

**University of Pittsburgh**  
**Spring 2015 Economics 2510**  
**International Finance**

*Room:* Posvar 4940, 11:00 a.m. - 12:15 p.m., Tue/Thu

*Instructor:* Sewon Hur

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*Office Hours:* 1:30-3PM Wednesday, or by appointment

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**Course Description:**

This is a class in open economy macroeconomics. The course will start with an overview of some of the open questions that are in the field. We will then study the mechanics of benchmark international macro models. Lectures will cover various topics: international risk sharing (and lack of it), international capital flows and global imbalances, sovereign debt and default, financial crises and sudden stops, and business cycles in emerging economies.

**Textbook:**

There is no formal textbook for this course. Two recommended references are:

Obstfeld, M. and K. Rogoff, "Foundations of International Macroeconomics", MIT Press 1996

Ljungqvist, L. and T. Sargent, "Recursive Macroeconomic Theory", 2nd edition, MIT Press 2004

**Assignments and Grading:**

There will be 3 problems sets (40%), a presentation of a paper (20%), and a group project (40%). Students are permitted (and encouraged) to discuss the answers to problem sets together.

Copying from another student's answers is not allowed.

Each group will consist of 2-3 students. Topics for projects will be related to empirical issues in international macroeconomics, such as various open-economy puzzles, or to issues of policy relevance, such as financial crises, sovereign defaults, etc.

**Late Policy:**

Any late assignment will be penalized 10 (out of 100) points for each class period it is late, up to a maximum of 40 points.

**List of Topics and Readings:**

**0. Overview**

- (\*) Obstfeld and Rogoff (2000) "Six major puzzles in Macroeconomics: Is There a Common Cause?" NBER Macro Annual

**1. International Business Cycles and International Risk Sharing**

- (\*) Backus, Kehoe, and Kydland (1994). "Dynamics of the Trade Balance and the Terms of Trade: The J-Curve," AER
- Backus, Kehoe, and Kydland (1992). "International Real Business Cycles," JPE

- Schmitt-Grohe and Uribe (2003). "Closing Small Open Economy Models," JIE
- Backus, Kehoe, and Kydland (1994). "Dynamics of the Trade Balance and the Terms of Trade: The J curve," AER
- (\*) Backus and Smith (1993). "Consumption and Real Exchange Rates," JIE
- (\*) Cole and Obstfeld (1991). "Commodity trade and international risk sharing: How much do financial markets matter?" JME
- Feldstein and Horioka (1990). "Domestic Saving and International Capital Flows." Economic Journal
- Baxter and Crucini (1992). "Explaining Savings-Investment Correlations," AER
- (\*) Kehoe and Perri (2002), "International Business Cycles with Endogenous Incomplete Markets," Econometrica
- (\*) Baxter and Crucini (1995). "Business Cycles and the Asset Structure of Foreign Trade," IER
- Baxter and Jermann (1997). "The International Diversification Puzzle is Worse Than You Think," AER
- (\*) Heathcote and Perri (2008). "The International Diversification Puzzle Is Not As Bad As You Think," NBER Working Paper 13483
- Gourinchas and Jeanne (2005). "The Elusive Gains from International Financial Integration." Review of Economic Studies

## **2. International capital flows and global imbalances**

- Lucas (1990). "Why doesn't capital flow from rich to poor countries?" AER (P&P)
- (\*) Gourinchas and Jeanne (2009). "Capital Flows to Developing Countries: The Allocation Puzzle," NBER Working Paper 13602
- (\*) Caballero, Farhi, and Gourinchas (2008). "An Equilibrium Model of "Global Imbalances" and Low Interest Rates," AER
- (\*) Mendoza, Quadrini, and Rios-Rull (2009). "Financial Integration, Financial Deepness and Global Imbalances," JPE
- Obstfeld, M. and K. Rogoff, 2004. "The Unsustainable US Current Account Position Revisited", NBER Working Papers 10869
- Obstfeld, M. and K. Rogoff, 2005. "Global Current Account Imbalances and Exchange Rate Adjustments," Brookings Papers on Economic Activity, vol. 36(2005-1), pages 67-146

## **3. Sovereign Debt, Default, Financial Crises, and Sudden Stops**

- (\*) Arellano (2008). "Default Risk and Income Fluctuations in Emerging Economies," AER
- (\*) Atkeson (1991). "International Lending with Moral Hazard and Risk of Repudiation," Econometrica
- Amador (2008). "Sovereign Debt and the Tragedy of the Commons,"
- (\*) Bulow and Rogoff (1989). "Sovereign Debt: Is to Forgive to Forget?" AER
- Bulow and Rogoff (1989). "A Constant Recontracting Model of Sovereign Debt," JPE
- Cole and P. Kehoe (1998). "A General Reputation Model of Sovereign Debt," IER
- Eaton and Gersovitz (1981). "Debt with Potential Repudiation: Theoretical and Empirical Analysis," Review of Economic Studies
- Eaton and Fernandez (1995). "Sovereign Debt," in Handbook of International Economics, edited by Gene M. Grossman and Kenneth Rogoff
- Kletzer and Wright. (2000). "Sovereign Debt as Intertemporal Barter," AER
- Tirole (2003). "Inefficient Foreign Borrowing: A Dual and Common-Agency Perspective," AER

- Atkeson (2000). Rethinking Multiple Equilibria in Macroeconomic Modeling: A Comment” NBER Macroeconomics Annual 2000
- Calvo (1987). “Balance of Payments Crises in a Cash-in-Advance Economy,” Journal of Money, Credit and Banking
- (\*) Chang and Velasco (2001). “A Model of Financial Crises in Emerging Markets,” QJE
- Chari and Kehoe (2003). “Hot Money,” JPE
- Hellwig, Mukherji, Tsyvinsky (2006). “Self-Fulfilling Currency Crises: The Role of Interest Rates,” AER
- Krugman (1979). “A Model of Balance of Payments Crises,” Journal of Money, Credit and Banking
- (\*) Morris and Shin (1998). “Unique Equilibrium in a Model of Self-Fulfilling Currency Attacks,” AER
- Morris and Shin (2001). “Rethinking Multiple Equilibria in Macroeconomic Modeling,” NBER Macroeconomics Annual 2000
- Obstfeld (1986). “Rational and Self-fulfilling Balance-of-Payments Crises,” AER
- Aguiar, Amador, Farhi, and Gopinath (2012). “Crisis and Commitment: Inflation Credibility and the Vulnerability to Sovereign Debt Crises,”
- (\*) Cole and Kehoe (2000). “Self-Fulfilling Debt Crises,” Review of Economic Studies
- (\*) Conesa and Kehoe (2012). “Gambling for Redemption and Self-Fulfilling Debt Crises,”
- Federal Reserve Bank of Minneapolis
- Da Rocha, Gimenez, and Lores (2012), “Self-Fulfilling Crises with Default and Devaluation,” Universidade de Vigo
- Kehoe, Ruhl, and Steinberg (2012) “A Sudden Stop to the Savings Glut and its Impact on the U.S. Economy,” Federal Reserve Bank of Minneapolis
- Arellano and Mendoza (2002). “Credit Frictions and ‘Sudden Stops’ in Small Open Economies: An Equilibrium Business Cycle Framework for Emerging Markets Crises,” NBER Working Paper 8880
- Chari, Kehoe, and McGrattan (2005). “Sudden Stops and Output Drops,” AER
- Kehoe and Ruhl (2009). “Sudden Stops, Sectoral Reallocations, and the Real Exchange Rate,” Journal of Development Economics
- Mendoza (2006). “Lessons from the Debt-Deflation Theory of Sudden Stops,” AER
- Hur and Kondo (2014). “A Theory of Rollover Risk, Sudden Stops, and Reserves,” Working Paper

#### **4. Business Cycles in Emerging Markets**

- (\*) Aguiar and Gopinath (2007). “Business Cycles in Emerging Economies. The Cycle is the Trend,” JPE
- Aguiar, Amador, and Gopinath (2009). “Expropriation Dynamics,” AER
- Chang and Fernandez (2010). “On the Sources of Aggregate Fluctuations in Emerging Economies,” NBER Working Papers 15938
- (\*) Neumeyer and Perri (2004). “Business Cycles in Emerging Markets: The Role of Interest Rates,” JME
- Correia, Neves, and Rebelo (1995). "Business cycles," European Economic Review
- Kraay and Ventura (2002) "Current accounts," NBER Macro Annual 2002
  - Perri Comment: <http://www.fperri.net/discussions/KVperri.pdf>
- Schmitt-Grohe and Uribe (2003). “Closing small open economies,” JIE

#### **5. Recent papers in International Macro**

- Aguiar and Amador (2011). “Fiscal Policy in Debt Constrained Economies,” NBER Working paper 17457
- (\*) Bianchi (2011) “Over-borrowing and Systemic Externalities in the Business Cycle,” AER
- Borri and Verdelhan (2011), “Sovereign Risk Premia,” Working paper
- (\*) Costinot, Lorenzoni and Werning (2011). “A Theory of Capital Controls as Dynamic Terms-of-Trade Manipulation,” NBER working paper 17680
- Fahri, Gopinath and Itskhoki (2011). “Fiscal Devaluations,” NBER working paper 17662
- (\*) Maggiori (2012). “Financial Intermediation, International Risk Sharing, and Reserve Currencies,” Working paper
- Mendoza and Yue (2011). “A general equilibrium model of sovereign default and business cycles,” NBER working paper 17151
- Simsek (2011). “Speculation and Risk Sharing with New Financial Assets,” NBER working paper 17457

(\*) denote required readings