ECON 574

INTERNATIONAL MACROECONOMICS

Syllabus

Autumn 2017

Lectures:
Monday and Wednesday, 3:30 – 4:50 pm; Savery Hall, Room 158

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Office Hours: Monday, 1:30 – 3:20 pm, and by appointment

Course Objectives and Description

This course covers several topics in international macroeconomics. Its purpose is to expose students to issues and techniques in the study of international business cycle transmission, the effect and conduct of macroeconomic policies in open economies, international financial adjustment, and the determination of international asset portfolios.

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 be followed by endogenous interest rate setting and its consequences for exchange rate dynamics. In turn, 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 focus on international financial adjustment, portfolio choices, and valuation effects. We will conclude the course by discussing the wave of crises that started in 2007 and its implications for policy.

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. All the readings we will cover can be found easily online.) 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 a Course Conference in mid-November—on a day/time to be determined by mutual agreement. In this conference, you must give a thirty-minute discussion of an unpublished working paper.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 a paper that you find on your own outside the reading list (or even a paper on a topic that we do not cover), subject to my approval. You must spend approximately ten minutes explaining the key contribution of the paper and twenty minutes on your comments, focusing on issues of substance. You cannot cooperate in preparing discussions. The Conference can feature 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.)

Research proposal: You must write a single-authored, research proposal on a topic of relevance to the course. You proposal should begin by clearly stating the question of interest and why it is important. You should then explain how you plan to study the question in your research, and how your work would contribute to the existing literature. (If you have already obtained any result, you should briefly summarize them and the intuitions before explaining how you contribute to the literature.) Your proposal must be at most three pages long (1.5 spacing), excluding references, figures, and/or tables. The proposal must be e-mailed to me as a pdf file by noon on Friday, December 22, 2017.

Final exam: There will be a closed-books, closed-notes final exam on Thursday, December 14, 2:30 – 4:20 pm, in Savery Hall, Room 158.

Discussion, 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:
- Discussion: 20 percent;
- Research proposal: 30 percent;
- Final exam: 50 percent.

Academic Integrity

Following is the Economics Department policy on Academic Conduct:

Academic integrity is the cornerstone of the Department’s rules for student conduct and evaluation of student learning. Students accused of academic misconduct will be referred directly to the Office of Community Standards and Student Conduct for disciplinary action pursuant to the Student Conduct Code and, if found guilty, will be subject to sanctions. Sanctions range from a disciplinary warning, to academic probation, to immediate dismissal for the Department and the University, depending on the seriousness of the misconduct. Dismissal can be, and has been, applied even for first offenses. Moreover, a grade of zero can be assigned by the instructor for the course.
Where to Leave Documents for Me

If you need to leave a document for me, please do not leave it under my office door. Leave it in my mailbox in the Economics Department main office (Savery Hall, Room 305). Thank you.

A Course 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 ECON 425 Topics in Monetary Economics: The International Monetary System from the Gold Standard to Globalization (Mondays and Wednesdays, 10:30 am – 12:20 pm, Sieg Hall, Room 224). 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.)

Two Additional Resources

I was a faculty member at Boston College (BC) before moving to the University of Washington. During my last three years at BC (Fall 2010-Spring 2013), I organized a seminar series on International Economic Policy and Political Economy (IEPPE), where I invited speakers to give non-technical presentations on topics of present-day policy relevance. The speakers included academics and current or former policymakers. The presentations were a great source of research ideas for students. Presentation materials are still available online. You can access the IEPPE archive from http://faculty.washington.edu/ghiro/IEPPEArchive.htm. Presentations during academic year 2012-13 were recorded, and it is possible to watch the recordings online. I encourage you to use the IEPPE Archive to learn about important policy (and possible research) questions.

I took a (for me) giant leap into modernity in June of 2015 and signed up for a Twitter account (@FabioGhironi). Contrary to my initial skepticism, I have been finding it a very useful source of information. Several of my tweets consist of retweeting op-ed articles I find especially interesting on current economic events, occasionally adding my own musings. If you are on Twitter and are interested in my thoughts on present-day economic issues, you can find them there. If you read the articles I tweet about, they may give you ideas for research. (I guess you can classify this “resource” also as a shameless attempt at self promotion.)

Other Important Information

The reading list below obviously includes many more papers than we will be able to cover in class. It is meant also as a reference source for additional readings if you become especially interested in any given topic (and I will be happy to give you similar reference lists on topics we do not cover if you are interested in exploring them). If you take the field exam in international economics, I will expect you to have read much more material and on several more topics than covered in 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 field exam in international economics.
Course Topics and Readings

1. Asset Markets and the International Transmission of Shocks


2. International Real Business Cycles


3. **Macroeconomic Interdependence under Sticky Prices**


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


5. **Optimal Monetary Policy in Open Economies**


7. **Understanding International Portfolios and Valuation Effects**


8. The Crises of 2007-...

Several non-technical references on the wave of crises that began in 2007 are in the syllabus of ECON 425 Topics in Monetary Economics: The International Monetary System 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. In some cases (such as some
analyses of capital controls or fiscal policy), the papers do not address the crises directly, but interest in their topics was spurred by the crises.


8.b. House Prices and the Current Account


8.c. Crisis, Macro-Prudential Policies, Capital Controls


8.d. Sovereign Debt Crisis and Macroeconomic Policy


