Summer 2005
Executive MPA Program
School of International And Public Affairs
Columbia University

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OPEN ECONOMY MACROECONOMIC ANALYSIS

SYLLABUS

This course examines key issues in open economy macroeconomics, including the foreign exchange market, international monetary arrangements, the balance of payments and current account imbalances, national income accounting, external debt, the effectiveness of monetary and fiscal policies in open economies, the determinants of exchange rate changes, balance of payments crises, and the economics of monetary integration. The course is policy-oriented, analyzing case studies and issues relating to the U.S. budget and current account deficits, the value of the dollar, the Japanese economy, Chinese trade and the value of the yuan, capital flows and financial crises in emerging markets, the operation of the European Monetary System and the European Central Bank, contagion and the international transmission of economic disturbances, and other related topics

Course requirements include: 6 problem sets (40%), midterm exam (30%) and final exam (30%).

The basic textbook for the course is:

Francisco L. Rivera-Batiz and Luis A. Rivera-Batiz, *International Finance and Open Economy Macroeconomics*, Prentice Hall, New Jersey, 1993.

The book will be updated in the lectures and supplemented with recent articles by academics and policymakers.

The following topics are covered

May 18	Globalization, Exchange Rates, and International Competitiveness
May 25	Central Banks and Monetary Arrangements in Open Economies
June 1	Capital Flows and International Financial Markets
June 8	The Balance of Payments and National Income Accounts: Measuring Trade, Investment, Income and Indebtedness
June 15	Midterm Exam
June 22	Macroeconomic Analysis Under Flexible Exchange Rates
June 29	Documentary: The Commanding Heights: The Battle for the World Economy
July 6	Fixed Exchange Rates and Balance of Payments Crises in Emerging Markets
July 13	Macroeconomics and Long-Run Economic Growth
July 20	Final Exam

READING LIST

1. Globalization, Exchange Rates and International Competitiveness

Topics Indexes of openness in the goods and assets markets, the foreign exchange market currency markets in the U.S. and the world, multilateral exchange rates, measuring international competitiveness, nominal and real exchange rates, purchasing power parity.

Readings Rivera-Batiz and Rivera-Batiz, Introduction and Chapters 1, 3 and 10 (257-263).

Martin Neil Baily, "Persistent Dollar Swings and the US Economy," in C. Fred Bergsten and J. Williamson, eds., *The Dollar Overvaluation*, Institute for International Economics, February 2003, 81-134.

Michael Pakko and Patricia Pollard, "Burgernomics: A Big Mac Guide to Purchasing Power Parity," *Review of the Federal Reserve Bank of St. Louis*, November/December 2003.

2. Central Banks and Monetary Arrangements in Open Economics

Topics Central banks and exchange rate regimes, central bank mission and governance, the money supply process in the open economy, and the European Central Bank, the Bretton Woods and post-Bretton Woods international monetary systems.

Readings Rivera-Batiz and Rivera-Batiz, chapters 2 and 14, pp. 372-82.

Barry Eichengreen, "Europe, the Euro and the European Central Bank: Monetary Success, Fiscal Failure," Working Paper, University of California at Berkeley, Berkeley, California, January 2005.

Patricia Pollard, A Look Inside Two Central Banks: The European Central Bank and the Federal Reserve," *Review of the Federal Reserve Bank of St. Louis*, January/February 2003.

Geoffrey P. Miller, "Three Myths about Central Banks," Federal Reserve Bank of Cleveland, Cleveland, Ohio, November 2002.

Robert A. Mundell, "Currency Areas and International Monetary Reform at the Dawn of a New Century," in Francisco L. Rivera-Batiz and Luis A. Rivera-Batiz, eds., *International Financial Liberalization, Capital Flows and Exchange Rate Regimes*, Special Issue of *Review of International Economics*, November 2001.

Joseph Stiglitz, "Central Banking in a Democratic Society," Tinbergen Lecture, Amsterdam, The Netherlands, October 10, 1997.

3. Capital Flows and International Financial Markets

Topics Interest rates in world capital markets, covered interest parity condition, political risk, the effects of the liberalization of capital flows, asset price bubbles, sudden stops, financial crises in emerging markets.

Readings Rivera-Batiz and Rivera-Batiz, Chapter 4.

Maurice Obstfeld and Alan M. Taylor, "Globalization and Capital Markets," in Michael D. Bordo, Alan M. Taylor and Jeffrey Williamson, eds., *Globalization in Historical Perspective*, The University of Chicago Press, Chicago, 2003, 121-187.

Richard M. Levich, "The Importance of Emerging Capital Markets," Paper prepared for the Brookings-Wharton Papers on Financial Services, 'Integrating the Emerging Market Countries into the Global Financial System,' Washington, D.C., January 11-12, 2001.

Maurice Obstfeld, "The Global Capital Market: Benefactor or Menace?," *Journal of Economic Perspectives*, Vol. 12, No. 4, Fall 1998, 9-30.

4. The Balance of Payments and National Income Accounts: Measuring Trade, Investment, Income and Indebtedness

Topics Balance of payments concepts, balance of trade, the current account balance, the official reserve settlements account, the U.S. international investment position, savings, investment and the current account balance, and the U.S. twin deficits.

Readings Rivera-Batiz and Rivera-Batiz, *International Finance and Open Economy Macroeconomics*, chapters 9, 10 and 11

Nouriel Roubini and Brad Setser, "Will the Bretton Woods 2 Regime Unravel Soon? The Risk of a Hard Landing in 2005-2006," paper presented at the conference on The Revived Bretton Woods System: A New Paradigm for Asian Development?," Federal Reserve Ban of San Francisco, February 4, 2005.

Council of Economic Advisers, "The Link Between Trade and Capital Flows," *Economic Report of the President*, February 2004, chapter 14, 253-264.

Jeffrey Frankel, "A Debate on the Deficit," *Challenge*, Nov./December 2004.

Owen F. Humpage, "A Hitchhiker's Guide to the U.S. Current Account Problem," Federal Reserve Bank of Cleveland, Cleveland, Ohio, October 2004.

Michael Dooley, D. Folkerts-Landau and P. Garber, "An Essay on the Revived Bretton Woods System," National Bureau of Economic Research, Cambridge, Massachusetts, Working Paper No. 9971, September 2003.

5. Macroeconomic Analysis Under Flexible Exchange Rates

Topics: The Mundell-Fleming model, the real exchange rate and Dutch disease, the effects of monetary and fiscal policies under floating exchange rates, exchange rate volatility, effectiveness of foreign exchange market intervention, and the value of the dollar.

Readings: Rivera-Batiz and Rivera-Batiz, *International Finance and Open Economy Macroeconomics*, chapter 13 and 15.

Jim O'Neill, "Features of a Dollar Decline," in C. Fred Bergsten and J. Williamson, eds., *The Dollar Overvaluation*, Institute for International Economics, February 2003, 15-35.

Christine Ebrahim-Zadeh, "Dutch Disease: Too Much Wealth Managed Unwisely," *Finance and Development*, March 2003.

Takoshi Ito, "The Yen and the Japanese Economy," In C. Fred Bergsten and J. Williamson, eds., *Dollar Adjustment: How Far?Against What*?, Nov. 2004.

Roger M. Kubarych, "The Yen and the Dollar: Irrational Exuberance," Occasional Paper No. 31, Center on Japanese Economy and Business, Columbia Business School, May 1997.

6. Fixed Exchange Rates and Balance of Payments Crises in Emerging Markets

Topics: The effectiveness of monetary and fiscal policies under fixed exchange rates, the IMF and Structural Adjustment Programs, balance of payments crises, the Mexican crises of 1982 and 1995, the East Asian crisis of 1997-1998 and the Argentinean crisis of 2001-2002, contagion and international transmission of financial crises.

Readings: Rivera-Batiz and Rivera-Batiz, *International Finance and Open Economy Macroeconomics*, chapters 12, 14 and 20.

Anne O. Krueger, "IMF Stabilization Programs," paper presented at the Conference on Economic and Financial Crises in Emerging Market Economies, Vermont, October 2000.

Rudiger Dornbusch and Alejandro Werner, "Mexico: Stabilization, Reform and No Growth," *Brookings Papers on Economic Activity*, 1994.

Francisco L. Rivera-Batiz, "The Anatomy of Emerging Market Disease," in A. Lukauskas and F. Rivera-Batiz, eds., The Political Economy of the East Asian Financial Crisis: Tigers in Distress, Edward Elgar Publishers, 2002.

7. Macroeconomics and Long-Run Economic Growth

Topics Determinants of long-run economic growth, demographics, education and technological change, the new economy, public sector governance and policy, finance and banking, macroeconomic stability.

Readings Dale W. Jorgenson, Mun S. Ho and Kevin Stiroh, "Will the U.S. Productivity Resurgence Continue?, *Current Issues in Economics and Finance*, Federal Reserve Bank of New York, December 2004.

Olivier Blanchard, "The Future of Europe," *Journal of Economic Perspectives*, Winter, 2004.

Ross Levine, "More in Finance and Growth: More Finance, More Growth?," *Review of the Federal Reserve Bank of St. Louis*, July/August 2003.

Francisco L. Rivera-Batiz, "Democracy, Governance and Economic Growth," *Review of Development Economics*, 2002.