimeo*, Boston College.

Taylor, A. M. (2001): “Potential Pitfalls for the Purchasing Power Parity Puzzle? Sampling and Specification Biases in Mean-Reversion Tests of the Law of One Price,” *Econometrica* 69: 473-498.

Taylor, A. M. (2002): “A Century of Purchasing Power Parity,” *Review of Economic and Statistics* 84: 139-150.

Taylor, M. P., D. A. Peel, and L. Sarno (2001): “Nonlinear Mean Reversion in Real Exchange Rates: Towards a Solution to the Purchasing Power Parity Puzzles,” *International Economic Review* 42: 1015-1042.

4. Macroeconomic Interdependence under Sticky Prices

Adolfson, M., S. Laséen, J. Lindé, and M. Villani (2007): “Bayesian Estimation of an Open Economy DSGE Model with Incomplete Pass-Through,” *Journal of International Economics* 72: 481-511.

Baxter, M., and A. C. Stockman (1989): “Business Cycles and the Exchange-Rate Regime: Some International Evidence,” *Journal of Monetary Economics* 23: 377-400.

Benigno, G., and C. Thoenissen (2003): “Equilibrium Exchange Rates and Supply Side Performance,” *Economic Journal* 113: 103-124.

Bergin, P. R. (2003): “Putting the ‘New Open Economy Macroeconomics’ to a Test,” *Journal of International Economics* 60: 3-34.

Betts, C., and M. B. Devereux (2000): “Exchange Rate Dynamics in a Model of Pricing to Market,” *Journal of International Economics* 50: 215-244. (Note the Erratum in *Journal of International Economics* 52: 207-208.)

Carvalho, C., and F. Nechio (2011): “Aggregation and the PPP Puzzle in a Sticky Price Model,” *American Economic Review*: 2391-2424.

Chari, V. V., P. J. Kehoe, and E. R. McGrattan (2002): “Can Sticky Price Models Generate Volatile and Persistent Real Exchange Rates?” *Review of Economic Studies* 69: 533-563.

Corsetti, G., and P. Pesenti (2001): “Welfare and Macroeconomic Interdependence,” *Quarterly Journal of Economics* 116: 421-446.

Corsetti, G., and P. Pesenti (2005): “The Simple Geometry of Transmission and Stabilization in Closed and Open Economies,” NBER WP 11341.

Devereux, M. B., C. M. Engel, and P. E. Storgaard (2004): “Endogenous Exchange Rate Pass-Through when Nominal Prices Are Set in Advance,” *Journal of International Economics* 63: 263-291.

Dornbusch, R. (1976): “Expectations and Exchange Rate Dynamics,” *Journal of Political Economy* 84: 1161-1176.

Engel, C. (2006): “Equivalence Results for Optimal Pass-Through, Optimal Indexing to Exchange Rates, and Optimal Choice of Currency for Export Pricing,” *Journal of the European Economic Association* 4: 1249-1260.

Faia, E. (2007): “Finance and International Business Cycles,” *Journal of Monetary Economics* 54: 1018-1034.

Gertler, M. J., S. Gilchrist, and F. M. Natalucci (2007): “External Constraints on Monetary Policy and the Financial Accelerator,” *Journal of Money, Credit and Banking* 39: 295-330.

Gopinath, G., and O. Itskhoki (2010): “Frequency of Price Adjustment and Pass-through,” *Quarterly Journal of Economics* 125: 675-727.

Gopinath, G., O. Itskhoki, and R. Rigobon (2010): “Currency Choice and Exchange Rate Pass-through,” *American Economic Review* 100: 304-336.

Gopinath, G., and R. Rigobon (2008): “Sticky Borders,” *Quarterly Journal of Economics* 123: 531-575.

Justiniano, A., and B. Preston (2010): “Can Structural Small Open Economy Models Account for the Influence of Foreign Shocks?” *Journal of International Economics* 81: 61-74.

Justiniano, A., and B. Preston (2010): “Monetary Policy and Uncertainty in an Empirical Small Open Economy Model,” *Journal of Applied Econometrics* 25: 93-128.

© Kim, S., and J. Lee (2009): “International Macroeconomic Fluctuations: A New Open Economy Macroeconomics Interpretation,” *mimeo*, Korea University and International Monetary Fund.

Kollmann, R. (2001a): “Explaining International Comovements of Output and Asset Returns: The Role of Money and Nominal Rigidities,” *Journal of Economic Dynamics and Control* 25:1547-1583.

Kollmann, R. (2001b): “The Exchange Rate in a Dynamic-Optimizing Business Cycle Model with Nominal Rigidities: A Quantitative Investigation,” *Journal of International Economics* 55: 243-262.

McCallum, B. T., and E. Nelson (2000): “Monetary Policy for an Open Economy: An Alternative Framework with Optimizing Agents and Sticky Prices,” *Oxford Review of Economic Policy* 16: 74-91.

Neiman, B. (2010): “Stickiness, Synchronization, and Passthrough in Intrafirm Trade Prices,” *Journal of Monetary Economics* 57: 295-308.

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

Obstfeld, M., and K. Rogoff (2000): “New Directions for Stochastic Open Economy Models,” *Journal of International Economics* 50: 117-153.

Patureau, L. (2007): "Pricing to Market, Limited Participation, and Exchange Rate Dynamics," *Journal of Economic Dynamics and Control* 31: 3281-3320.

Povoledo, L. (forthcoming): "A Note on the Volatility of the Tradeable and Nontradeable Sectors," *Macroeconomic Dynamics*.

Tille, C. (2001): "The Role of Consumption Substitutability in the International Transmission of Monetary Shocks," *Journal of International Economics* 53: 421-444.

Tille, C. (2005): "The Welfare Effect of International Asset Market Integration under Nominal Rigidities," *Journal of International Economics* 65: 221-247.

5. Endogenous Interest Rate Setting and Exchange Rate Dynamics

Benigno, G. (2004): "Real Exchange Rate Persistence with Endogenous Monetary Policy," *Journal of Monetary Economics* 51: 473-502.

Benigno, G., and P. Benigno (2008): "Exchange Rate Determination under Interest Rate Rules," *Journal of International Money and Finance* 27: 971-993.

Benigno, G., P. Benigno, and F. Ghironi (2007): "Interest Rate Rules for Fixed Exchange Rate Regimes," *Journal of Economic Dynamics and Control* 31: 2196-2211.

Carlstrom, C. T., T. S. Fuerst, and F. Ghironi (2006): "Does It Matter (for Equilibrium Determinacy) What Price Index the Central Bank Targets?" *Journal of Economic Theory* 128: 214-231.

Cavallo, M., and F. Ghironi (2002): "Net Foreign Assets and the Exchange Rate: Redux Revived," *Journal of Monetary Economics* 49: 1057-1097.

De Fiore, F., and Z. Liu (2005): "Does Trade Openness Matter for Aggregate Instability?" *Journal of Economic Dynamics and Control* 29: 1165-1192.

Dotsey, M., and M. Duarte (2008): "Nontradable Goods, Market Segmentation, and Exchange Rates," *Journal of Monetary Economics* 55: 1129-1142.

Engel, C. M., and K. D. West (2005): "Exchange Rates and Fundamentals," *Journal of Political Economy* 113: 485-517.

Jääskelä, J., and M. Kulish (2010): "The Butterfly Effect of Small Open Economies," *Journal of Economic Dynamics and Control* 34: 1295-1304.

Linnemann, L., and A. Schabert (2006): "Monetary Policy and the Taylor Principle in Open Economies," *International Finance* 9: 343-367.

☺ Zanna, L. F. (2003): "Interest Rate Rules and Multiple Equilibria in the Small Open Economy," IFDP 2003-785, Board of Governors of the Federal Reserve System.

6. Optimal Macroeconomic Policy in Open Economies: Non-Microfounded Models

Canzoneri, M. B., and D. W. Henderson (1991): *Monetary Policy in Interdependent Economies: A Game-Theoretic Approach*, Cambridge: MIT Press.

Dixit, A., and L. Lambertini (2003): "Symbiosis of Monetary and Fiscal Policies in a Monetary Union," *Journal of International Economics* 60: 235-247.

Eichengreen, B., and F. Ghironi (2002): "Transatlantic Trade-Offs in the Age of Balanced Budgets and European Monetary Union," *Open Economies Review* 13: 381-411.

Ghironi, F., and F. Giavazzi (1998): "Currency Areas, International Monetary Regimes, and the Employment-Inflation Tradeoff," *Journal of International Economics* 45: 259-296.

Giavazzi, F., and M. Pagano (1988): "The Advantage of Tying One's Hands: EMS Discipline and Central Bank Credibility," *European Economic Review* 32: 1050-1082.

Persson, T., and G. Tabellini (1995): "Double Edged Incentives: Institutions and Policy Coordination," in Grossman, G. and K. Rogoff (eds.), *Handbook of International Economics*, Vol. III, Amsterdam: North-Holland.

Rogoff, K. (1985): "Can International Monetary Cooperation be Counterproductive?" *Journal of International Economics* 18: 199-217.

7. Optimal Monetary Policy in Open Economies

Auray, S., and A. Eyquem (forthcoming): "On Financial Markets Incompleteness, Price Stickiness, and Welfare in a Monetary Union," *Annales d'Economie et de Statistiques*.

Benigno, G., and P. Benigno (2003): "Price Stability in Open Economies," *Review of Economic Studies* 70: 743-764.

Benigno, G., and P. Benigno (2006): "Designing Targeting Rules for International Monetary Policy Cooperation," *Journal of Monetary Economics* 53: 473-506.

Benigno, G., and P. Benigno (2008): "Implementing International Monetary Cooperation through Inflation Targeting," *Macroeconomic Dynamics* 12: 45-59.

Benigno, P. (2009): "Price Stability with Imperfect Financial Integration," *Journal of Money, Credit and Banking* 41: 121-149.

Benigno, P. (2004): "Optimal Monetary Policy in a Currency Area," *Journal of International Economics* 63: 293-320.

© Campolmi, A., and E. Faia (2008): "Rethinking Optimal Exchange Rate Regimes with Labour Frictional Labour Markets," *mimeo*, Central European University and Goethe University Frankfurt.

Clarida, R., J. Galí, and M. Gertler (2001): "Optimal Monetary Policy in Open versus Closed Economies: An Integrated Approach," *American Economic Review Papers and Proceedings* 91: 248-252.

© Corsetti, G., L. Dedola, and S. Leduc (2009): “Demand Imbalances, Exchange Rate Misalignment and Monetary Policy,” *mimeo*, European University Institute, European Central Bank, and Federal Reserve Bank of San Francisco.

Corsetti, G., L. Dedola, and S. Leduc (2012): “Optimal Monetary Policy in Open Economies,” in B. Friedman and M. Woodford (eds.), *Handbook of Monetary Economics*, vol. 3, pp. 861-933, Amsterdam: Elsevier.

Corsetti, G., and P. Pesenti (2005): “International Dimensions of Optimal Monetary Policy,” *Journal of Monetary Economics* 52: 281-305.

De Paoli, B. (2009a): “Monetary Policy and Welfare in a Small Open Economy,” *Journal of International Economics* 77: 11-22.

De Paoli, B. (2009b): “Monetary Policy in a Small Open Economy: The Role of the Asset Market Structure,” *Journal of Money, Credit, and Banking* 41: 1301-1330.

Devereux, M. B., and C. M. Engel (2003): “Monetary Policy in the Open Economy Revisited: Exchange Rate Flexibility and Price Setting Behavior,” *Review of Economic Studies* 70: 765-783.

Dmitriev, M., and J. Hoddenbagh (2012): “Price Stability in Small Open Economies,” *mimeo*, Boston College.

Duarte, M., and M. Obstfeld (2008): “Monetary Policy in the Open Economy Revisited: The Case for Exchange-Rate Flexibility Restored,” *Journal of International Money and Finance* 27: 949-957.

Faia, E., and E. Iliopoulos (2011): “Financial Openness, Financial Frictions and Optimal Monetary Policy,” *Journal of Economic Dynamics and Control* 35: 1976-1996.

Faia, E. (2010): “Financial Frictions and the Choice of Exchange Rate Regimes,” *Economic Inquiry* 48: 965-982.

Galí, J., and T. Monacelli (2005): “Monetary Policy and Exchange Rate Volatility in a Small Open Economy,” *Review of Economic Studies* 72: 707-734.

Kollmann, R. (2002): “Monetary Policy Rules in the Open Economy: Effects on Welfare and Business Cycles,” *Journal of Monetary Economics* 49: 989-1015.

© Lombardo, G., and F. Ravenna (2010): “Openness and Optimal Monetary Policy,” *mimeo*, European Central Bank and HEC-Montréal.

Lombardo, G., and A. Sutherland (2006): “Policy Instrument Choice and Non-Coordinated Monetary Policy in Interdependent Economies,” *Journal of International Money and Finance* 25: 855-873.

Obstfeld, M. (2002): “Inflation Targeting, Exchange-Rate Pass-Through, and Volatility,” *American Economic Review Papers and Proceedings* 92: 102-107.

Obstfeld, Maurice, and Kenneth Rogoff (2002): “Global Implications of Self-Oriented National Monetary Rules,” *Quarterly Journal of Economics* 117: 503-536.

© Sutherland, A. (2002): “A Simple Second-Order Solution Method for Dynamic General Equilibrium Models,” CEPR DP 3554.

© Sutherland, A. (2004): “International Monetary Policy Coordination and Financial Market Integration,” CEPR DP 4251.

Sutherland, A. (2005): “Incomplete Pass-Through and the Welfare Effects of Exchange Rate Variability,” *Journal of International Economics* 65: 375-399.

Sutherland, A. (2006): “The Expenditure Switching Effect, Welfare and Monetary Policy in a Small Open Economy,” *Journal of Economic Dynamics and Control* 30: 1159-1182.

© Sutherland, A., and O. Senay (2010): “Endogenous Price Flexibility and Optimal Monetary Policy,” *mimeo*, University of St. Andrews.

8. Fiscal Policy and Monetary-Fiscal Policy Interactions

Beetsma, R. M. W. J., and H. Jensen (2005): “Monetary and Fiscal Policy Interactions in a Micro-Founded Model of a Monetary Union,” *Journal of International Economics* 67: 320-352.

Bussière, M., M. Fratzscher, and G. J. Müller (2010): “Productivity Shocks, Budget Deficits and the Current Account,” *Journal of International Money and Finance* 29: 1562–1579.

Benigno, G., and B. De Paoli (2010): “On the International Dimension of Fiscal Policy,” *Journal of Money, Credit and Banking* 42: 1523-1542.

Corsetti, G., K. Kuester, and G. J. Müller (2011): “Floats, Pegs and the Transmission of Fiscal Policy,” CEPR DP 8180.

Corsetti, G., A. Meier, and G. J. Müller (2009): “Fiscal Stimulus with Spending Reversals,” CEPR DP 7302.

Corsetti, G., and G. J. Müller (2006): “Twin Deficits: Squaring Theory, Evidence and Common Sense,” *Economic Policy* 48: 597-638.

Corsetti, G., and G. J. Müller (2008): “Twin Deficits, Openness and the Business Cycle,” *Journal of the European Economic Association* 6: 404-413.

© Corsetti, G., and G. J. Müller (2011): “Multilateral Economic Cooperation and the International Transmission of Fiscal Policy,” *mimeo*, Cambridge University and University of Bonn.

Galí, J., and T. Monacelli (2008): “Optimal Monetary and Fiscal Policy in a Currency Union,” *Journal of International Economics* 76: 116-132.

Lombardo, G., and A. Sutherland (2004): “Monetary and Fiscal Interactions in Open Economies,” *Journal of Macroeconomics* 26: 319-348.

Monacelli, T., and R. Perotti (2010): “Fiscal Policy, the Real Exchange Rate and Traded Goods,” *Economic Journal* 120: 437-461.

Nakamura, E., and J. Steinsson (2010): “Fiscal Stimulus in a Monetary Union: Evidence from U.S. Regions,” *mimeo*, Columbia University.

© Schabert, A., and S. van Wijnbergen (2006): “Debt, Deficits, and Destabilizing Monetary Policy in Open Economies,” CEPR DP 5590.

9. Pricing-to-Market and Imperfect Pass-Through

Bergin, P. R., and R. C. Feenstra (2001): “Pricing-to-Market, Staggered Contracts, and Real Exchange Rate Persistence,” *Journal of International Economics* 54: 333-359.

Bacchetta, P., and E. van Wincoop (2003): “Why Do Consumer Prices React Less Than Import Prices to Exchange Rates?” *Journal of the European Economic Association* 1: 662-670.

Bacchetta, P., and E. van Wincoop (2005): “A Theory of the Currency Denomination of International Trade,” *Journal of International Economics* 67: 295-319.

Burstein, A. T., J. C. Neves, and S. Rebelo (2003): “Distribution Costs and Real Exchange Rate Dynamics during Exchange-Rate-Based Stabilizations,” *Journal of Monetary Economics* 50: 1189-1214.

Burstein, A. T., M. Eichenbaum, and S. Rebelo (2007): “Modeling Exchange Rate Pass-Through after Large Devaluations,” *Journal of Monetary Economics* 54: 346-368.

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17. The Crises of 2007-...

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