

International Macroeconomics

Overview: This is a second-year Ph.D. course on International Macroeconomics. The purpose of the course is to (a) introduce a set of models and tools used in international macro (b) present a number of active research areas in the field. The course begins with a review of canonical dynamic equilibrium models and the intertemporal approach to the current account. We will then turn to study sudden stops in capital flows, sovereign default, and financial globalization. We will focus both on positive and normative aspects. That is, we will look at questions like: What are the features of international business cycles? What distinguishes business cycles in emerging markets from developed economies? What are the causes and consequences of sudden stop in capital flows? Are capital controls desirable? What are the macroeconomic and welfare implications of financial globalization?

Requirements: The course is graded based on three problem sets, a referee report and a project that consists on replicating the numerical results of a paper. You can select the paper after consulting with me.

Lectures: Thursdays 10:15-12:15 at 19 W 4th 624

Office hours: Wednesday 2:00-4:00 pm or by appointment

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Readings: The structure of the course is based on journal articles. Below is an extensive reading list where I have marked those that are required for the course. Those willing to go deeper in International Macroeconomics should go over some of the other readings as well. There are also a few textbooks that can be helpful to follow up on theoretical and empirical topics:

Mendoza, Enrique G. and Quadrini, Vincenzo. “Notes on Open-Economy Macroeconomics with Incomplete Markets and Heterogeneous Agents”.

Obstfeld, Maurice and K. Rogoff (1996) Foundations of Intl. Macroeconomics, MIT Press.

Reinhart, Carmen M. and Kenneth Rogoff (2009). *This Time is Different: Eight Centuries of Financial Folly*, Princeton Univ. Press.

Uribe, M. lecture notes:

http://www.columbia.edu/~mu2166/GIM/lecture_notes.pdf

Vegh Carlos. *Open Economy Macroeconomics in Developing Countries*, MIT Press, forthcoming.

1. Real Business Cycles for Open Economies

Required Readings:

M. Uribe, Chapters 2-4

Aguiar Mark and Gita Gopinath (2007) “Emerging Market Business Cycles: The Cycle is the Trend,” *JPE*, 115(1).

Backus D., P. Kehoe and F. Kydland (1992) “International Real Business Cycles,” *JPE*, 100: 745-775.

Mendoza Enrique (1991) “Real Business Cycles in a Small Open Economy,” *American Economic Review*, 81(4).

Mendoza Enrique (1995) “The Terms of Trade, the Real Exchange Rate and Economic Fluctuations,” *International Economic Review*.

Additional Readings:

Backus, D. (1993) “Interpreting Comovements in the Trade Balance and the Terms of Trade,” *Journal of International Economics*.

Boz, Emine, Christian Daude, and Ceyhun Bora Durdu, (2011) “Emerging Market Business Cycles Revisited: Learning about the Trend,” *Forthcoming, JME*.

Garcia Javier, Roberto Pancrazzi and Martin Uribe (2010) “Real Business Cycle in Open Economies,” *American Economic Review* December 2010.

Schmitt-Grohe and M. Uribe (2003) “Closing Small Open Economy Models,” *JIE*

Obstfeld and Rogoff “The Intertemporal Approach to the Current Account”, *Handbook of International Economics*, Gene Grossman and Ken Rogoff, eds., North Holland.

Obstfeld and K. Rogoff (2000) “Six Puzzles in International Macroeconomics,” NBER Macroannual. With comments by C. Engel.

2. Financial Frictions and Sudden Stops

Required readings:

Calvo, G.A. (1998) “Capital Flows and Capital-Market Crises: The Simple Economics of Sudden Stops,” *Journal of Applied Economics*, v. 1, pp. 35-54.

Mendoza, Enrique G. (2010) “Sudden Stops, Financial Crises and Leverage,” *American Economic Review*, 100(5): 1941-1966.

Additional Readings:

Caballero, R. and A. Krishnamurthy (2001) “International and Domestic Collateral Constraints in a Model of Emerging Market Crises,” *Journal of Monetary Economics* 2001.

Chang, R and. A. Velazco (2000): ‘A Model of Financial Crises in Emerging Markets,’ *Quarterly Journal of Economics*, 116, 489-517.

Chari, P. Kehoe and E. McGrattan (2005) “Sudden Stops and Output Drops,” *American Economic Review P&P*, 95.

Durdu, C.B., Mendoza, E. and Terrones, M. (2009) “Precautionary Demand for Foreign Assets in Sudden Stop Economies: An Assessment of the New Mercantilism,” *JDE*.

Fernandez-Villaverde, J., Guerra, P., Rubio-Ramirez, J. and Uribe, (2010) “Risk Matters: The Real Effects of Volatility Shocks,” *American Economic Review* Forthcoming.

Gertler, Mark, Simon Gilchrist, and Fabio Natalucci (2007) “External constraints on monetary policy and the financial accelerator,” *Journal of Money, Credit and Banking*.

Kehoe and Ruhl (2009) “Sudden Stops, Sectoral Reallocations, and the Real Exchange Rate”, *JDE* 2009

Gruss Bertrand and K. Mertens (2010) “Regime switching interest rates and fluctuations in emerging markets”. Mimeo, Cornell

Neumeyer and Perri (2005) “Business Cycles in Emerging Economies: the Role of Interest Rates,” *Journal of Monetary Economics*, 52/2, 345-380.

Mendoza, E. (2002) “Credit, Prices, and Crashes: Business Cycles with a Sudden Stop,” in *Preventing Currency Crises in Emerging Markets*, ed. by S. Edwards and J. Frankel, Univ. of Chicago Press, also NBER WP no. w8338 (2001).

Mendoza, E. and M. Terrones (2008) “An Anatomy of Credit Booms: Evidence From Macro Aggregates and Micro Data,” Board of Governors of the Federal Reserve, *International Finance Disc. Paper*, 2008-936.

Mendoza, E. (2006) “Lessons from the Debt-Deflation Theory of Sudden Stops,” *American Economic Review*, Pap. & Proc.

Mendoza, E. and K. Smith (2006) “Quantitative Implications of a Debt-Deflation Theory of Sudden Stops and Asset Prices,” *JIE*.

Schneider, Martin and Aaron Tornell (2004) “Balance sheet effects, bailout guarantees and financial crises,” *Review of Economic Studies*, 71(3).

Uribe Martin and V. Yue (2006) “Country Spreads and Emerging Countries: Who Drives Whom?,” *Journal of International Economics*, 69, 6-36.

3. Regulation of Capital Flows

Required Readings:

Bianchi, Javier (2011) “Overborrowing and Systemic Externalities in the Business Cycle”, *American Economic Review*, Forthcoming.

Additional Readings:

Amador M. and M. Aguiar (2011) “Fiscal Policy in Debt Constrained Economies”, Mimeo Stanford

Aoki, K., G. Benigno and N. Kiyotaki, “Adjusting to Capital Account Liberalizations,” Mimeo, Princeton, April 2006.

Bianchi, Javier (2011) “Efficient Bailouts?”, Mimeo, NYU.

Bianchi, Javier and Enrique Mendoza (2010) “Overborrowing, Financial Crises and Macro-Prudential Policy”, NBER Working Paper

Bianchi Javier (2010) “Credit Externalities: Macroeconomic Effects and Policy Implications”, American Economic Review Papers and Proceedings.

Bianchi Javier, Emine Boz and Enrique Mendoza (2011) “Macro-prudential Policy in a Fisherian Model of Financial Innovation”, Mimeo, NYU

Broner Fernando and Ventura (2010) “Rethinking the Effects of Financial Liberalization,” Mimeo, CREI.

Caballero, R., and A. Krishnamurthy (2003) “Excessive dollar debt: Financial development and underinsurance,” The Journal of Finance, 58(2), 867-893.

Costinot A, Guido Lorenzoni and Ivn Werning “Theory of Optimal Capital Controls”

Caballero Ricardo and Guido Lorenzoni (2008) “Persistent Appreciations and Overshooting: A Normative Analysis,” REStud, Forthcoming.

Castiglionesi, F., F. Feriozzi, and G. Lorenzoni (2010) “Financial Integration and Liquidity Crises,” Manuscript, Tilburg University, Tilburg.

Jeanne, O. “Debt maturity and the international financial architecture”, American Economic Review

Jeanne, O., A. Korinek “Excessive volatility in capital flows: A pigouvian taxation approach”, American Economic Review Papers and Proceedings.

Jeske, K. (2006) “Private International Debt with Risk of Repudiation,” Journal of Political Economy, 114, 576-593.

Tirole, J., 2003. “Inefficient Foreign Borrowing: A Dual- and Common-Agency Perspective”, American Economic Review Papers and Proceedings.

American Economic Review 93 (5), pp. 1678 1702, December.

Uribe, M. (2006) “Individual Versus Aggregate Collateral Constraints and the Overborrowing Syndrome,” Mimeo, Duke.

Wright, M. (2006): “Private capital flows, capital controls, and default,” Journal of International Economics, 69(1), 120-149.

4. Sovereign Debt & Default

Required Readings:

Arellano, C. (2008) “Default Risk and Income Fluctuations in Emerging Economies,” *American Economic Review*.

Bianchi, Javier, J. Hatchondo, and L. Martinez (2011) “Optimal Reserve Accumulation”, Mimeo, NYU.

Eaton, Jonathan, and Mark Gersovitz, (1981) “Debt with Potential Repudiation: Theoretical and Empirical Analysis,” *Review of Economic Studies*, v. XLVIII, 289-309.

Additional Readings:

Aguiar, M. and G. Gopinath (2006) “Defaultable Debt and Current Account Sustainability,” *JIE*.

Aguiar, Mark, Manuel Amador and Gita Gopinath (2009), “Investment Cycles and Sovereign Debt Overhang,” *Review of Economic Studies* 76(1), pp. 1-31

Atkeson, Andrew (1991) “International Lending with Moral Hazard and Risk of Repudiation,” *Econometrica* 59(4), pp. 1069-1089.

Alfaro L. and Kanczuk F. (2007) “Optimal Reserve Management and Sovereign Debt,” *JIE*.

Arellano Cristina and Ananth Ramanarayanan (2010) “Default and the maturity structure in sovereign bonds”, Mimeo UMN

Chatterjee, S. and Eyigungor, B. (2009). ‘Maturity, Indebtedness and Default Risk’. Federal Reserve Bank of Philadelphia Working Paper 09-02.

Cole, H.L. and T. Kehoe (1996) “A Self-Fulfilling Model of Mexico’s 1994-95 Debt Crisis,” *Journal of International Economics*, 41, 309-30,

Cuadra, G. and H. Sapriza, 2007, “Fiscal Policy and Default Risk in Emerging Markets,” Bank of Mexico.

Hatchondo, J. C. and Martinez, L. (2009). ‘Long-duration bonds and sovereign defaults’. *Journal of International Economics*, volume 79, 117-125.

D’Erasmus, Pablo (2009) “Government Reputation and Debt Repayment in Emerging Economies,” Mimeo, University of Maryland.

Mendoza, E. and Z. V. Yue (2008) “A Solution to the Default Risk-Business Cycle Disconnect,” Mimeo, University of Maryland.

Z. V. Yue, (2007) “Sovereign Default and Debt Renegotiation,” *JIE*.

5. International Business Cycles, Global Imbalances, & Heterogeneous Agents

Required Readings:

Mendoza-Quadrini Notes

Mendoza E., V. Quadrini and V. Rios-Rull (2009) “Financial Integration, Financial Development and Global Imbalances,” JPE 117(3).

Quadrini Vincenzo and Fabrizio Perri (2011) “International recessions”, Mimeo, USC.

Additional Readings:

Caballero, R., E. Farhi, and P.O. Gourinchas (2008) “An Equilibrium Model of ‘Global Imbalances’ and Low Interest Rates,” American Economic Review 98: 358-393.

Kaminsky, Carmen Reinhart and Carols Vegh (2003) “The Unholy Trinity of Financial Contagion,” Journal of Economic Perspectives, 17, no. 4, Fall, 99-118.

Kehoe, Patrick and Perri, Fabrizio (2002) “International Business Cycles with Endogenous Incomplete Markets,” Econometrica, vol 70(3), 907-928.

Mendoza, E. and V. Quadrini (2010) “Financial Globalization, Financial Crises and Contagion,” Journal of Monetary Economics, forthcoming.

Mendoza, E., V. Quadrini, and J. V. Rios-Rull (2009) “On the Welfare Implications of Financial Globalization without Financial Development,” International Seminar on Macroeconomics Annual, R. Clarida & F. G Giavazzi, eds.

Pavlova and Rigobon (2011) “International Macro-Finance,” Encyclopedia of Financial Globalization.