

Macroeconomics in Open Economies:
Course Readings and Outline

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The readings below are intended to give a representative flavor of the field, and hence have a certain bias towards integrative survey pieces. The references in the surveys are excellent starting points for a more in-depth perusal of some issues. Required readings are marked with an *. Note: it may be possible to print out NBER working papers from the NBER website (www.nber.org). In addition, lecture notes will summarize some of the debates.

Textbooks (Not Required)

Graduate:

Obstfeld and Rogoff, Foundations of International Macroeconomics, MIT Press.

Intermediate:

Larrain and Sachs, Macroeconomics in the Global Economy, Prentice Hall.

Policy Focused:

Dornbusch, Policymaking in the Open Economy, World Bank/EDI

Financial Markets Focused:

Levich, International Financial Markets, Irwin-McGraw Hill

History Focuses:

Charles Kindleberger, **A Financial History of Western Europe**, London, George Allen and Unwin.

Up to Date Backgrounds

Latest issue of the **World Economic Outlook** (WEO) published by the IMF

Latest issue of **Global Development Finance** (GDF) published by the World Bank

Nouriel Roubini's Webpage

http://www.stern.nyu.edu/globalmacro/simple_content_frame.php

Part I: Preliminaries: Concepts, History, And Institutions

We will begin by reviewing some of the key concepts. Much of the progress of international economics reflects concerns with particular (recurring) historical puzzles. A familiarity with the broad strokes of monetary history hence often comes in rather useful in understanding where the field has come from and where it is heading.

- (*) Barry Eichengreen and Nathan Sussman, "The International Monetary System in the (Very) Long Run, IMF Working Paper No. 00/43. Also: www.imf.org/external/pubs/ft/wp/2000/wp0043.pdf

Maurice Obstfeld, Jay Shambaugh and Alan Taylor, 2004, The Trilemma in History, NBER Working Paper No. 10396.

Dornbusch, Rudiger (1980); Open Economy Macroeconomics; Chapter 2. [Or another capsule summaries of definitions and concepts in an advanced textbooks]

Part II: The Current Account

The time path of external balances has long been one of the key concerns of international macroeconomics. We will look at the current account from a number of angles. We begin with a simple one good representative agent infinite horizon model, extend the model to allow for a richer set of assumptions and conclude by exploring the evidence. The readings are arranged in this order. The readings exhibit substantial overlap.

1. Theory

- (*) Obstfeld, Maurice and Kenneth Rogoff; Foundations of International Macroeconomics; MIT Press, Chapters 1-2.

Sen, Partha (1994); "Savings, Investment, and the Current Account"; Chapter 15 in Rick van der Ploeg (ed.) The Handbook of International Macroeconomics

2. Evidence

- (*) Nason, James and John Rogers, 2003, "The Present-Value Model of the Current Account Has Been Rejected: Round Up The Usual Suspects"; Federal Reserve Board International Finance Discussion Paper No. 760, February 2003.

Chinn, Menzie and Eswar Prasad, 2000, Medium-Term Determinants of Current Accounts; NBER Working Paper No. 2000.

Edwards, Sebastian 2005, Capital controls, sudden stops and current account reversals, NBER Working Paper No. 11170.

Freund, Caroline (2000); "Current Account Adjustment in Industrialized Countries" International Finance Discussion paper No. 692, Federal Reserve Board.

Part III Exchange Rate Determination and Pricing

The determination of nominal exchange rates, and the setting of real exchange rates and pricing in open economies provides the second mainstay of international macroeconomics. Thinking about exchange rates and pricing has evolved considerably over the last two decades, and we will briefly touch on all the major schools of thought.

Exchange Rate Determination

- (*) Taylor, Mark (1995); "The Economics of Exchange Rates"; Journal of Economic Literature; March, p. 13-47.

(*) Sarno, Lucio and Mark Taylor, 2001, The Microstructure of the Foreign-Exchange Market; Princeton Studies in International Economics, No. 89, May 2001.

(*) Cheung, Yin-Wong, Menzie Chinn and Antonio Garcia Pascual, 2002, "Empirical Exchange Rate Models of the Nineties: Are Any Fit to Survive?"; NBER Working Paper No. 9393, December 2003.

Chinn, Menzie and Jeffrey Frankel (1994); "Patterns of Exchange Rate Forecasts For 25 Currencies"; Journal of Money, Credit and Banking; 26.

De Vries, Casper (1994); "Stylized Facts of Nominal Exchange Rate Returns"; Chapter 11 in Rick van der Ploeg (ed.) The Handbook of International Macroeconomics

Dominguez, Kathryn 2003, When do central Bank Interventions Influence Intra-Daily and Longer-Term Exchange Rate Movements?, NBER Working Papers No. 9875,

Evans, Martin and Richard K. Lyons, 2005, Meese-Rogoff redux: micro-based exchange rate forecasting / NBER Working Paper No.11042:1-23, January 2005

Levich, Richard (1998), International Financial Markets, Chapters 3-8.

Rogoff, Kenneth 2002, Dornbusch's Overshooting Model after Twenty-Five Years, IMF Working Paper No. 02/39.

Real Exchange Rate Determination and Pricing

(*) Taylor, Alan and Mark Taylor, 2004, The Purchasing Power Parity Debate, NBER Working Paper No. 10607.

(*) Goldberg, Pinelopi and Michael Knetter (1997); "Goods Prices And Exchange Rates"; Journal of Economic Literature; 35:1243-72, September.

Campa, Jose and Linda Goldberg, 2002, "Exchange Rate Passthrough Into Import Prices: A Macro or Micro Phenomenon?", NBER Working Paper No. 8934, May 2002.

Delgado, Francisco (1991); "Hysteresis, menu costs, and pricing with random exchange rates"; Journal of Monetary Economics; 28, 461-84.

Dornbusch, Rudiger (1987); "Exchange Rates and Prices"; American Economic Review; March, 93-106.

Stein, Jerome 2001, "The Equilibrium Value of the Euro/\$ Exchange Rate: An Evaluation of Research", CESifo Working Paper No. 525.

Consequences

(*) Obstfeld, Maurice, 2002, "Exchange Rates and Adjustment: Perspectives from the New Open Economy Macroeconomics", NBER Working Paper No. 9118.

Part IV Exchange Rate Regimes

The role of the nominal exchange rate regime is the third of the perennial topics in international macroeconomics, going back a few centuries. Two key questions are examined in this literature. First, does the choice of the nominal regime make a difference in terms of real variables, and hence welfare? Second, (why) are pegged regimes so hard to sustain? We will look at both issues.

Properties and Tradeoffs

(*) Fischer, Stanley (2001); "Exchange Rate Regimes"; Is the Bipolar View Correct?"; IMF.

(*) Frankel, Jeffrey, 1999, No Single Currency Regime is Right for all Countries or at all Times; Essays in International Finance Number 215, Princeton University

(*) Calvo, Guillermo and Carmen Reinhart, "Fear of Floating", Quarterly Journal of Economics, 117: 2: May: 2002: pp 379-408.

Aasim Husain, Aska Mody and Kenneth Rogoff, 2004, Exchange Rate Regime Durability and Performance in Developing Versus Advanced Economies, NBER Working Paper No. 10673.

Calvo, Guillermo and Frederic Mishkin, 2003, The Mirage of Exchange Rate Regimes for Emerging Market Countries; NBER Working Paper No. 9808.

Edwards, Sebastian and Miguel Savastano, 1999, "Exchange Rates in Emerging Economies: What Do We Know? What Do We Need To Know?", NBER Working Paper No. 7228, July 1999.

Felipe Larrain and Andres Velasco, 2000, Exchange Rate Arrangements for Emerging Market Economies, Group of Thirty Occasional Paper No. 60.

Ghosh, Atish, Anne-Marie Gulde and Holger Wolf, Exchange Rate Regimes, MIT Press, 2003.

Frankel, J., E. Fajnzylber, S. Schmukler and L. Servén, „Verifying Exchange Rate Regimes“, Journal of Development Economics, 66: 2: 2001: December: 351-386.

Glick, Reuven and Andrew Glick, 2002, "Does a Currency Union Affect Trade?"; European Economic Review, 46:6: June: 1125-1151. Also read the preceding article by Thom and Walsh.

Special Cases

Currency Boards:

Anne-Marie Gulde, Atish Ghosh and Holger Wolf (2000); "Currency Boards: More Than a Quick Fix"; *Economic Policy*, October 2000, 271-335.

Dollarization:

Sebastian Edwards and Igal Magendzo, 2003, A Currency of One's Own?, NBER Working Paper No. 9514.

Eduardo Levy-Yeyati and Federico Sturzenegger (eds.) , 2002, Dollarization, MIT Press.

Monetary Union

Alberto Alesina, Robert Barro and Silvana Tenreyro, 2002, "Optimal Currency Areas", NBER Working Paper No. 9072, July 2002.

Part V: International Asset Markets

The frequency and rapid spread of financial crisis has placed the international linkage of asset markets into the forefront of research over the last decade. Among the questions examined in this literature are the nature, determinants and consequences of capital flow; and the consequences of capital flow reversals.

A. International Financial Integration

(*) Maurice Obstfeld and Alan Taylor, 2003, Globalization and Capital Markets, in Michael Bordo, Alan Taylor and Jeffrey Williamson (eds.), Globalization in Historical Perspective, NBER and University of Chicago, pp. 121-190.

(*) Obstfeld, Maurice, 2004, External Adjustment, Harms Lecture 2004, NBER Working Paper No. 10843.

Philip Lane and Gian Maria Milesi-Ferretti, 2003, International Financial Integration, IMF Staff Papers No. 50, 72-81.

Brian Henderson, Narasimhan Jegadeesh and Michael Weisbach, 2004, World Markets for Raising New Capital, NBER Working Paper No. 10225.

B. Debt

(*) Rose, Andrew, 2002, One Reason Countries Pay Their Debt; NBER Working Paper No. 8853.

(*) Reinhart, Carmen, Kenneth Rogoff and Miguel Savastano, Debt Intolerance, NBER Working Paper No. 9908.

Eaton, Jonathan and Raquel Fernandez (1996); "Sovereign Debt"; in Gene Grossman and Kenneth Rogoff (Eds) Handbook of International Economics; Vol. 3.

Rogoff, Kenneth and Jeromin Zettelmeyer, 2002, Bankruptcy Procedures for Sovereigns, A History of Ideas 1976-2001.

Eichengreen, Barry, Ricardo Hausmann and Ugo Panizza, Currency Mismatches, Debt Intolerance and Original Sin, NBER Working Paper No. 10036.

Phillip Lane and Gian Maria Milesi-Ferretti, 2002, "External Wealth, the Trade Balance and the Real Exchange Rate", European Economic Review, Vol. 46: 6: June: 1049-1072.

Obstfeld, Maurice and Kenneth Rogoff (1996); Foundations of International Macroeconomics; MIT Press, Chapter 7.

C. Exchange Rate Crisis

(*) Graciela Kaminsky, 2003, Varieties of Currency Crisis, NBER Working Paper No. 10193.

Garber, Peter and Lars Svensson (1996); "The Operation and Collapse Of Fixed Exchange Rate Regimes"; in Gene Grossman and Kenneth Rogoff (eds) Handbook of International Economics; Vol. 3.

Guillermo Calvo, Alejandro Izquierdo and Luis-Fernando Mejia, 2004, On the Empirics of Sudden Stops, NBER Working Paper No. 10520.

D. Contagion

(*) Dornbusch, Rudiger, Yung Chul Park and Stijn Claessens (2000); "Contagion: Understanding How It Spreads"; The World Bank Research Observer; Vol. 15, 2: 177-97.

Kaminsky, Graciela, Carmen Reinhart and Carlos Vegh, 2003, The Unholy Trinity of Financial Contagion, NBER Working Paper No. 10061.

E. Capital Controls and Liberalization

(*) Dooley, Michael (1995); "A Survey of Academic Literature On Controls Over International Capital Transactions"; NBER WP No. 5352.

(*) Hali Edison, Michael Klein, Luca Ricci and Torsten Sloek, 2002, "Capital Account Liberalization and Economic Performance: Survey and Synthesis", NBER Working Paper No. 9100, August 2002.

Kristin Forbes, 2004, Capital Controls, NBER Working Paper No. 10284.

Michael Klein, 2003, "Capital Account Openness and The Varieties of Growth Experiences", NBER Working Paper No. 9500, February.

Part VI The International Financial Architecture and Structure: Issues

We conclude by looking at a number of issues that can be grouped together under the heading of international financial architecture and structure. Many of these issues have linkages to the issues we discussed before.

A. Single Global Currency

(*) Rudi Dornbusch, 2001, "Fewer Monies, Better Monies, AER Papers and proceedings, Vol. 91:2:238-242

(*) Ken Rogoff, 2002, Why Not A Global Currency?, AER Papers and proceedings, Vol. 91:2:243-247.

Benjamin Cohen, 2000, Life at the Top, Essays in International Economics No. 221, Princeton University.

Enrique Mendoza, 2002, Why Should Emerging Economies Give Up National Currencies, NBER Working Paper No. 8950.

B. Globalization

(*) Eswar Prasad, Kenneth Rogoff, Shang-Jin Wei and Ayhan Kose, Effects of Financial Globalization on Developing Countries, March 2003, IMF.

C. Policy Co-Operation?

Laurence Meyer, Brian Doyle, Joseph Gagnon and Dale Henderson, 2002, International Coordination of Macroeconomic Policies: Still Alive in the New Millennium?, Board of Governors of the Federal Reserve International Finance Discussion Paper No. 723.

D. Institutional Reform

(*) Fischer, Stanley, "Financial Crises and Reform of the International Financial System", Weltwirtschaftliches Archiv (Harms Lecture 2002), Vol. 139, 2003:1, pp. 1-37.

Dornbusch, Rudiger, The New International Architecture, CESifo Working Paper No. 769, September 2002 (www.CESifo.de)

Mussa, Michael and Miguel Savastano, The IMF Approach to Economic Stabilization, IMF Working Paper 99/104

Bordo, Michael and Harold James, 2000, "The IMF", NBER Working Paper No. 7724.

Eichengreen, Barry 2004, Global Imbalances and the Lessons of Bretton Wood, NBER Working Paper No. 10497

Fischer, Stanley (2000); On the Need for an International Lender of Last Resort; Essays in International Economics; No. 220.

Roubini, Nouriel and Brad Setser, The Reform of the Sovereign Debt Restructuring Process; online at <http://www.stern.nyu.edu/globalmacro/debtreform.pdf>