

International Economics 2014-2015

Economics 280B (Fall 2014): [Pierre-Olivier Gourinchas](#).

This sequence develops core models of international finance and open-economy macroeconomics, and surveys selected current research topics in the field. Topics treated in the first semester include: growth and capital flows, external adjustment, international asset pricing, exchange rates, international portfolios, financial frictions and crises.

Economics 280C (Spring 2015): [Keyu Jin](#) (visiting from the LSE)

This course covers advanced topics in open-economy monetary economics and in international finance. Topics treated include: international risk sharing, international real business cycle models, relative price movements, new and old models of sticky prices and stabilization policies, the economics of currency areas, speculative attacks, and models of sovereign debt.

Econ280B, Fall 2014, Pierre-Olivier Gourinchas

Course Schedule

Classes will be held every Wednesday from 10 to 12. Room: 639 EVANS.

Grading Policy

- Problem Sets (30% of grade)
- Group presentation (30% of grade)
- Final (40% of grade).

Course Material

There is no textbook for this course. Four useful references are:

- [Foundations of International Macroeconomics](#), by Maurice Obstfeld and Kenneth Rogoff, MIT Press, October 1996;
- [Exchange Rate Dynamics](#), Martin Evans, Princeton University Press, 2011
- [International Macroeconomics and Finance: Theory and Empirical Methods](#)" by Nelson Mark, Blackwell Publisher, September 2001.
- [Recursive Macroeconomic Theory](#), 2nd ed., by Tom Sargent and Lars Ljungqvist, MIT Press 2004.

In addition, I may distribute, at irregular intervals, lecture notes riddled with typos, inconsistencies and omissions!!

Reading List

The following reading list gives a guide to the material that will be covered in the course. All articles are available on-line (follow the links). Starred articles (*) are **required** reading.

The web page for this class is accessed through bCourses at this address: bcourses.berkeley.edu/courses/1268439 or through my web page at: socrates.berkeley.edu/~pog/teaching.

Group Presentations

Group Presentations will be scheduled during RRR week. The rules of engagement are as follows:

1. Groups should have 2 or 3 people max.
2. Each group needs to select a paper marked **(SP)** in the syllabus for presentation. Each paper can only be presented by one group, so make your selection early to get your pick.
3. Email me your paper selection and group composition by Tuesday October 1 at the latest.
4. Each group will have about 15' to present.
5. Each presentation will have three parts: (a) a brief summary of the paper; (b) an assessment of the intellectual contribution; (c) a constructive critique.
6. There will be *one* presenter for each group. This rule will be *strictly* enforced.
7. You can (but do not have to) send me a written version of your presentation, of no more than 5 pages.
8. I will need to receive your slides and presentation by email by Wednesday December 3, 7pm at the latest.

Topics

1. Introduction and Stylized Facts. Wed. Sep. 03.

- Coeurdacier N. & H. Rey, "[Home Bias in Open Economy Financial Macroeconomics](#)," Journal of Economic Literature, vol. 51(1), 2013, read sections 1 & 2
- (*) Gourinchas and Rey, "[External Adjustment, Global Imbalances, Valuation Effects](#)," Handbook of International Economics, vol. 4, ch. 10, G. Gopinath, H. Helpmann and K. Rogoff eds. Elsevier, 2014. Read sections 1 & 2.
- Lane P. and G-M. Milesi-Ferretti, "[The External Wealth of Nations Mark II, 1970-2004](#)" Journal of International Economics, vol. 73(2), 2007

2. Intertemporal Approach to the Current Account. Wed. Sep. 10.

- (*) Aguiar M. and G. Gopinath, "[Emerging Markets Business Cycles: The Cycle is the Trend](#)," Journal of Political Economy, Feb. 2007, vol. 115(1)
- Nason J. and J. Rogers, "[The Present-Value Model of the Current Account Has Been Rejected: Round Up the Usual Suspects](#)", Journal of International Economics, Jan 2006, 68(1)
- (*) Obstfeld and Rogoff chapters 1-2
- Obstfeld M. and K. Rogoff, "The Intertemporal Approach to the Current Account", in Handbook of International Economics, Gene Grossman and Ken Rogoff, ed, North Holland, 1995, also available as [NBER working paper 4893](#).
- Sachs, J. , "[The Current Account and Macroeconomic Adjustment in the 1970s](#)," Brookings Papers on Economic Activity, Spring 1981.

3. Growth and Capital Flows, Wed. Sep. 17 and 24.

- (*) Gourinchas P.O. & H. Rey, "[External Adjustment, Global Imbalances, Valuation Effects](#)," Handbook of International Economics, vol.4, ch. 10, eds. G. Gopinath, H. Helpman and K. Rogoff, Elsevier, 2014, pp585-645, section 3.

a. The marginal product of capital, factor shares and Lucas puzzle

- (*) Caselli F. & J. Feyrer, "[The Marginal Product of Capital](#)," Quarterly Journal of Economics, vol. 122(2), 2007
- Gollin D. "[Getting Income Shares Right](#)," Journal of Political Economy, vol. 110(2), 2002
- (*) Karabarbounis, L. & B. Neiman, "[The Global Decline in the Labor Share](#)," Quarterly Journal of Economics, vol. 129(1), 2013
- Lucas, R., "[Why Doesn't Capital Flow from Rich to Poor Countries](#)," American Economic Review, vol. 80(2), 1990
- Piketty, T. "[Capital in the XXI century](#)," Harvard University Press, 2014
- Rognlie, Matthew, "[A Note on Piketty and Diminishing Marginal Returns to Capital](#)," mimeo MIT, June 2014

b. The neoclassical Growth Model, capital flows and development accounting

- **(SP)** Bonfiglioli, A., "[Financial Integration, Productivity and Capital Accumulation](#)," Journal of International Economics, vol. 76(2), 2008
- **(SP)** Coeurdacier N., H. Rey & P. Winant, "[Financial Integration and Growth in a Risky World](#)," mimeo SciencesPo, October 2013
- (*) Gourinchas, P.O. & O. Jeanne, "[The Elusive Gains from International Financial Integration](#)," Review of Economic Studies, vol. 73(3), 2006
- Hall, R. and C. Jones, "[Why Do Some Countries Produce So Much More Output per Worker than Others?](#)" Quarterly Journal of Economics, vol. 114(1), 1999
- Kose A., E. Prasad and M. Terrones, "[Does Openness to International Financial Flows Raise Productivity Growth?](#)" Journal of International Money and Finance, vol. 28(4), 2009

c. The allocation puzzle

- (*) Aguiar M. & M. Amador, "[Growth in the Shadow of Expropriation](#)," Quarterly Journal of Economics, vol. 126(2), 2011
- **(SP)** Alfaro L., S. Kalemli-Ozcan, V. Volosovych, "[Sovereigns, Upstream Capital Flows and Global Imbalances](#)," NBER Working Paper 17396, 2011, forthcoming Economic Journal
- (*) Gourinchas, P.O. & O. Jeanne, "[Capital Flows to Developing Countries: the Allocation Puzzle](#)," Review of Economic Studies, vol. 80(4), pp1484-1515, Oct. 2013

4. New Approaches to External Adjustment. Wed. Oct. 1 and Oct. 8

- Aiyagari, R., "[Uninsured Idiosyncratic Risk and Aggregate Saving](#)," Quarterly Journal of Economics, Aug. 1994, 109(3), 659-684
- Angeletos, G.-M. & V. Panousi, "[Financial integration, entrepreneurial risk and global dynamics](#)," Journal of Economic Theory, vol. 146 (3), 2011
- **(SP)** Bacchetta, P. & Benhima, K., "[The Demand for Liquid Assets, Corporate Saving, and Global Imbalances](#)," Working Paper University of Lausanne, December, 2012
- (*) Bernanke, B., "[The Global Saving Glut and the U.S. Current Account Deficit](#)," Sandridge Lecture. Virginia Association of Economics, Richmond, Virginia, Federal Reserve Board, March 2005
- Blanchard, O.J., "[Debt, Deficits, and Finite Horizons](#)," Journal of Political Economy vol. 93, 1985
- (*) Broner, F. & J. Ventura, "[Rethinking the Effects of Financial Globalization](#)," mimeo CREI, October 2013,
- (*) Caballero R., E. Farhi and P.O. Gourinchas, "[An Equilibrium Model of Global Imbalances and Low Interest Rates](#)," American Economic Review, Mar 2008, 98(1)
- Forbes, K.J., "[Why Do Foreigners Invest in the United States?](#)" Journal of International Economics 80 (1), 2010.
- (*) Gourinchas P.O. & H. Rey, "[External Adjustment, Global Imbalances, Valuation Effects](#)," Handbook of International Economics, vol.4, ch. 10, eds. G. Gopinath, H. Helpman and K. Rogoff, Elsevier, 2014, pp585-645, read section 4.
- Gruber, J.W. & S.B. Kamin, "[Do Differences in Financial Development Explain the Global Pattern of Current Account Imbalances?](#)" Review of International Economics, vol 17(4), 2009.
- Kraay, A. & Ventura, J., "[Current Accounts in Debtor and Creditor Countries](#)," Quarterly Journal of Economics, vol. 115(4), 2000
- (*) Mendoza, E., V. Quadrini & V. Rios-Rull, "[Financial Integration, Financial Development and Global Imbalances](#)," Journal of Political Economy, vol. 117(3), 2009
- **(SP)** Song, Z., K. Storesletten & F. Zilibotti, "[Growing Like China](#)," American Economic Review, Vol. 101(1), 2011

5. External Adjustment, Safe Assets and the International Monetary System. Wed. Oct. 15 and Oct. 22

a. Measuring External Returns

- Curcuru, S.E., T. Dvorak, & F.E. Warnock, "[Cross-border Returns Differentials](#)," Quarterly Journal of Economics, vol. 123(4), 2008,
- Gourinchas, P.-O. & H. Rey, "[From World Banker to World Venture Capitalist: US External Adjustment and the Exorbitant Privilege](#)." In: Clarida, R. (Ed.), G-7 Current Account Imbalances: Sustainability and Adjustment. University of Chicago Press, Chicago, 2007.
- Lane, P.R. & J.C. Shambaugh, "[Financial Exchange Rates and International Currency Exposures](#)," American Economic Review, vol. 100(1), 518540, 2010,
- Rogoff K. and Tashiro T., "[Japan's Exorbitant Privilege](#)," mimeo Harvard University, 2014,
- (SP) Zucman, G., "[The Missing Wealth of Nations: are Europe and the U.S. Net Debtors or Net Creditors?](#)" The Quarterly Journal of Economics, vol. 128(3), 2013

b. The Financial Channel of External Adjustment

- (*) Gourinchas, P.-O. & H. Rey, "[International Financial Adjustment](#)," Journal of Political Economy 115 (4), 2007,
- Tille, C., "[Financial Integration and the Wealth Effect of Exchange Rate Fluctuations](#)," Journal of International Economics, vol. 75(2), 2008

c. Safe Assets

- (*) Caballero, R. and E. Farhi, "[A Model of the Safe Asset Mechanism](#)," mimeo Harvard 2013,
- Gourinchas, P.-O. and O. Jeanne, "[Global Safe Assets](#)," prepared for the 11th BIS Annual Research Conference, June 2012.,
- (SP) Krishnamurthy A. and Vissing-Jorgensen A., "[The Aggregate Demand for Treasury Debt](#)," Journal of Political Economy, April 2012, vol. 120(2)

d. Exorbitant Duty and the International Monetary System

- Farhi, E., P.-O. Gourinchas and H. Rey, [Reforming the International Monetary System](#), CEPR E-Report, 2011,
- (*) Gourinchas, P.-O., H. Rey, & N. Govillot, "[Exorbitant Privilege and Exorbitant Duty](#)," Mimeo, UC Berkeley, 2014,
- (SP) Hassan, T.A., "[Country Size, Currency Unions, and International Asset Returns](#)," Journal of Finance, vol. 68(6), 2013,
- (SP) Maggiori, M., "[Financial Intermediation, International Risk Sharing, and Reserve Currencies](#)," mimeo, NYU Stern, 2012,
- (SP) Stepanchuk, S. & V. Tsyrennikov, "[Portfolio and Welfare Consequences of Debt Market Dominance](#)," mimeo Cornell University, July 2012

6. Nominal Exchange Rates and International Asset Pricing. Wed. Oct 29 and Nov. 5.

- (*) Obstfeld and Rogoff Chapter 8.1-8.3 & 8.7.

a. International Asset Pricing

- Backus D. and G. Smith, "[Consumption and Real Exchange Rates in Dynamic Economies with Nontraded Goods](#)", Journal of International Economics, Nov. 1993, 35(3-4), 297-316.
- (*) Lucas R., "[Interest Rates and Currency Prices in a Two-Country World](#)", Journal of Monetary Economics, 10, 335-59, 1982.
- Brandt M., Cochrane J. and P. Santa Clara, "[International Risk Sharing is better than you think \(or exchange rates are much too smooth\)](#)", Journal of Monetary Economics, May 2006.

b. Exchange Rate Disconnect

- (*) Bacchetta P. and E. van Wincoop, "[Can Information Heterogeneity Explain the Exchange Rate Determination Puzzle?](#)", American Economic Review, Jun 2006.
- (*) Engel, C. and K. West, "[Exchange Rates and Fundamentals](#)", Journal of Political Economy, Jun. 2005, 113(3), 485-517.

c. Forward Premium, Parity Puzzles

- Baba, Naohiko and Frank Packer, "[From turmoil to crisis: Dislocations in the FX swap market before and after the failure of Lehman Brothers](#)," Journal of International Money and Finance, December 2009, 28(8), 1350-1374,
- Burnside C., M. Eichenbaum, I. Kleshchelski and S. Rebelo, "[The Returns to Currency Speculation](#)," NBER Working paper 12916, Feb 2007
- **(SP)** Colacito R. and M. Croce, "[International Asset Pricing with Recursive Preferences](#)," Journal of Finance forth. 2013,
- Engel, C., "[Exchange Rates and Interest Rate Parity](#)," Handbook of International Economics, 2013, NBER WP 19336.
- Farhi E. and X. Gabaix, "[Rare Disasters and Exchange Rates](#)," NBER Working paper 13805, Feb. 2011,
- Frankel, J., "[Measuring International Capital Mobility: A Review](#)," American Economic Review May 1992, 82(2), 197-202.
- **(SP)** Lustig, H. and A. Verdelhan, "[The Cross-Section of Foreign Currency Risk Premia and US Consumption Growth Risk](#)," American Economic Review, Mar. 2007, 97(1),
- **(SP)** Verdelhan, A, "[A Habit -Based Explanation of the Exchange Rate Risk Premium](#)," Journal of Finance, Feb. 2010

d. Exchange Rate Predictability

- Mark, N, "[Exchange Rates and Fundamentals: Evidence on long-horizon predictability](#)," American Economic Review Mar. 1995, 85(1), 201-218,

- Meese R. and K. Rogoff, "[Empirical Exchange Rate Models of the Seventies](#)," Journal of International Economics Feb. 1983, 14(1-2), 3-24.

e. Imperfect Asset Substitutability - Portfolio Balance

- **(SP)** Blanchard, O., F. Giavazzi, & F. Sa, "[International Investors, the U.S. Current Account, and the Dollar](#)," Brookings Papers on Economic Activity, vol. 1, 2005
- (*) Gabaix, X. & M. Maggiori, "[International Liquidity and Exchange Rate Dynamics](#)," mimeo NYU Stern, 2013
- (*) Kouri, P., "[Balance of Payments and the Foreign Exchange Market: A Dynamic Partial Equilibrium Model](#)," in Economic Interdependence and Flexible Exchange Rates, edited by J. S. Bhandari and B. H. Putnam, MIT Press, 1983
- **(SP)** Pavlova, A. & R. Rigobon, "[Equilibrium Portfolios and External Adjustment under Incomplete Markets](#)," Mimeo, London Business School, 2012

7. International Portfolios. Wed. Nov. 12 and Nov. 19

a. International portfolios puzzles

- French K. and J. Poterba, "[Investor Diversification and International Equity Markets](#)," American Economic Review, 1991, 81, p222-226
- Lewis, K., "[Trying to Explain Home Bias in Equities and Consumption](#)," Journal of Economic Literature 37, June 1999, 571-608
- Coeurdacier N. and H. Rey, "[Home Bias in Open Economy Financial Economics](#)," Journal of Economic Literature, 51(1), 2013

b. International Diversification and Perfect Risk Sharing

- (*) Obstfeld and Rogoff, chapters 5:3-5:6
- (*) Cole H. and M. Obstfeld, "[Commodity Trade and International Risk Sharing: How much do Financial Markets Matter?](#)", Journal of Monetary Economics Aug 1991, 28(1), pp3-24.

c. Trading Costs and Non-Tradables

- (*) Obstfeld M. and K. Rogoff, "[The Six Major Puzzles in International Economics: is there a Common Cause?](#)", NBER Macroeconomics Annual, 2000
- Obstfeld, M., "[International Risk Sharing and the Costs of Trade](#)," Ohlin Lectures, May 2007
- Baxter, M., U. Jermann and R. King, "[Non-traded Goods, Non-traded Factors and International Non-diversification](#)," Journal of International Economics, April 1998, 211-229
- Coeurdacier N., "[Do trade costs in goods markets lead to home bias in equities?](#)" Journal of International Economics, Feb. 2009, 77, 86-100
- Van Wincoop, E. and F. Warnock, "[Is Home Bias in Assets Related to Home Bias in Goods?](#)" Journal of International Money and Finance, 2010.

d. Non-Financial Income Risk

- (*) Baxter M. and U. Jerman, "[The international diversification puzzle is worse than you think](#)", American Economic Review, March 1997, 87(1) and appendix
- Bottazzi, L., P. Pesenti and E. Van Wincoop, "[Wages, Profits and the International Portfolio Puzzle](#)", European Economic Review, 1996, 40(2), 219-254.
- Engel, C. and A. Matsumoto, "[The International Diversification Puzzle when Prices are Sticky](#)", AEJ-Macro, 2009, 1, 155-188.
- (SP) Coeurdacier N., R. Kollman and P. Martin, "[International Portfolios, Capital Accumulation and Foreign Assets Dynamics](#)", Journal of International Economics, 2010
- (*) Coeurdacier N. and P-O. Gourinchas, "[When Bonds Matter: Home Bias in Goods and Assets](#)", mimeo UC
- (SP) Heathcote, J. and F. Perri, "[The International Diversification Puzzle is not as bad as you think](#)", Journal of Political Economy,
- Stockman A., and H. Dellas, "[International portfolio nondiversification and exchange rate variability](#)", Journal of International Economics, May 1989, 26(3-4), 271-89

e. Methodology

- Devereux M. and A. Sutherland, "[Country Portfolios in Open Economy Macro Models](#)," Journal of the European Economic Association, 2011, 9(2)
- Tille C. and E. van Wincoop, "[International Capital Flows](#)," Journal of International Economics, March 2010

8. Financial Frictions. Wed. Nov 26 and Dec. 03.

- (SP) Brunnermeier M. & Y. Sannikov, "[Pecuniary Externalities and Capital Controls](#)," mimeo 2014
- (*) Costinot A., G. Lorenzoni & I. Werning "[A Theory of Capital Controls as Dynamic Terms of Trade Manipulation](#)," Journal of Political Economy, 122(1), 2014
- (*) Jeanne O. & A. Korinek, "[Managing Credit Booms and Busts: A Pigouvian Taxation Approach](#)," January 2012
- (SP) Jeanne, O., "[Capital Account Policies and the Real Exchange Rate](#)." In: NBER International Seminar on Macroeconomics 2012
- Farhi, E. & I. Werning, "[Dealing with the Trilemma: Optimal Capital Controls with Fixed Exchange Rates](#)," mimeo 2012,
- Farhi, E. & I. Werning, "[Dilemma not Trilemma? Capital Controls and Exchange Rates with Volatile Capital Flows](#)," mimeo Harvard 2014
- (SP) Forbes, K., M Fratscher & R. Straub, "[Capital Controls and Macroprudential Policies: What are they Good for?](#)" mimeo 2013,
- (*) Mendoza, E., "[Sudden Stops, Financial Crises and Leverage](#)," American Economic Review, 100(5), 1941-66,

- (SP) Rey, H. "[Dilemma not Trilemma: The Global Financial Cycle and Monetary Policy Independence](#)," Jackson Hole Symposium, 2013