This is a doctoral level course in international finance and macroeconomics. Topics covered in the course include the intertemporal approach to the current account, international business cycles, international risksharing and home bias, purchasing power parity, models of exchange rate determination, balance of payments crises, financial market contagion and alternative exchange rate regimes.

Sources:

General reference materials for the course are:


The Handbook will be placed on reserve in Foster Library. Articles can be downloaded from the journal websites (link from the Economics Department homepage to Foster Library to the journals collection), from JSTORE, Science Direct, ProQuest or from the NBER Working papers site ([http://www.nber.org/](http://www.nber.org/)). If you have trouble locating a particular article, please let me know and I will make copies available.

Requirements:

1. Term Paper (50% of final grade). The paper should be an original piece of research on a topic in the field of international finance. The paper may not be jointly submitted for this course and another graduate course. You should plan to meet with me regularly in the first weeks of the semester to help select a paper topic. You should have selected a topic by the 6th week of class. Papers are due the last day of finals.

2. Final exam (50%)

Course Outline and Readings:

1. REAL MODELS OF INTERTEMPORAL TRADE AND CURRENT ACCOUNT DYNAMICS

   1.A. Small open economy

   FIM, chapters 1 – 3.


   Obstfeld and Rogoff, “The intertemporal approach to the current account,” HIE ch. 1, sections 1 – 3.1.


1.B. Two-Country Models

- FIM, chapter 3 (in particular sections 3.2-3.5).

2. INTERNATIONAL CONSUMPTION CORRELATIONS, GAINS FROM RISKSHARING AND HOME BIAS

- FIM, Chapter 5.
  - Ljungqvist and Sargent, Recursive Macroeconomic Theory, ch. 7.
  - Lewis, K., "What Can Explain the Apparent Lack of Consumption Risksharing?" JPE April 1996.
  - Davis, Nalewaik and Willen, “On the gains to international trade in risk financial assets,” NBER WP 7795.
3. THE LAW OF ONE PRICE, PPP AND EXCHANGE RATE PASS-THROUGH

- FIM, Chapter 4 and Chapter 10, pp. 711-712.


Burstein, Eichenbaum and Rebelo, “Large devaluations and the real exchange rate,” UCLA working paper.
4. NOMINAL EXCHANGE RATES

4.1 Flexible price models and the empirical evidence:

FIM, Chapter 8, Sections 8.1-8.3.


Kilian and Taylor, “Why is it so difficult to beat the random walk forecast of exchange rates” *JIE* 2003.


4.2 Alternative models

FIM, Chapter 9.

See also Nelson Mark, chapter 9.


5. BALANCE OF PAYMENTS CRISIS, SUDDEN STOPS AND CONTAGION


Bekaert, Harvey and Ng, “Market integration and contagion,” NBER WP 9510.


Chari and Kehoe, “Financial crises as herds: Overturning the critiques,” NBER WP 9658


Mendoza and Smith, “Margin calls, trading costs and asset prices in emerging markets: The financial mechanics of the sudden stop phenomenon,” NBER WP 9286.


6. EXCHANGE RATE BASED STABILIZATIONS
