

**Economics 656S**  
**International Monetary Economics**

Texts: Schmitt-Grohe, Stephanie; Uribe, Martin, and Woodford Michael. International Macroeconomics. In preparation for Princeton University Press. Available at <http://www.columbia.edu/~mu2166/books.html>. (Hereafter referred to as SGUW.)

Kimbrough, Kent P. and Gardner, Grant W., Notes on International Economics.

**1. The Elasticities Approach**

Haberler, Gottfried. "The Market for Foreign Exchange and the Stability of the Balance of Payments: A Theoretical Analysis." Kyklos 3 (1949): 193-218.

Rose, Andrew K. and Yellen, Janet. "Is There a J-Curve?" Journal of Monetary Economics 24 (July 1989): 53-68.

Bleaney, Michael W. and Tian, Mo. "Exchange Rates and Trade Balance Adjustment: A Multi-Country Empirical Analysis." Open Economies Review (February 2014).

**2. The Mundell-Fleming Model**

Mundell, Robert A. "Capital Mobility and Stabilization Policy under Fixed and Flexible Exchange Rates." Canadian Journal of Economics and Policy Science 29 (November 1963): 475-85. Reprinted as Ch. 18 in his International Economics. New York, Macmillan, 1968.

Heijdra, Ben J. Foundations of Modern Macroeconomics. Oxford: Oxford University Press, 2009. Ch 10.

Frenkel, Jacob A. and Razin, Assaf. "The Mundell-Fleming Model a Quarter Century Later: A Unified Exposition." IMF Staff Papers 34 (December 1987): 567-620.

Klein, Michael W. and Shambaugh, Jay C. "Rounding the Corners of the Policy Trilemma: Sources of Monetary Policy Autonomy." American Economics Journal: Macroeconomics 7 (October 2015): 33-66.

Feldstein, Martin and Horioka, Charles. "Domestic Saving and International Capital Flows." Economic Journal 90 (June 1980): 314-29

Dornbusch, Rudiger. "Expectations and Exchange Rate Dynamics." Journal of Political

Economy 84 (December 1976): 1161-1176.

### **3. The Trade Balance**

SGUW, Chapter 1-4.

Kimbrough and Gardner, International Economics, Ch. 12.

Obstfeld, Maurice and Rogoff, Kenneth. Foundations of International Macroeconomics. Cambridge: MIT Press, 1996. Ch. 1.

Obstfeld, Maurice and Rogoff, Kenneth. "The Intertemporal Approach to the Current Account." In G.M. Grossman and K. Rogoff, Handbook of International Economics, Amsterdam: North-Holland, 1995, pp. 1731-1799.

### **4. Fiscal Policy and the Trade Balance**

Kimbrough and Gardner, International Economics, Ch 13.

### **5. Investment and the Trade Balance, the Large Country Case, and Capital Controls**

SGUW, Chapters 5, 7, and 11.

Kimbrough and Gardner, International Economics, Ch. 14.

### **6. International Parity Conditions**

Barro, Robert J. Macroeconomics. Cambridge: MIT Press, 1997. Ch. 16.

Froot, Kenneth A. and Rogoff, Kenneth. "Perspectives on PPP and Log-Run Real Exchange Rates." In G.M. Grossman and K. Rogoff, Handbook of International Economics, Amsterdam: North-Holland, 1995 pp. 1647-1688.

### **7. Flexible Exchange Rates**

Kimbrough and Gardner, International Economics, Chs. 17 & 18.

Frankel, Jeffrey A. and Rose, Andrew K. "Empirical Research on Nominal Exchange Rates." In G.M. Grossman and K. Rogoff, Handbook of International Economics, Amsterdam: North-Holland, 1995, pp. 1689-1729.

Mussa, Michael. "The Exchange Rate, the Balance of Payments, and Monetary and Fiscal Policy under a Regime of Controlled Floating." Scandinavian Journal of Economics 78 (May 1976): 229-48. Reprinted in Frenkel, J.A. and Johnson,

H.G. (eds.), The Economics of Exchange Rates: Selected Studies. Reading, MA: Addison-Wesley, 1978. Ch. 3.

## **8. Fixed Exchange Rates**

Kimbrough and Gardner, International Economics, Ch. 20.

Lorenzoni, Guido. "International Financial Crises." In G. Gopinath, E. Helpman. And K. Rogoff, Hanbook of International Economics, Amsterdam: North-Holland, 2014, pp. 689-740.

## **9. Real Exchange Rates**

SGUW, Chapters 8 & 9.

Kimbrough and Gardner, International Economics, Ch. 19.

Stockman, Alan C. "The Equilibrium Approach to Exchange Rates." Federal Reserve Bank of Richmond Economic Review 73 (March/April 1987): 12-30.

Bergin, Paul R., Glick, Reuven, and Wu, Jyh-Lin. "Mussa Redux and Conditional PPP." Journal of Monetary Economics 68 (November 2014): 101-14.

## **Course Grades**

Your grade for the course will be based on your performance on a semester long research project that will be completed in three stages. The first stage is an initial research proposal (20%), the second stage is a revised research proposal and class discussion (20% and 15%) and the third stage is a completed research project and class discussion (30% and 15%).

The research project is to be a case study of international macroeconomic issues in any non-industrialized country (sorry, no papers on the U.S., Canada, Europe, or Japan). Overall the goal of the research project is to use the tools developed in the course to explain the effects of various policies and world shocks on key macroeconomic variables such as the trade balance and the exchange rate.

Your initial research proposal is due on **Thursday, January 23**. The key element of the paper is to provide as clear a statement as possible regarding the goal of your paper: What is the issue you are exploring and what is your proposed contribution. The paper should include at least a discussion of possible data sources on the relevant variables for your country and topic. References to relevant papers in the literature and how they relate to your propose topic must also be included in your paper.

The revised research proposal is due in class on **Tuesday, February 4**. It should include data on the relevant variables for your country and topic and a description of the general economic conditions and policies for the country and time period you have chosen to study. References, as well as all data, must be provided. The paper *must* also outline your plans for your final paper: What sort of empirical methods will you use, etc.

The oral presentations of your revised research proposals will be given on **February 11, 13, 18, and 20**. These presentations will be workshops in which your classmates will try and give you constructive criticism on your proposed research. For example, they might suggest additional issues they feel it might be interesting for you to incorporate into your research. Your oral presentation grade will depend equally on your own presentation and your *active participation* in discussing the research proposals of your classmates.

The final paper is due in class on **Tuesday, March 31**. It is to use the theories we have discussed in *this* class to try to explain the behavior of important open economy macroeconomic variables in light of (a) the country's economic policies and (b) changes in world economic conditions facing the country. Diagrams describing the effects of various shocks on the economy are encouraged. Those of you that have had an econometrics course are encouraged to do a formal empirical study as part or all of your analysis. For example, you might choose to study the behavior of Indonesia's trade balance from 1970 to the present. Your analysis would need to consider the impact of income shocks, investment, fiscal policy, and terms of trade changes on Indonesia's trade balance. You would therefore need to collect and present data on each of these variables and then describe how they affected the trade balance. Oral presentations of your research project are scheduled for the last for the last four classes, **April 2, 7, 9, and 14**.

*Only one student can write on each topic.* For instance, if someone chooses the topic just described, another student couldn't write on Indonesia's trade balance behavior from 1960-1990. However, someone could write on Indonesia's trade balance from 1950-1970 or on Indonesia's exchange rate from 1970 to the present. Since topics cannot be duplicated, you will want to give some thought to your topic very, very early in the semester. As soon as you have a topic you should email/see me to get it approved.

**Procedures for Written Assignments:** All written assignments are due by the start of class on the assigned day. By that time you are to provide me with a **pdf file** of your paper with the filename in the format **Lastname mm-dd.pdf**. Papers are to be double-spaced and you should follow the format for numbering equations, presenting tables and figures, and listing references found in the *Journal of Political Economy*. Late papers will be penalized one full letter grade immediately and then two plus-minuses for each additional day they are late. (So for example, an "A" paper due at 8:30am on a Tuesday and handed in at noon on Wednesday would receive a grade of "C+" with the penalty.)

**Procedures for Oral Presentations:** Each presentation will be 20 minutes long. As of now, the plan is to have a 13-minute presentation and then 7 minutes of discussion for each project. When you are presenting you will be responsible for posting your paper and slides

on Sakai. **These materials must be posted 48 hours before your presentation.** Your grades for the oral presentation will be based on your own presentation *and* your participation in discussing the other presentations.

**Contact Information:**

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