



**School of Economics**  
**Academic Year 2020-21**  
**Term 2**

**COURSE CODE & COURSE TITLE: PGR – International Macroeconomics**

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**COURSE DESCRIPTION AND LEARNING OBJECTIVES**

This course will cover core theory and empirical work in the field of international finance and open economy macroeconomics, including small open economy models, fixed and flexible exchange rate models, current account models, etc. A more detailed list of topics is covered under course outline on page 2. By the end of this course, you will be able to:

- Solve basic open economy models.
- Demonstrate an understanding of the role of economic models in explaining economic phenomena, as well as the limitations of those models.

**ASSESSMENT METHODS**

|               |      |
|---------------|------|
| Presentation  | 30%  |
| Mid-term exam | 30%  |
| Final exam    | 40%  |
| Total         | 100% |

All exams are closed-book and last 3 hours.

**ACADEMIC INTEGRITY**

All acts of academic dishonesty (including, but not limited to, plagiarism, cheating, fabrication, facilitation of acts of academic dishonesty by others, unauthorized possession of exam questions, or tampering with the academic work of other students) are serious offences.

All work (whether oral or written) submitted for purposes of assessment must be the student's own work. Penalties for violation of the policy range from zero marks for the component assessment to expulsion, depending on the nature of the offense.

When in doubt, students should consult the instructors of the course. Details on the SMU Code of Academic Integrity may be accessed at <http://www.smuscd.org/resources.html>.

**ACCESSIBILITY**

SMU strives to make learning experiences accessible for all. If students anticipate or experience physical or academic barriers due to disability, please let the instructor know immediately. Students are also welcome to contact the university's disability services team if they have questions or concerns about academic provisions: [included@smu.edu.sg](mailto:included@smu.edu.sg).

**RECOMMENDED TEXT AND READINGS**

- Maurice Obstfeld and Kenneth Rogoff, *Foundations of International Macroeconomics*. The MIT Press.
- Nelson Mark, *International Macroeconomics and Finance: Theory and Econometric Methods*
- Carlos A. Végh, *Open Economy Macroeconomics in Developing Countries*
- Notes by Martin Uribe and Stephanie Schmitt-Grohe.  
(<http://www.columbia.edu/~mu2166/book/>)
- Other reference papers are listed at the back of the syllabus and will be updated during the term.

## COURSE OUTLINE

|   | Topics   |
|---|--|
| 1 | Basic Relations in the Open Economy                                    |
| 2 | Fixed and Flexible Exchange Rate Models                                |
| 3 | A Small Open Endowment Economy   |
| 4 | A Small Open Economy with Capital                                      |
| 5 | The Small-Open-Economy Real-Business-Cycle Model                       |
| 6 | The Intertemporal Approach to the Current Account                      |
| 7 | Balance-of-Payments Theory and Evidence                                |
| 8 | Emerging-Country Business Cycles Through the Lens of the SOE-RBC Model |
| 9 | Financial friction models: Sovereign Debt                              |

Reference materials:

### 1. Basic Relations in the Open Economy

- \* Dornbusch, R., *Open Economy Macroeconomics*, Basic Books, Inc. Publishers, New York, 1980, Chapters 1 and 2

Obstfeld and Rogoff Chapters 1&2 (especially pages 1-35 and 59-66)

Obstfeld, Maurice, and Kenneth Rogoff. 1995. "The Intertemporal Approach to the Current Account." In *Handbook of International Economics*, vol. 3, Gene M. Grossman and Kenneth Rogoff, eds. (Amsterdam: Elsevier). Chapter 34, pp. 1731-1799. Earlier version published as NBER working paper no. 4893.

Schmitt-Grohe, S. and M. Uribe, "Closing Small Open Economy Models" *Journal of International Economics* 2003.

### 2. Fixed and Flexible Exchange Rate Models: Introductory Models

- \* Dornbusch, R., *Open Economy Macroeconomics*, Basic Books, Inc. Publishers, New York, 1980, Chapters 10, 11, and 13.

Calvo, G., "Devaluation: Levels versus Rates," *Journal of International Economics*, Volume 11, 1981, pages 165-172.

- \* Dornbusch, R., "Expectations and Exchange Rate Dynamics," *Journal of Political Economy*, Volume 24, 1976, pages 1161-1176.

Calvo, G. and C. Rodriguez, "A Model of Exchange Rate Determination under Currency Substitution and Rational Expectations," *Journal of Political Economy*, 1977, pages 617-626.

### 3. Fixed and Flexible Exchange Rate Models: Evidence

Mark, N., "Exchange Rates and Fundamentals: Evidence on Long Horizon Predictability," *American Economic Review*, March 1995, pages 201-218.

\* Clarida, R. and J. Gali, "Sources of Real Exchange Rate Fluctuations: How Important Are Nominal Shocks?" *Carnegie-Rochester Conference Series on Public Policy*, 1994, 41, pages 1-56.

\* Eichenbaum, M. and C. Evans, "Some Empirical Evidence on the Effects of Monetary Policy Shocks on Exchange Rates," *Quarterly Journal of Economics*, 110, 1995.

Mark, Nelson and Donggyu Sul, "Nominal Exchange Rates and Monetary Fundamentals Evidence from a Small Post-Bretton Woods Panel," *Journal of International Economics* 53 (2001) 29–52

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Taylor, M. (1995), "Exchange Rate Behavior," *Journal of Economic Literature*, March.

Burnstein, A. M. Eichenbaum, and S. Rebelo, "Large Devaluations and the Real Exchange Rate." NBER Working Paper No. 10986 (December 2004).

Engel, C. and K. West, 2005, "Exchange Rates and Fundamentals," *Journal of Political Economy*, vol. 113, No. 3 June 2005, pages 485-517.

### 4. The Intertemporal Approach to the Current Account: Theory

Svensson, L., and Razin, A. "The Terms of Trade and the Current Account: The Harberger-Laursen-Metzler Effect," *Journal of Political Economy*, February 1983.

Obstfeld, M., "Aggregate Spending and the Terms of Trade: Is There a Laursen-Metzler Effect?" *Quarterly Journal of Economics*, 1982.

Obstfeld, M., "The Intertemporal Approach to the Current Account," in Grossman and Rogoff (eds), *Handbook of International Economics*, vol. 3, 1995.

\* Obstfeld, M. and K. Rogoff, *Foundations of International Macroeconomics*, 1996, Chapters 1 and 2.

\* Végh, C., *Open Economy Macroeconomics in Developing Countries* (forthcoming, MIT Press), chapter 1. in <http://www.econ.ucla.edu/cvegh/book/book.htm>.

### 5. The Intertemporal Approach to the Current Account Analysis: Evidence

\* Blanchard, O., "Debt and the Current Account Deficit in Brazil," in Aspe, Dornbusch, and Obstfeld (eds) *Financial Policies and the World Capital Market: The Problem of Latin American Countries*, University of Chicago Press, 1983.

\* Kaminsky, G. and Pereira, A., "The Debt Crises: Lessons of the 1980s for the 1990s," *Journal of Development Economics*, 1996.

Sachs, J. and F. Larrain, "Saving, Investment, and the Current Account," Chapter 6 in Sachs and Larrain, *Macroeconomics in the Global Economy*, Prentice Hall, 1992.

\* Ju, J., and S.-J. Wei, 2007, "Current Account Adjustment: Some New Theory and Evidence," NBER Working Paper 13388. <http://www.nber.org/papers/w13388>

Sachs, J., "The Current Account in the Macroeconomic Adjustment Process," *Scandinavian Journal of Economics*, Vol. 84, 1982, pages 147-159.

\* Sachs, J. "The Current Account and Macroeconomic Adjustment in the 1970s," *Brookings Papers on Economic Activity*, 1981.

Glick, R. and K. Rogoff, "Global versus Country-Specific Productivity Shocks and the Current Account," *Journal of Monetary Economics*, 1995.

\* Taylor, A., "International Capital in History: The Savings-Investment Relationship," NBER Working Paper No. 5743, 1996.

Backus, D., P. Kehoe, and Kydland, "International Real Business Cycles," *Journal of Political Economy*, August 1992.

Baxter, M. and M. Crucini, "Explaining Saving-Investment Correlations," *American Economic Review*, December 1991.

\* Kraay, A. and J. Ventura, "Current Accounts in Debtor and Creditor Countries," *Quarterly Journal of Economics*, November 2000.

\* Aguiar, Mark and Gita Gopinath, "[Emerging Market Business Cycles: The Cycle Is the Trend](#)," *Journal of Political Economy*, Vol. 115 (2007).

Obstfeld, M. and K. Rogoff, 2004, The Unsustainable US Current Account Position, NBER Working Paper No. 10869.

## 6. Current Account Sustainability and Default: Theory and Evidence

\* Végh, C., *Open Economy Macroeconomics in Developing Countries* (forthcoming, MIT Press), chapter 2. in <http://www.econ.ucla.edu/cvegh/book/book.htm>.

Obstfeld, M. and K. Rogoff, *Foundations of International Economics*, 1996, chapter 6.

Catão, L., A. Fostel and S. Kapur, "Persistent Gaps and Default Traps," forthcoming *Journal of Development Economics*, 2008

\* Aguiar, Mark and Gita Gopinath, "[Defaultable Debt, Interest Rate, and the Current Account](#)," NBER Working Paper No. 10731 (September 2004).

Bulow, J. and K. Rogoff (1989) "Sovereign Debt: Is to Forgive to Forget?," *American Economic Review*, March.

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Reinhart, C., K. Rogoff and M. Savastano, "Debt Intolerance," *Brookings Papers on Economic Activity*, 2003, v2003(1), 1-74. Also in [www.nber.org/papers/w9908](http://www.nber.org/papers/w9908).

Reinhart, C. and K. Rogoff, "Serial Default and the 'Paradox' Of Rich to Poor Capital Flows," *American Economic Review* 94, May 2004.

\* Reinhart, C. and K. Rogoff, "[The Forgotten History of Domestic Debt](#)," *NBER Working Paper* 13946, April 2008.

\* Reinhart, C. and K. Rogoff, "[This Time is Different: A Panoramic View of Eight Centuries of Financial Crises](#)," *NBER Working Paper* 13882, March 2008.

\* Inter-American Development Bank, *Living with Debt*, 2007 Report.

\* International Monetary Fund, *World Economic Outlook*, September 2003

- \* García, M. and Rigobon, “A Risk Management Approach to Emerging Market’s Sovereign Debt Sustainability with an Application to Brazilian Data,” NBER Working Paper No. 10336, March 2004.

Sturzenegger and Zettelmeyer, [“Haircuts: Estimating Investor Losses in Sovereign Debt Restructurings, 1998-2005”, IMF Working Paper 05-137, July 2005.](http://www.imf.org/external/pubs/cat/longres.cfm?sk=18271.0) in <http://www.imf.org/external/pubs/cat/longres.cfm?sk=18271.0>

Jeanne, O. and A. Guscina, 2006, “Government Debt in Emerging Market Countries: A New Data Set,” IMF Working Paper No. 06/98.

Jaimovich, D. and U. Panizza, 2006, “Public Debt Around the World: A New Dataset of Central Government Debt,” Research Department Working Paper No. 561, Inter-American Development Bank.

Cowan, K. E. Levy-Yeyati, U. Panizza, and F. Sturzenegger, 2006, “Sovereign Debt in the Americas: New Data and Stylized Facts. Research Department Working Paper No. 577, Inter-American Development Bank.

## 7. Fixed and Flexible Exchange Rate Regimes: Optimizing Models

Obstfeld, M. and K. Rogoff, *Foundations of International Economics*, chapters 8 and 9.

- \* Lucas, R., “Interest Rates and Currency Prices in a Two-Country World,” *Journal of Monetary Economics*, November 1982.
- \* Végh, C., *Open Economy Macroeconomics in Developing Countries* (forthcoming, MIT Press), chapters 5 and 6. in <http://www.econ.ucla.edu/cvegh/book/book.htm>.

## 8. Balance-of-Payments Crises: Theory

- \* Krugman, P. “A Model of Balance of Payments Crises,” *Journal of Money Credit and Banking*, XI, 1979, pages 311-325.
- Krugman, P and Rotemberg, J., “Speculative Attacks on Target Zones,” in P. Krugman and M. Miller (eds.), *Exchange Rate Targets and Currency Bands*, Cambridge: Cambridge University Press, 1992.
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- Krugman, P., “Are Currency Crises Self-Fulfilling?” in Ben Bernanke and J. Rotemberg (eds) *NBER Annual 1996*, Cambridge, Ma, MIT Press, 1996, pages 345-407.
- \* Obstfeld, M., “Models of Currency Crises with Self-Fulfilling Features,” *European Economic Review*, 1996.
- Calvo, G., “Varieties of Capital-Market Crises,” University of Maryland Center for International Studies Working Paper, 1995.
- Calvo, G., “Capital Flows and Capital-Market Crises: the Simple Economics of Sudden Stops,” <http://www.bsos.umd.edu/econ/ciecalvo.htm>, June 1998.
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- \* Goldfajn, I. and R. Valdés, "Capital Flows and the Twin Crises: The Role of Liquidity," IMF Working Paper, WP/97/87, July 1997.

Cole, H. and T. Kehoe, "A Self-Fulfilling Model of Mexico's 1994-1995 Debt Crisis," *Journal of International Economics*, 1996, pages 309-330.

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Chang, R. and A. Velasco, "Financial Crises in Emerging Markets: A Canonical Model," NBER Working Paper No. 6606, June 1998.

Agénor, P., Bhandari, J., and R. Flood, "Speculative Attacks and Models of Balance of Payments Crises," *IMF Staff Papers*, 39, 357-94.

Sachs, J., Tornell, A., and A. Velasco, "Mexico's Crisis: Sudden Death or Death Foretold?" New York University, December 1995.

- \* Lahiri, A. and C. Vegh, "Delaying the Inevitable: Optimal Interest Rate Policy and BOP Crises," NBER Working Paper No. 7734, June 2000.

Lahiri A. and C Vegh, "Output Costs, Currency Crises, and Interest Rate Defense of a Peg," NBER Working Paper 11791, November 2005.

Flood, R. and O. Jeanne, "An Interest rate Defense of a Fixed Exchange Rate?" IMF Research Department Working Paper, January 2000.

Morris, S. and H. S Shin, "Unique Equilibrium in a Model of Self-Fulfilling Currency Attacks," *American Economic Review* 88 (June 1998), pages 587-597.

Aghion, P., Bacchetta, P., and Banerjee, A., A Corporate Balance-Sheet Approach to Currency Crises, manuscript, November 2001 in <http://www.hec.unil.ch/deep/Testes/01.14.pdf>

## **9. Balance-of-Payments Crises: Empirical Evidence**

- \* Blanco, H. and P. Garber, "Recurrent Devaluation and Speculative Attacks on the Mexican Peso," *Journal of Political Economy*, 94, 1986, pages 148-166.

Eichengreen, B., A. Rose, and C. Wyplosz, "Exchange Rate Mayhem: The Antecedents and Aftermath of Speculative Attacks," manuscript 1995.

Flood, R. and N. Marion, "A Model of the Joint Distribution of Banking and Currency Crises, mimeo, 2000.

Kaminsky, G. and L. Leiderman, "High Real Interest Rates in the Aftermath of Stabilization: Is it a Lack of Credibility?" Federal Reserve Board Working Paper, February 1996.

- \* Kaminsky, G. and C. Reinhart, "The Twin Crises: The Causes of Banking and Balance-of-Payments Problems," Federal Reserve Board Working Paper, September 1996, and *American Economic Review*, June 1999.

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Kaminsky, G. "Varieties of Currency Crises," forthcoming in *Journal of International Money and Finance*, 2005. (NBER Working Paper 10193, December 2003).

Choueiri, N. and G. Kaminsky, "Has the Nature of Crises Changed? A Quarter Century of Currency Crises in Argentina," IMF Working Paper, WP/99/152, November 1999.

Corsetti, G., P. Pesenti, and N. Roubini, "What Caused the Asian Currency and Financial Crisis," in <http://www.stern.nyu.edu/~nroubini/>

- \* Kraay, A., "Do High Interest Rates Defend Currencies During Speculative Attacks?" *Journal of International Economics*, 2002. Also in: <http://siteresources.worldbank.org/DEC/Resources/InterestRateDefenseAcceptedFeb2002.pdf>

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## 10. Contagion, Herding Behavior and Financial Cycles: Theory and Evidence

Calvo, G., and E. Mendoza, "Rational Herd Behavior and the Globalization of Securities Markets," *Journal of International Economics* March, June 2000.

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Kodres, L. and M. Pritsker, "A Rational Expectations Model of Financial Contagion," *Journal of Finance*, 2002.

- \* Kaminsky, G., and C. Reinhart, "On Crises, Contagion, and Confusion," mimeo, October 1998.
- \* Kaminsky, G., and S. Schmukler, "What Causes Market Jitters? A Chronicle of the Asian Crisis," *Journal of International Money and Finance*, August 1999.

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Kaminsky, G., C. Reinhart, and C. Végh, "The Unholy Trinity of Financial Contagion" *Journal of Economic Perspectives*, Vol. 17, Issue 4, Fall 2003, 51-74.

- \* McKinnon, R. and H. Pill, "Credible Liberalization and International Capital Flows: The Overborrowing Syndrome," in T. Ito and A. O. Krueger (eds) *Financial Deregulation and Integration in East Asia*, The University of Chicago Press, 1996.
- \* Calvo, G., "Contagion in Emerging Markets: When Wall Street is a Carrier," January 1999, mimeo.

Kaminsky G., R. Lyons, and S. Schmukler, "Managers, Investors, and Crises: Mutual Funds in Emerging Markets," mimeo December 1999.

Kaminsky, G. and C. Reinhart, "The Center and the Periphery: The Globalization of Financial Turmoil," mimeo March 2002.

## 11. Financial flows

### a. Financial liberalization and capital flows

Lucas, Robert E., Jr. "Why Doesn't Capital Flow from Rich to Poor Countries?" *American Economic Review*, May 1990.

Obstfeld, Maurice. "International Finance and Growth in Developing Countries: What Have We Learned?" *IMF Staff Papers*, April 2009. At: <http://www.palgrave-journals.com/imfsp/journal/v56/n1/pdf/imfsp200832a.pdf>

Gourinchas, Pierre-Olivier, and Olivier Jeanne. 2011. "Capital Flows to Developing Countries: The Allocation Puzzle." Working paper. (see WP version on Gourinchas website)

Gourinchas, Pierre-Olivier, and Olivier Jeanne. 2006. "The Elusive Gains from International Financial Integration." *Review of Economic Studies* 73, 715-741.

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### b. Financial flows and valuation

Lane, P. R. and G. M. Milesi-Ferretti, "The External Wealth of Nations: Measures of Foreign Assets and Liabilities for Industrial and Developing Countries," *Journal of International Economics*, 2001

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## 12. Issues in Developing Countries

Rebelo, S. and C. Végh, "Real Effects of Exchange-Rate-Based Stabilization: An Analysis of Competing Theories," in *Macroeconomics Annual*, 1995, NBER.

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\* Calvo, G. and C. Reinhart, "Fear of Floating," *Quarterly Journal of Economics*, 2002.

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