

Instructor

Chris Edmond

Office Hours: Mon 1:00pm - 3:00pm, Economics and Commerce Rm 419

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Prerequisites

316-612 Macroeconomics and 316-470 Advanced Econometric Techniques (or equivalent)

Classes

Mon 11:00am - 12:30pm, Economics and Commerce Rm 535

Wed 11:00am - 12:30pm, Economics and Commerce Rm 535

Textbook

Luckily, there is a superb advanced textbook on international macroeconomics. All students should buy:

- Maurice Obstfeld and Kenneth Rogoff (1996). *Foundations of International Macroeconomics*. Cambridge, MA: MIT Press.

Subject overview

An advanced introduction to international macroeconomics. Covers topics such as: savings, investment, and the current account; purchasing power parity, the real exchange rate and terms of trade; international financial markets, risk sharing, and asset pricing; money and exchange rates.

Assessment

Final examination worth 70% and six homework assignments worth a total of 30%.

Schedule of topics

- The basic plan of this course will be to cover as much of Obstfeld and Rogoff as possible; the main exceptions being that I will not cover any material from Chapter 3 (on intergenerational economics) Chapter 6 (on capital market imperfections) or Chapter 7 (on economic growth). This material is more-or-less a direct extension of topics covered in your core micro and macroeconomics courses.

- Students with strong interests in international *monetary* economics are also encouraged to attend my Honours course, 316-466 Monetary Economics, where many related topics will be covered, often in more detail than will be possible in this course.
- Rather than provide an extensive reading list, as might be more appropriate for a “topics” class, I have restricted the required readings to chapters of the textbook and to a handful of key articles. In short, this course is very much an *introduction* to international macroeconomics at an advanced level.
- I plan to split the course into two parts, each of six weeks (12 lectures). There will be three homework assignments for each of the two parts.

PART I: REAL WORLDS

1. **Intertemporal trade and the current account** (Chapter 1 of Obstfeld and Rogoff). Two lectures. Consumption and saving in two-period models of small open economies, with and without investment. World real interest rates.
2. **Dynamics of small open economies** (Chapter 2). Three lectures. Small open economies in many-period settings. Dynamic and stochastic models of the current account.
 - A slightly more intense survey of the topic is:
 - Maurice Obstfeld and Kenneth Rogoff. (2000). “The Intertemporal Approach to the Current Account,” in Gene Grossman and Kenneth Rogoff (eds). *Handbook of International Economics*, Vol. 3, Amsterdam: Elsevier Science.
 - First homework due at end of week three.
3. **The real exchange rate and the terms of trade** (Chapter 4). Four lectures. International price levels and the real exchange rate. Nontraded goods. The law of one price. Productivity growth and real exchange rates. The terms of trade in a dynamic Ricardian model.
 - Some great papers on international relative prices:
 - Charles Engel. (1999). “Accounting for U.S. Real Exchange Rate Changes,” *Journal of Political Economy* **107**(3): 507-538.
 - Charles Engel and John H. Rogers (1996). “How Wide is the Border?” *American Economic Review*. **86**(5): 1112-1125.
 - Second homework due at end of week five.
4. **Uncertainty and international financial markets** (Chapter 5). Three lectures. Risk sharing. Market completeness. Portfolio choice. Asset pricing.
 - Third homework due at end of week six.

1. **Money and exchange rates under flexible prices** (Chapter 8). Three lectures. Cagan model of hyperinflations. Money demand. Monetary approach to the exchange rate. Two-country cash-in-advance models. Pricing nominal assets.
 - A classic reference for the flexible price approach:
 - Robert E. Lucas, Jr. (1982). “Interest Rates and Currency Prices in a Two-Country World,” *Journal of Monetary Economics*. **10**: 335-360.
 - Fourth homework due at end of week eight.

2. **Nominal price rigidities** (Chapter 9). Four lectures. Mundell-Fleming and Dornbusch models. Empirical evidence on sticky prices. Issues in the choice of exchange rate regime.
 - Anybody with a serious interest in macroeconomics should read Dornbusch’s classic paper:
 - Rudiger Dornbusch. (1976). “Expectations and Exchange Rate Dynamics,” *Journal of Political Economy*. **84**(6): 1161-1176.
 - An outstanding, if lengthy, piece of empirical work:
 - Michael Mussa. (1986). “Nominal Exchange Rate Regimes and the Behavior of Real Exchange Rates: Evidence and Implications,” *Carnegie-Rochester Conference Series on Public Policy*. **25**: 117-214.
 - Fifth homework due at end of week ten.

3. **Sticky price models of output, the exchange rate, and the current account** (Chapter 10). Four lectures. The basic microfounded model that lies at the heart of the “new open economy macroeconomics”.
 - This model was introduced by Obstfeld and Rogoff in:
 - Maurice Obstfeld and Kenneth Rogoff. (1995). “Exchange Rate Dynamics Redux,” *Journal of Political Economy*. **103**(3): 624-60.
 - Sixth homework due at end of week twelve.

4. **Recent developments** (as time permits).
 - Some recent articles that we might discuss:
 - V.V. Chari, Patrick J. Kehoe, and Ellen R. McGrattan. (2002). “Can Sticky Price Models Generate Volatile and Persistent Real Exchange Rates?” *Review of Economic Studies*. **69**(3): 533-563.
 - Philip Lane. (2001). “The New Open Economy Macroeconomics: A Survey,” *Journal of International Economics*. **54**(2): 235-266.
 - Maurice Obstfeld and Kenneth Rogoff. (2000). “The Six Major Puzzles in International Macroeconomics: Is there a Common Cause?” in Ben Bernanke and Kenneth Rogoff (eds). *NBER Macroeconomics Annual*. Cambridge, MA: MIT Press.