

International Economics

Syllabus

Jose Ignacio Lopez Eric Mengus Tomasz Michalski

September 24, 2015

Part I

International Business Cycles

Topic 1: Small Open Economy Models

- Schmitt-Grohé, Stephanie and Uribe, Martin, "Closing small open economy models", *Journal of international Economics* 61, 1 (2003), pp. 163–185.
- Aguiar, Mark and Gopinath, Gita, "Emerging Market Business Cycles: The Cycle Is the Trend", *Journal of Political Economy* 115, 1 (2007).
- Neumeyer, Pablo A and Perri, Fabrizio, "Business cycles in emerging economies: the role of interest rates", *Journal of monetary Economics* 52, 2 (2005), pp. 345–380.

Topic 2: Two-Country Models

- Backus, David and Kehoe, Patrick J and Kydland, Finn E, "International business cycles: theory and evidence", *National Bureau of Economic Research* (1993).
- Backus, David K and Kehoe, Patrick J and Kydland, Finn E, "Dynamics of the Trade Balance and the Terms of Trade: The J-Curve?", *The American Economic Review* (1994), pp. 84–103.
- Tesar, Linda L and Stockman, Alan C, "Tastes and technology in a two-country model of the business cycle: Explaining international", *American economic review* 85, 1 (1995), pp. 168–185.

Topic 3: International Business Cycles, Financial Markets and Risk Sharing

- Heathcote, Jonathan and Perri, Fabrizio, "Financial autarky and international business cycles", *Journal of Monetary Economics* 49, 3 (2002), pp. 601–627.

- Heathcote, Jonathan and Perri, Fabrizio, "Assessing international efficiency", National Bureau of Economic Research (2013).
- Kehoe, Patrick J and Perri, Fabrizio, "International business cycles with endogenous incomplete markets", *Econometrica* 70, 3 (2002), pp. 907–928.
- Corsetti, Giancarlo and Dedola, Luca and Leduc, Sylvain, "International risk sharing and the transmission of productivity shocks", *The Review of Economic Studies* 75, 2 (2008), pp. 443–473.

Topic 4: International Business Cycles with Heterogenous Firms

- Alessandria, George and Choi, Horag, "Do sunk costs of exporting matter for net export dynamics?", *The Quarterly Journal of Economics* (2007), pp. 289–336.
- Ghironi, Fabio and Melitz, Marc J, "Trade flow dynamics with heterogeneous firms", *The American economic review* (2007), pp. 356–361.
- Jaef, Roberto N Fattal and Lopez, Jose Ignacio, "Entry, trade costs, and international business cycles", *Journal of International Economics* 94, 2 (2014), pp. 224–238.
- Ruhl, Kim J, "The international elasticity puzzle", (2008).

Part II

Exchange Rates and International Portfolios

Topic 1. Behavior of nominal exchange rates (2 h)

- Simple models of exchange rate behaviour (PPP, UIRP, the monetary model, Taylor-rule models, Gourinchas - Rey)

- The Meese and Rogoff puzzle
- Exchange rates as asset prices
- Predictability of exchange rates

Charles Engel and Kenneth D. West, 2005. Exchange Rates and Fundamentals, *Journal of Political Economy* 113: 485–517.

Pierre-Olivier Gourinchas and Helene Rey, 2007. International Financial Adjustment, *Journal of Political Economy* 115: 665–703.

Barbara Rossi, 2013. Exchange rate predictability. *Journal of Economic Literature* 51: 1063–1119.

Topic 2. The Real Exchange Rate and a simple Two-Country Model (2 h)

- PPP and its failures

- The Redux model and its extensions

Maurice Obstfeld and Kenneth Rogoff, 1995. Exchange rate dynamics redux. *Journal of Political Economy* 103: 624–60.

Alan Taylor and Mark Taylor, 2004. The Purchasing Power Parity Debate. *Journal of Economic Perspectives* 18: 135–158.

Topic 3. Exchange Rate Regimes and Crises (2 h)

- First-generation currency crisis models: the Krugman BoP model
- Second-generation models: coordination failures
- Third generation models

Roberto Chang and Andres Velasco, 2001. A model of financial crises in emerging markets. *Quarterly Journal of Economics* 116:489–517.

Robert Flood and Peter Garber, 1984. Collapsing Exchange Rate Regimes: Some Linear Examples. *Journal of International Economics* 17: 1–13.

Paul Krugman, 1979. A Model of Balance of Payments Crises. *Journal of Money, Credit, and Banking* 11: 311–325.

Maurice Obstfeld, 1996. Models of currency crises with self-fulfilling features. *European Economic Review* 40: 1037–1048.

Topic 4. International Asset Allocation and the Home Bias (2h)

- International portfolio allocation
- The causes of the home bias

Nicolas Coeurdacier and Helene Rey. 2011. Home Bias in Open Economy Financial Macroeconomics. NBER Working Paper 17691.

Brian Hill and Tomasz Michalski. 2014. Risk versus ambiguity and international security design. mimeo HEC Paris.

Stijn Van Nieuwerburgh and Laura Veldkamp. 2009. Information Immobility and the Home Bias Puzzle. *Journal of Finance* 64: 1187–1215.

General texts:

Maurice Obstfeld and Kenneth Rogoff, 1996. *Foundations of International Macroeconomics*. Cambridge MA and London, England, MIT Press.

Carlos A. Vegh, 2013. *Open Economy Macroeconomics in Developing Countries*. Cambridge MA and London, England, MIT Press.

Part III

Sovereign debt

Topic 1: Why sovereign debt is specific and some history of sovereign borrowing and lending

Reference: Panizza, U., Sturzenegger, F. and Zettelmeyer, J. (2009), "The Economics and Law of Sovereign Debt and Default", *Journal of Economic Literature*, 47:3, 653-700.

Topic 2: Reputation model of sovereign debt and their limits

References:

Arellano, C. (2008) "Default Risk and Income Fluctuations in Emerging Economies," *American Economic Review*, vol. 98, 690-712.

Eaton, J. and M. Gersovitz (1981): "Debt with Potential Repudiation: Theoretical and Empirical Analysis," *Review of Economic Studies*, 48, 289-309.

Bulow, J. and K. Rogoff (1989): "Sovereign Debt: Is to Forgive to Forget?" *American Economic Review*, 79, 43-50.

Topic 3: Resuscitating reputation models

Cole, H. and Kehoe, P. (1998) "Models of Sovereign Debt: Partial versus General Reputations," *International Economic Review*, vol. 39, 55-70.

Hellwig, C. and Lorenzoni G. (2009) "Bubbles and Self-Enforcing Debt," *Econometrica*, vol. 77, 1137-1164.

Topic 4: The internal consequences of default

Broner, F. A., A. Martin, and J. Ventura (2010): "Sovereign Risk and Secondary Markets," *American Economic Review*, 100, 1523-1555.

Gennaioli, N., A. Martin, and S. Rossi (2014): "Sovereign Default, Domestic Banks, and Financial Institutions," *Journal of Finance*, 69, 819-866.

Mendoza, E. G. and V. Z. Yue (2012): "A General Equilibrium Model of Sovereign Default and Business Cycles," *The Quarterly Journal of Economics*, 127, 889-946.

Mengus, E. (2014), "Honoring Sovereign Debt or Bailing Out Domestic Residents: A Theory of Internal Costs of Default", mimeo, TSE and HEC.