

Princeton University
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WWS 544: International Macroeconomics

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Course Overview

This is a class on macroeconomics for open economies. The course will develop theoretical tools that can be used to analyze economic performance and to evaluate policy options. Examples and applications will be drawn from recent historical experiences around the world.

Course Requirements

There will be one problem set to be handed in. There will be a late-semester mid-term but no final exam. Instead, you will be asked to make one presentation (with a written support) on a policy issue related to one of the topics covered in class. Presentations (in groups of several students) will take place in the second half of the semester. You will then be asked to hand in a short paper (10 pages double spaced) on the topic of your presentation in January. This paper will be joint work with the students in your group.

Grade: The problem set will count for 10% of the grade, the midterm for 40%, the group presentation for 20%, the short paper 20% and class participation for the remaining 10%.

Textbooks

There are no required textbooks. Parts of the lectures will however be based on Obstfeld, M. and K. Rogoff: *Foundations of International Macroeconomics*, MIT Press, 1996. This book will be referred to as OR in the reading list

Other parts will be based on Krugman, P. and M. Obstfeld: *International Economics: Theory and Policy*, Addison Wesley Longman, 6th edition. This book will be referred to as KO in the reading list.

The readings will be put on e-reserve.

Most of the readings are available online. NBER (National Bureau of Economic Research) working papers can be downloaded at <http://www.nber.org> and CEPR (Centre for Economic Policy Research) discussion papers can be downloaded at <http://www.cepr.org> .

1- Balance of payments and intertemporal trade

*Balance of payments accounting (chapter 12 of KO)

*Intertemporal trade (OR pp. 1-27, 59-70)

Policy issue: The (ever-growing?) current account deficit of the United States.

*Obstfeld M. and K. Rogoff: "The Unsustainable US Current Account Position Revisited", October 2004 at <http://elsa.berkeley.edu/~obstfeld/>

*Dooley M. , D. Folkerts-Landau and P. Garber, "An Essay on the Revived Bretton Woods System", NBER WP 9971, September 2003.

*Obstfeld M.: "America's Deficit, the World's Problem", September 2005 at <http://elsa.berkeley.edu/~obstfeld/>

2. Valuation effects and current account sustainability

*Tille, C., "The Impact of Exchange Rate Movements on U.S. Foreign Debt," Current Issues in Economics and Finance, January 2003, 9 (1), Federal Reserve Bank of New York.

*Gourinchas, P.O. and H. Rey, "International Financial Adjustment", at <http://www.princeton.edu/~hrey/>

*Blanchard O., Giavazzi F. and F. Sa, "International Investors, The US Current Account and the Dollar" at <http://www.nber.org/papers/W11137>.

Policy issue: Is international adjustment easier than you think?

3. Financial Globalization

*Feldstein, M. and C. Horioka: "Domestic Savings and International Capital Flows", Economic Journal 90 (June): 314-29, 1980.

*Frankel, J.: "Measuring International Capital Mobility", American Economic Review Papers and Proceedings, May 1992, 197-202.

*Obstfeld M. and A. Taylor: "Globalization and capital markets", NBER WP8846 at <http://www.nber.org/papers/w8846>

*Lewis, K. "International Home Bias in International Finance and Business Cycles", NBER WP #6351, January 1998, Journal of Economic Literature, 1999 at <http://papers.nber.org/papers/W6351.pdf>

*Portes, R. and H. Rey: "Determinants of Cross-Border Equity Flows", Journal of International Economics, paper available at <http://www.princeton.edu/~hrey/>

Policy issue: Financial globalization and developing countries.

*Prasad E., K. Rogoff, S. J. Wei and A. Kose, "Effects of Financial Globalization on Developing Countries: Some Empirical Evidence", IMF Report, March 2003 at <http://www.imf.org/external/np/apd/seminars/2003/newdelhi/prasad.pdf>

4- The real exchange rate in the long run.

*Productivity levels and real exchange rates (OR chapter 4.1)

*Rogoff, K.: "The Purchasing Power Parity Puzzle", Journal of Economic Literature, June 1996, 647-668.

*Cumby, R.: "Forecasting Exchange Rates and Relative Prices with the Hamburger Standard: Is what you want what you get with Mc Parity?", Journal of International Economics, 1997 also NBER WP #5675, 1996.

*Matthew B. Canzoneri, Robert E. Cumby and Behzad Diba, "Relative Labor Productivity and the Real Exchange Rate in the Long Run: Evidence for a Panel of OECD Countries", Journal of International Economics, Volume: 47, Issue: 2, April 1, 1999.

Policy issue: Price convergence within Europe before and after Monetary Union.

* Engel C. and J. Rogers, "European Market Integration After the Euro," Economic Policy 19, July 2004, 347-384.

*Imbs, J., H.Mumtaz, M. Ravn and H. Rey, "Price Convergence. What's on TV?", 2004 at <http://www.princeton.edu/~hrey/>

5- The Mundell-Fleming model. Liquidity traps.

*The Mundell-Fleming model (KO ch. 16 and 17)

Policy issue: Japan.

*Krugman, P.: "It's Baaack: Japan's Slump and the Return of the Liquidity Trap". Brookings Papers on Economic Activity, 1998 (2).

*Svensson, L.: "Escaping from a liquidity trap and deflation: The foolproof way and others", Journal of Economic Perspectives 17-4, 2003 at <http://www.princeton.edu/~svensson>

6- The Cagan model of hyperinflations.

*Nominal exchange rates in an unstable monetary environment (OR chapters 8.1 and 8.2).

Policy Issue: Inflation stabilization

*Sachs, J.: "The Bolivian Hyperinflation and Stabilization", American Economic Association Papers and Proceedings, Vol 77, No. 2, May 1987 or at <http://papers.nber.org/papers/W2073.pdf>

7- Speculative attacks and balance of payments crises

*Speculative attacks (OR chapter 8.4.2, 8.4.3, 8.4.4 and pp. 648-653)

*Krugman P.: "Are Currency Crises Self-Fulfilling?", NBER Macroeconomics Annual, pp. 345-407, 1996.

*Obstfeld M.: "Models of currency crises with self-fulfilling features", European Economic Review 40, 1037-47.

*Jeanne, O.: "Currency crises: A perspective on Recent Theoretical Developments", CEPR DP 2170, June 1999 or Special Papers in International Economics, Princeton International Economics Section, March 2000.

Policy issue: Financial crises around the world: 1880-2004. And a new proposal for reform.

*Bordo, M., B. Eichengreen, D. Klingbiel and M.S. Martinez-Peria : "Is the Crisis Problem Growing more severe?", Economic Policy, April 2001 or at <http://emlab.berkeley.edu/users/eichengr/research.html>

*Bordo, M. and B. Eichengreen : "Crises Now and Then: What Lessons from the last era of financial globalization", NBER WP 8716, January 2002.

*Rogoff, K.: "International institutions for reducing global financial instability", Journal of Economic Perspectives, 1999 or NBER WP 7265.

*Cohen D. and R. Portes : "Towards a Lender of First Resort", 2004, CEPR DP 4615.

8 - The International Monetary System and International Currencies

* Chapter (KO)

*Portes, R. and H. Rey: "The Emergence of the Euro as an International Currency", Economic Policy 26, April 1998 or in EMU: Prospects and Challenges for the Euro, Begg, Von Hagen, Wyplosz, Zimmerman editors, Blackwell 1998 or NBER WP6424 at <http://papers.nber.org/papers/W6424.pdf>

*Chinn M. and J. Frankel, “Will the Euro Eventually Surpass the Dollar as Leading International Reserve Currency? at <http://www.nber.org/books/curreact/chinn-frankel6-7-05.pdf>

*Krugman, P.: “What do we need to know about the international monetary system?”, Princeton Essays in International Finance, July 1993.

Policy issue: The exorbitant privilege of the US?.

*Gourinchas P.O. and H. Rey: “From World Banker to World Venture Capitalist: The US External Adjustment and the Exorbitant Privilege” at <http://www.princeton.edu/~hrey/>

Policy briefs

[examples of topics which can be used for presentations]

1- How stable are current global imbalances?

Important readings:

- *Dooley M. , D. Folkerts-Landau and P. Garber, “The Revived Bretton Woods System: The Effects of Periphery Intervention and Reserve Management on Interest Rates & Exchange Rates in Center Countries”, NBER WP 10332, March 2004.
- *Dooley M. , D. Folkerts-Landau and P. Garber, “Direct Investment, Rising Real Wages and the Absorption of Excess Labor in the Periphery”, NBER WP 10626, July 2004.
- *Eichengreen, B. , “Global Imbalances and the Lessons of Bretton Woods”, NBER WP 10497, May 2004.
- * Obstfeld M. and K. Rogoff: “Global Current Account Imbalances and Exchange Rate Adjustment”, 2005 at <http://elsa.berkeley.edu/~obstfeld/>
- *Roubini N. and B. Setser: “Will the Bretton Woods 2 Regime Unravel Soon? The Risk of a Hard Landing in 2005-2006” available at <http://pages.stern.nyu.edu/~nroubini/papers/BW2-Unraveling-Roubini-Setser.pdf>

2- What is the future of an Asian Monetary Union? Are there any lessons that Asia can draw from the European experiences of economic and financial integration? Discuss the East-Asian Financial Agreement: what future for the Chiang Mai Initiative and the Asian Bond Fund?

Important readings:

- *European Central Bank, various reports.
- * Genberg, McCauley, Park and Persaud, *The Geneva Report on the World Economy*, forthcoming CEPR and ICMBIS 2005.
- *Cheung Y.W. and J. Yuen “An Output Perspective on a Northeast Asia Currency Union” at <http://www.cesifo.de/~DocCIDL/1250.pdf>

3- Monetary policy strategies for emerging market economies. Inflation targeting? Pegs? Currency boards? Other?

Important readings:

*Mishkin, F.: "Inflation targeting in emerging market countries", NBER WP7618, March 2000.

*Mishkin, F. and M. Savastano: "Monetary policy strategies for Latin America", NBER WP7617, March 2000.

*Chang, Roberto and Andres Velasco (2000). "Exchange Rate Policy for Developing Countries", American Economic Review, Papers and Proceedings, 90, 2 (May), 71-75.

*IMF, various working and staff papers.

4- What are the determinants of dollarization in Latin America and what are its consequences? Is dollarization desirable or should one prevent it? How can it be encouraged/discouraged?

Important readings

*Calvo, G.: "Testimony on Dollarization", University of Maryland mimeo, April 2000. It can be downloaded at <http://www.bsos.umd.edu/econ/ciecnp9.pdf>

*Calvo, Guillermo A. "Capital Markets and the Exchange Rate, With Special Reference to the Dollarization Debate in Latin America", University of Maryland , April 2000. It can be downloaded at <http://www.bsos.umd.edu/econ/ciecrp9.pdf>

*Calvo G. and Carmen M. Reinhart (2002). "Fear of Floating", The Quarterly Journal of Economics, Volume CXVII, No. 2, May, 379-408.

*Levy-Yeyati E. (2005), "Financial Dollarisation and its Consequences", at <http://www.utdt.edu/~ely/papers.html>

5 - How should we reform the International Monetary System? What should be the role of the IMF?

Important readings

*Eichengreen, B.: "Toward a New International Financial Architecture: A Practical Post-Asia Agenda ", Institute of International Economics Press, 1999.

*Rogoff K. : “The Sisters at 60”, The Economist, July 22nd 2004.

*James B. Boughton (2001), *Silent Revolution: The International Monetary Fund, 1979-1989*, Washington: International Monetary Fund.

*Cohen D. and R. Portes : “Towards a Lender of First Resort”, 2004, CEPR DP 4615.

6- The Argentine debt default.

Important readings

*Blustein P. : “And the Money Kept Rolling In ... and Out”, Public Affairs 2005.

*Various links on <http://www.rgemonitor.com/>

*IMF staff and working papers.