

ECON8423  
International Finance

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**COURSE DESCRIPTION**

*ECON 8423* is a graduate course in open-economy macroeconomics and international finance. We will discuss a number of topics in these areas. Here is a partial list of issues that will be discussed:

1. Real and nominal exchange rates are highly correlated.
2. Exchange rates are volatile and persistent.
3. Forward exchange rates are poor and biased predictors of future spot exchange rates.
4. International differences in interest rates are large and persistent.
5. Portfolios are not internationally diversified.
6. The extent of international consumption risk-sharing is less than expected.
7. Savings and investment are highly correlated.
8. The trade balance and the current account are countercyclical.
9. Business cycles are highly correlated across countries.

## EVALUATION

The assessment for this class consists of

- e A take-home test will be distributed in class on 2 March and is due on 3 March at 4:00 pm.
- ep You are required to write a 3-page referee report of an article in international macroeconomics. You will be presenting both the article and the report in class. The report is due on 16 March in class. The presentations will take place shortly after. I must approve your choice of article no later than 23 February.
- e To introduce you to recent research, you are required to write a 10-page survey of a topic in international macroeconomics. The survey is due on 27 April. I must approve your choice of topic and a preliminary list of papers no later than 23 February.
- l The final examination is cumulative.

The tentative schedule and the grade distribution are displayed in the table below.

	e	%
Take Home Test	2 March	20
Report	16 March	20
Survey	27 April	30
Final	2 May 4:30 to 7:00pm	30

## TEXTS

Mark, N. (2001) *International Macroeconomics and Finance: Theory and Econometric Evidence*. Malden: Blackwell Publishers Inc.

Obstfeld, M. and K. Rogo (1996) *Foundations of International Macroeconomics*. Cambridge: The MIT Press.

# Course Outline

## Chapter 1.

Krugman, P. and M. Obstfeld (2005) *International Economics: Theory and Policy*. Boston: Addison-Wesley. Chapter 12.

Obstfeld, M. and K. Rogo (2000) The six major puzzles in international macroeconomics: Is there a common cause? *NBER Macroeconomics Annual* 5, 339–390.

## Chapter 2. e 1 g Chapters 1 to 3.

Boileau, M. and M. Normandin (2008) Do tax cuts generate twin deficits? A multi-country analysis. mimeo.

Blanchard, O. (1985) Debt, deficits, and finite horizons. *Journal of Political Economy* 3, 233–247.

Nason, J. and J. Rogers (2005) The present-value model of the current account has been rejected: Round up the usual suspects. *Journal of International Economics* 68, 159–187.

Obstfeld, M. and K. Rogo (1996) The intertemporal approach to the current account, in G. Grossman and K. Rogo (eds.) *Handbook of International Economics*, vol. 3. Amsterdam: North-Holland.

Taylor, A. (2002) A century of current account dynamics. *Journal of International Money and Finance* , 725–748.

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Barro, R., G. Mankiw and X. Sala-i-Martin (1995) Capital mobility in neoclassical models. *American Economic Review* 85, 103–115.

Gourinchas, P.O. and O. Jeanne (2008) Capital flows to developing countries: The allocation puzzle. mimeo.

Lane, P. and G. Milesi-Ferretti (2001) Long term capital movements. mimeo.

Lucas, R. (1990) Why doesn't capital flow from rich countries to poor countries. *American Economic Review* 80, 92–96.

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## e 1 g Chapter 5.

Backus, D. and G. Smith (1993) Consumption and real exchange rates in dynamic economies with non-traded goods. *Journal of International Economics* 35, 297–316.

Brandt, M., J. Cochrane, and P. Santa-Clara (2006) International risk sharing is better than you think, or exchange rates are too smooth. *Journal of Monetary Economics* 53, 671–698.

Cole,

- Chari, V., Kehoe, P., and E. McGrattan (2002) Can sticky price models generate volatile and persistent real exchange rates? *Review of Economic Studies* **69**, 533–563.
- Lane, P. (2001) The New Open Economy Macroeconomics: A Survey. *Journal of International Economics* **54**, 235–266.
- Obstfeld and Rogo (1995) Exchange Rate Dynamics Redux. *Journal of Political Economy* **103**, 624–660.
- 8
- Burnstein, A. and A. Atkeson (2007) Pricing-to-market, trade costs, and international relative prices. mimeo.
- Crucini, M., Telmer, C., and M. Zachariadis (2005) Understanding european real exchange rates. *American Economic Review* **95**, 724–738.
- Engel, C. (1993) Real exchange rates and relative prices: An empirical investigation. *Journal of Monetary Economics* **31**, 35–50.
- Ghironi, F. and M. Melitz (2005) International trade and macroeconomic dynamics with heterogeneous firms. *Quarterly Journal of Economics* **120**, 865–915.
- Imbs, J., Mumtaz, H., Ravn, M., and H. Rey (2005) PPP strikes back: Aggregation and the real exchange rate. *Quarterly Journal of Economics* **120**, 1–43.
- 8
- Atkeson, A., Alvarez, F., and P. Kehoe (2008) Time varying risks, interest rates, and exchange rates in general equilibrium. mimeo.
- Baxter, M. and U. Jermann (1997) The international diversification puzzle is worse than you think. *American Economic Review* **87**, 170–180.
- French, K. and J. Poterba (1991) Investor diversification and international equity markets. *American Economic Review* **81**, 222–226.
- Coourdacier, N., Kollman, R., and P. Martin (2008) International portfolios, capital accumulation, and foreign asset dynamics. mimeo.
- Devereux, M. and A. Sutherland (2006) Country portfolio dynamics. mimeo.
- Heathcote, J. and F. Perri (2008) The international diversification puzzle is not as bad as you think. Mimeo University of Minnesota.
- Lewis, K. (1995) Puzzles in international financial markets, in G. Grossman and K. Rogo (eds.) *Handbook of International Economics*, Vol. 3, Amsterdam: North-Holland.