

Topics in International Economics

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Course Description: This is a second-year graduate course on international macroeconomics. We are going to study international capital flows and business cycles, sudden stops, global imbalances, exchange rates, global currencies, and the optimal policies in an open economy. Both theoretical models and recent empirical evidence will be discussed.

Reading: A tentative reading list is provided below: papers indicated with (*) will be covered in class, papers with (**) are required reading. All other papers are optional. Students are strongly encouraged to read carefully two papers for each class and to skim the other ones.

Tentative Reading List

I Current account and global imbalances

1. *Obstfeld M. and K. Rogoff (1996): “Foundations of international macroeconomics”, Chapters 1 and 2.1-2.2, MIT Press.
2. *Caballero R.J., E. Farhi, and P.-O. Gourinchas (2008): “An equilibrium model of “global imbalances” and low interest rates,” American Economic Review, 98(1): 358-93.
3. **Mendoza E.G., V. Quadrini, and J.V. Rios-Rull (2009): “Financial integration, financial development, and global imbalances,” Journal of Political Economy, 117(3), 371-416.
4. **Itskhoki O. and D. Mukhin (2023): “International Sanctions and Limits of Lerner Symmetry”
5. Costinot A., G. Lorenzoni, and I. Werning (2014): “A theory of capital controls as dynamic terms-of-trade manipulation”, Journal of Political Economy, 122(1), 77-128.

II International business cycles and sudden stops

1. *Backus, D.K., P. J. Kehoe and F. E. Kydland (1992): “International real business cycles”, Journal of Political Economy, 100(4), 745-775
2. *Aguiar M. and G. Gopinath (2007): “Emerging market business cycles: The cycle is the trend,” Journal of Political Economy, 115(1), 69-102.
3. *Bianchi J. (2011): “Overborrowing and systemic externalities in the business cycle,” American Economic Review, 101(7), 3400-3426.
4. **Gourinchas P.-O. and O. Jeanne (2013): “Capital flows to developing countries: the allocation puzzle,” Review of Economic Studies, 80(4), 1484-1515.
5. **Guntin, R., P. Ottonello and D. Perez (2022): “The Micro Anatomy of Macro Consumption Adjustments,” American Economic Review, forthcoming.
6. Schmitt-Grohe, S. and M. Uribe (2021): “Multiple equilibria in open economies with collateral constraints,” Review of Economic Studies.

III Exchange rate disconnect

1. *Itskhoki O., and D. Mukhin (2021): “Exchange rate disconnect in general equilibrium,” Journal of Political Economy, 129(8), 2183-2232.
2. *Engel C., and K. D. West (2005), “Exchange rates and fundamentals”, Journal of Political Economy 113(3), 485-517
3. *Meese R. A., and K. Rogoff (1983): “Do they fit out of sample?” Journal of International Economics, 14, 3-24

4. *Rogoff, K. (1996): “The purchasing power parity puzzle”, *Journal of Economic literature*, 34(2), 647-668
5. *Corsetti G., Dedola, L., and Leduc, S. (2008): “International risk sharing and the transmission of productivity shocks”, *The Review of Economic Studies*, 75(2), 443-473
6. **Obstfeld M., and K. S. Rogoff (2000): “The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?,” *NBER Macroeconomics Annual*
7. **Itskhoki, O. (2020): “The Story of the Real Exchange Rate,” *Annual Review of Economics*, 13.
8. Chen Y. C., K. Rogoff, and B. Rossi (2010): “Can exchange rates forecast commodity prices?” *The Quarterly Journal of Economics*, 125(3), 1145-1194
9. Chari, V. V., Kehoe, P. J. and E.R. McGrattan (2002): “Can sticky price models generate volatile and persistent real exchange rates?” *The Review of Economic Studies*, 69(3), 533-563
10. Colacito R., and M.M. Croce (2011): “Risks for the long run and the real exchange rate,” *Journal of Political economy*, 119(1), 153-181.

IV UIP, Global Financial Cycle and FX interventions

1. *Itskhoki, O. and D. Mukhin (2021): “Mussa puzzle redux,” working paper.
2. *Itskhoki O. and D. Mukhin (2022): “Optimal exchange rate policy,” working paper.
3. *Gourinchas P. O., W. Ray and D. Vayanos (2022): “A preferred-habitat model of term premia, exchange rates, and monetary policy spillovers,” nber working paper.
4. *Rey H. (2015): “Dilemma not trilemma: the global financial cycle and monetary policy independence”
5. *Boehm C. and N. Kroner (2020): “The US, economic news, and the global financial cycle,” working paper.
6. **Gabaix X. and M. Maggiori (2015): “International liquidity and exchange rate dynamics,” *Quarterly Journal of Economics*, 130(3), 1369-1420.
7. **Miranda-Agrippino S. and H. Rey (2015): “US monetary policy and the global financial cycle”
8. **Giovanni, J. D., Kalemli-Ozcan, S., Ulu, M. F., and Baskaya, Y. S. (2017): “International spillovers and local credit cycles”
9. Fanelli, S. and L. Straub (2021): “A theory of foreign exchange interventions,” *Review of Economic Studies*, 88(6), 2857-2885.
10. Amador, M., J. Bianchi, L. Bocola, and F. Perri (2020): “Exchange rate policies at the zero lower bound,” *Review of Economic Studies*, 87(4), 1605-1645.
11. Aoki K., G. Benigno, and N. Kiyotaki (2016): “Monetary and financial policies in emerging markets”

V Monetary policy in open economy

1. *Devereux M. B., and C. Engel (2003): “Monetary policy in the open economy revisited: Price setting and exchange-rate flexibility,” *Review of Economic Studies*, 70(4): 765-783
2. *Gali, J. and T. Monacelli (2005): “Monetary policy and exchange rate volatility in a small open economy”, *Review of Economic Studies*, 72(3), 707-734
3. *Egorov K. and D. Mukhin (2021): “Optimal monetary policy under dollar pricing”
4. *Auclert, A., M. Rognlie, M. Souchier, and L. Straub (2021): “Exchange Rates and Monetary Policy with Heterogeneous Agents: Sizing up the Real Income Channel”
5. **Ilzetzki E., C. M. Reinhart, and K. S. Rogoff (2017): “Exchange arrangements entering the 21st century: Which anchor will hold?”
6. **Engel C. (2011): “Currency misalignments and optimal monetary policy: a reexamination”, *American Economic Review*, 101(6), 2796-2822.
7. Engel C. (2002): “Expenditure switching and exchange-rate policy,” *NBER macroeconomics annual* 17: 231-272
8. Zhang, T. (2022): “Monetary policy spillovers through invoicing currencies,” *The Journal of Finance*, 77(1), 129-161.

VI Pass-through and pricing-to-market

1. *Atkeson A., and A. Burstein (2008): “Pricing-to-market, trade costs, and international relative prices,” *American Economic Review*, 98(5): 1998-2031
2. *Auer, R., A. Burstein, and S.M. Lein (2021): “Exchange Rates and Prices: Evidence from the 2015 Swiss Franc Appreciation,” *American Economic Review*, 111(2), 652-86
3. *Amiti M., O. Itskhoki, and J. Konings (2019): “International shocks, variable markups, and domestic prices,” *Review of Economic Studies*, 86(6), 2356-2402.
4. **Cavallo A., B. Neiman, and R. Rigobon (2014): “Currency unions, product introductions, and the real exchange rate,” *Quarterly Journal of Economics*, 129(2): 529-595
5. **Burstein A., and G. Gopinath (2014): “International prices and exchange rates,” *Handbook of International Economics*, Vol. 4: 391-451
6. Engel C. (1999): “Accounting for US real exchange rate changes,” *Journal of Political economy*, 107(3), 507-538.
7. Burstein A., J. Neves, and S. Rebelo (2003): “Distribution costs and real exchange rate dynamics during exchange-rate-based stabilizations,” *Journal of Monetary Economics*, 50(6), 1189-1214
8. Amiti M., O. Itskhoki, and J. Konings (2014): “Importers, exporters, and exchange rate disconnect,” *American Economic Review*, 104(7): 1942-78.

VII Currency choice and DCP

1. *Gopinath, G., Boz, E., Casas, C., Diez, F., Gourinchas, P.O. and Plagborg-Moller, M.(2020): “Dominant currency paradigm,” American Economic Review, 110(3), 677-719.
2. *Gopinath G., O. Itskhoki, and R. Rigobon (2010): “Currency choice and exchange rate pass-through,” American Economic Review, 100(1): 304-36
3. *Mukhin D. (2022): “An Equilibrium Model of the International Price System,” American Economic Review, forthcoming
4. *Amiti M., O. Itskhoki, and J. Konings (2021): “Dominant Currencies: How firms choose currency invoicing and why it matters”, Quarterly Journal of Economics, forthcoming
5. **Gopinath, G. and O. Itskhoki (2021): “Dominant currency paradigm: a review,” Handbook of International Economics
6. Engel C. (2006): “Equivalence Results for Optimal Pass-through, Optimal Indexing to Exchange Rates, and Optimal Choice of Currency for Export Pricing,” Journal of the European Economic Association, 4(6): 1249-1260
7. Gopinath G. (2015): “The International Price System”
8. Goldberg L., and C. Tille (2008): “Vehicle currency use in international trade,” Journal of International Economics, 76: 177-192

VIII Exorbitant privilege and GFC

1. *Gourinchas P.-O. and H. Rey (2007): “International financial adjustment,” Journal of Political Economy, 115(4), 665-703.
2. *Gourinchas P.-O., H. Rey, and K. Truempler (2012): “The financial crisis and the geography of wealth transfers,” Journal of International Economics, 88(2): 266-283
3. *Atkeson, A., J. Heathcote, and F. Perri (2022): “The end of privilege”
4. *Kekre R., and M. Lenel (2021): “The flight to safety and international risk sharing”
5. *Gourinchas P.-O., and H. Rey (2007): “From world banker to world venture capitalist: US external adjustment and the exorbitant privilege,” G7 Current Account Imbalances: Sustainability and Adjustment, University of Chicago Press: 11-66
6. *Morelli J., P. Ottonello, and D. Perez (2022): “Global banks and systemic debt crises,” Econometrica, 90(2), 749-798.
7. **Farhi E., and M. Maggiori (2018): “A Model of the International Monetary System,” The Quarterly Journal of Economics, 133(1): 295-355
8. Gourinchas P.-O. (2008): “Valuation effects and external adjustment: a review,” Series on Central Banking, Analysis, and Economic Policies, 12.
9. Maggiori, M. (2017): “Financial intermediation, international risk sharing, and reserve currencies”, American Economic Review, 107(10), 3038-71.

10. Dahlquist, M., C. Heyerdahl-Larsen, A. Pavlova and J. Pénasse (2022): “International Capital Markets and Wealth Transfers”

IX Global safe asset

1. *Phelan C. (2006): “Public trust and government betrayal,” *Journal of Economic Theory*, 130(1), 27-43.
2. *Clayton C., A. Dos Santos, M. Maggiori, and J. Schreger (2022): “Internationalizing like China,” nber working paper.
3. *Gopinath G., and J. C. Stein (2021): “Banking, trade, and the making of a dominant currency,” *Quarterly Journal of Economics*, 136(2), 783-830.
4. **Drenik A., R. Kirpalani, and D. J. Perez (2018): “Currency Choice in Contracts”
5. **He Z., A. Krishnamurthy, and K. Milbradt (2017): “A Model of Safe Asset Determination”
6. Chahrour R. and R. Valchev (2018): “Trade Finance and the Durability of the Dollar,” *Review of Economic Studies*
7. Bocola L. and G. Lorenzoni (2020): “Financial crises, dollarization, and lending of last resort in open economies,” *American Economic Review*, 110(8), 2524-57.
8. Gourinchas P.-O., and O. Jeanne (2012): “Global safe assets”
9. Amador M. and C. Phelan (2021): “Reputation and sovereign default,” *Econometrica*, 89(4), 1979-2010.