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.

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


2. International Real Business Cycles


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


4. **Macroeconomic Interdependence under Sticky Prices**


5. **Endogenous Interest Rate Setting and Exchange Rate Dynamics**


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


7. Optimal Monetary Policy in Open Economies


8. Fiscal Policy and Monetary-Fiscal Policy Interactions


10. International Trade and Macroeconomic Dynamics


Cavallari, L. (2011): “Firms’ Entry, Monetary Policy and the International Business Cycle,” *mimeo*, University of Rome III.


### 12. International Trade and Capital Flows


### 13. Understanding International Portfolios


© Heathcote, J., and F. Perri (2007): “The International Diversification Puzzle is not as Bad as You Think,” NBER WP 13483.


14. The International Macroeconomics of Emerging Market Economies


15. Crises (before 2007)


16. Debt Repudiation


### 17. The crises of 2007–...

Several non-technical references on the wave of crises that began in 2007 are in the syllabus of EC377.01: The World Economy: From the Gold Standard to Globalization. These references give you a good idea of issues and questions. A large number of papers have already been written in closed-economy macroeconomics on models that explain the (U.S.) crisis. Some references on various aspects of the global crisis of 2007-2009 and the European sovereign debt crisis that began in 2010 are below.


Cook, D., and M. B. Devereux (2011): “Sharing the Burden: Monetary and Fiscal Responses to a World Liquidity Trap,” *mimeo*, Hong Kong University of Science and Technology and University of British Columbia.


17.b. *House Prices and the Current Account*


17.c. *The Global Crisis and International Trade*


17.d. Crisis, Macro-Prudential Policies, Capital Controls


17.e. Sovereign Debt Crisis and Fiscal Policy


