

International Macro and Finance, Summer 2024

Instructor: Steve Pak Yeung Wu

Objective

This is a 2 weeks mini second-year PhD course to introduce tools and topics in international macro field. The main goal is to learn about some basic tools and recent debates in the literature to equip and motivate students for further research.

We will split the course into three sections.

- 1) Introduction to small open economy models and recent topics
- 2) Introduction to two-country economy models and recent topics
- 3) Recent topics

In the first section, we will learn some basics of small open economy models which aims to understand emerging economies. These include understanding their business cycles, sudden stops, sovereign debt crisis, macroprudential policy, etc. In the second section, we will learn some basics of two-country economy models, which is often used to describe the international dimension of advanced economies (e.g. the US and Eurozone). These include understanding international portfolios, exchange rate dynamics, international monetary system. We will look at both empirical patterns and also real and nominal models of these economies.

In the last section, we will look at topics that do not rely on the two class of models. Tentative topics include using IO technique in international macro context.

Reference textbook

Martin Uribe Stephanie Schmitt-Grohe, "Open Economy Macro"

Homework

Write one referee reports for job market candidates in the field of international macro or macro this cycle and one voluntary coding exercise.

Timeline

Small open economy Day1	International Real Business Cycle models Uribe, Schmitt-Grohe Ch1-Ch4
Day 2	Sovereign debt Arellano (2008)
	Financial dollarization Céspedes, Chang, Velasco (2004)
Day 3	Private debt, externality, and macro-prudential policies Bianchi (2011)
Two-country economy Day 4	Exchange rates puzzles Itskhoki, Mukhin (2021), Obstfeld Rogoff (2000)
	Financial intermediary and exchange rates Maggiore (2021) handbook
Day 5	Convenience yield and exchange rates Engel and Wu (2023), Jiang et al (2021)
	Dominant currency paradigm Gopinath et al (2020)
Recent topics Day 6	IO in international macro (Kojen and Yogo 2020), Redrawing capita flows (Coppola et al 2021), Country risk (Hassan et al 2021)

Incomplete reference List**International RBC model**

Martin Uribe Stephanie Schmitt-Grohe, “Open Economy Macro” Ch1-Ch4

Arezki, R., Ramey, V. A., & Sheng, L. (2017). News shocks in open economies: Evidence from giant oil discoveries. *The quarterly journal of economics*, 132(1), 103-155.

Public debt

Arellano, C. (2008). Default risk and income fluctuations in emerging economies. *American economic review*, 98(3), 690-712.

Aguiar, M., & Gopinath, G. (2006). Defaultable debt, interest rates and the current account. *Journal of international Economics*, 69(1), 64-83.

Arellano, Cristina, and Ananth Ramanarayanan, “Default and the Maturity Structure in Sovereign Bonds,” *Journal of Political Economy* 120, 2012, 187-232

Chatterjee, Satyajit, and Burcu Eyigungor, “Maturity, Indebtedness, and Default Risk,” *American Economic Review* 102, October 2012, 2674-2699

Du, Wenxin, and Jesse Schreger, “Sovereign Risk, Currency Risk, and Corporate Balance Sheets,” Harvard University, May 22, 2015

Hatchondo, Juan Carlos, and Leonardo Martinez, "Long-duration bonds and sovereign defaults," *Journal of International Economics* 79, September 2009, 117-125.

Mendoza, Enrique G., and Vivian Z. Yue, "A General Equilibrium model of sovereign default and business cycles," *Quarterly Journal of Economics* 127, 2012, 889-946.

Tomz, Michael and Mark Wright, "Do Countries Default in Bad Times?," *Journal of the European Economic Association* 5, April-May 2007, 352-360

Private debt and dollarization

Céspedes, L. F., Chang, R., & Velasco, A. (2004). Balance sheets and exchange rate policy. *American Economic Review*, 94(4), 1183-1193.

Bocola, L., & Lorenzoni, G. (2020). Financial crises, dollarization, and lending of last resort in open economies. *American Economic Review*, 110(8), 2524-57.

Private debt and externality

Bianchi, J. (2011). Overborrowing and systemic externalities in the business cycle. *American Economic Review*, 101(7), 3400-3426.

Jeanne, Olivier, and Anton Korinek. "Excessive volatility in capital flows: A pigouvian taxation approach." *American Economic Review* 100.2 (2010): 403-07.

Korinek, A. (2010). Excessive dollar borrowing in emerging markets: Balance sheet effects and macroeconomic externalities. *Available at SSRN 967524*.

Jeanne, O. (2010). *7. Why Do Emerging Economies Borrow in Foreign Currency?* (pp. 190-217). University of Chicago Press.

Davis, J. S., Devereux, M. B., & Yu, C. (2020). Sudden stops and optimal foreign exchange intervention (No. w28079). National Bureau of Economic Research.

Fanelli, S., & Straub, L. (2020). A theory of foreign exchange interventions (No. w27872). National Bureau of Economic Research.

Exchange rates

Itskhoki, O., & Mukhin, D. (2021). Exchange rate disconnect in general equilibrium. *Journal of Political Economy*, 129(8), 2183-2232.

Gabaix, X., & Maggiori, M. (2015). International liquidity and exchange rate dynamics. *The Quarterly Journal of Economics*, 130(3), 1369-1420.

Maggiori, M. (2021). International macroeconomics with imperfect financial markets.

Hassan, T. A., Mertens, T. M., & Zhang, T. (2023). A risk-based theory of exchange rate stabilization. *The Review of Economic Studies*, 90(2), 879-911.

Kekre, R., & Lenel, M. (2023). The flight to safety and international risk sharing Forthcoming AER

Dominant currency paradigm

Gopinath, G., Boz, E., Casas, C., Díez, F. J., Gourinchas, P. O., & Plagborg-Møller, M. (2020). Dominant currency paradigm. *American Economic Review*, 110(3), 677-719.

Mukhin, D. (2018). An equilibrium model of the International Price System. In *2018 Meeting Papers* (No. 89). Society for Economic Dynamics.

Zhang, T. (2020). Monetary Policy Spillovers Through Invoicing Currencies. *Available at SSRN 3125145*.

Convenience yield

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Bianchi, J., Bigio, S., & Engel, C. (2020). Banks, Dollar Liquidity, and Exchange Rates. *Federal Reserve Bank of Minneapolis, working paper*.

Jiang, Z., Krishnamurthy, A., & Lustig, H. (2021). Foreign safe asset demand and the dollar exchange rate. *The Journal of Finance*, 76(3), 1049-1089.

Devereux, M. B., Engel, C., & Wu, S. P. Y. (2023). Collateral Advantage: Exchange Rates, Capital Flows and Global Cycles (No. w31164). National Bureau of Economic Research.