

Open Economy Macroeconomics: An Introduction

Course Outline

Pre-course review: M. Burda and C. Wyplosz, *Macroeconomics: A European Text 3rd Edition* (Oxford: Oxford University Press, 2001, henceforth BW), Chapters 1-4, 6, 8-10

Monday: The Current Account and the Open Economy

Topics: Intertemporal budget constraints, fundamental equation of the current account, the primary current account function

Readings: * BW Chapter 5
* M. Obstfeld and K. Rogoff (1996), *The Foundations of International Macroeconomics*. Chapter 1 (henceforth Obstfeld/Rogoff).
Seater, J. (1993), "Ricardian Equivalence", *Journal of Economic Literature*, 31:142-90.

Tuesday: The Real Exchange Rate in the Long Run

Topics: Long-run current account and real exchange rate determination, Balassa-Samuelson effect, PPP

Readings: * BW Chapter 7
* Obstfeld/Rogoff Chapter 4

Wednesday: Short-run Output Determination in the Open Economy

Topics: Traditional fixed price analysis in the open economy (Mundell-Fleming, IS-LM model)

Readings: * BW Chapter 11
* Romer (1996), *Advanced Macroeconomics*. Chapter 5, Section 5.3. New York: McGraw-Hill.

Thursday: Output and Inflation in the Open Economy

Topics: Traditional analysis of inflation and output dynamics in an open economy

Readings: * BW Chapter 12, 13
Ball, Lawrence, Mankiw, N. Greg, and Romer, David (1988), "The New Keynesian Economics and the Output-Inflation Trade-off", *Brookings Papers on Economic Activity*, 1:1-65.
The Return of the Philipps Curve, a special issue of the *Journal of Monetary Economics*' Volume 44 (October 1999).
Quah, Danny, and Vahey, S.P. (1995), "Measuring Core Inflation", *Economic Journal*, 432:1130-44.

Friday: International Business Cycles: Impulses and Propagation

Topics: Slutsky paradigm; methods of identifying shocks, real and monetary models of the business cycle

Readings: * BW Chapter 14
* Backus, D. and P. Kehoe (1992), "International Evidence on the Historical Properties of Business Cycles", *American Economic Review*, September.
* Clarida, Richard and Jordi Gali (1994), "Sources of Real Exchange-Rate Fluctuations: How Important are Nominal Shocks?", *Carnegie-Rochester Conference Series on Public Policy*, 41 (1994), pp. 1- 56.

Saturday: Fiscal and Monetary Policy in the Open Economy

Topics: Traditional analyses and critiques of activist macroeconomic policy

Readings: * BW Chapter 15, 16
* Obstfeld/Rogoff Chapter 2
Alesina, Alberto, and Perotti, Roberto (1996), "Fiscal Adjustments: Fiscal Expansions and Adjustments in OECD Countries", *Economic Policy*, 21: 205-48.
Bartolini, Leonardo, Symansky, Steven, and Razin, Assaf (1995), "G7 Fiscal Restructuring in the 1990s: Macroeconomic Effects", *Economic Policy*, 20:109-46.
Carlos A. Végh (1992), "Stopping high inflation: An analytical overview", *IMF Staff Papers*, 39(3):626-695, 1992.

Monday : Money and Exchange Rates under Flexible Prices

Topics: Cagan model, monetary models of exchange rate, speculative attacks of first generation

Readings: * BW Chapter 19
* Obstfeld/Rogoff Chapter 8
Meese, Richard (1990), "Currency Fluctuations in the Post-Bretton Woods Era", *Journal of Economic Perspectives*, 4:117-34.
Sergio Rebelo and Carlos A. Végh (1995), Real effects of exchange rate based stabilization: an analysis of competing theories. In Ben S. Bernanke and Julio J. Rotemberg, editors, *NBER Macroeconomics Annual*, pages 125-174. Cambridge, MA, MIT Press.

Tuesday: Open Economy Macroeconomics and Exchange Rate Determination

Topics: New-Keynesian macroeconomic models, exchange rate determination when prices are predetermined (overshooting)

Readings:

- * BW Chapter 19
- * Obstfeld/Rogoff Chapter 9
- * Rogoff's IMF Lecture on "Dornbusch's Overshooting Model After 25 Years".
- V.V. Chari, Patrick J. Kehoe, and Ellen R. McGrattan (1998), Can sticky prices generate volatile and persistent real exchange rates? Federal Reserve Bank of Minneapolis Research Department Staff Report, 223, 1998.

Wednesday: Speculative Attacks

Topics: Models of speculative attacks and crises

Readings:

- * BW Chapter 19
- * Flood, R. & N. Marion (1998), 'Perspectives on the Recent Currency Crisis Literature', NBER Working Paper no. 6380 (published in *IJEF*).
- Graciela L. Kaminsky, Saul Lizondo, and Carmen M. Reinhart (1998), "Leading indicators of currency crises", *IMF Staff Paper*, 45(1):1-49.
- Graciela L. Kaminsky and Carmen M. Reinhart (1999), "The twin crises: The causes of banking and balance-of-payment problems", *American Economic Review*.

Wednesday Afternoon Session: What happened to Argentina? An open discussion and post-mortem.