Economics GR6241

Advanced Topics in International Macroeconomics

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Columbia University

Spring 2018

Meetings: Wednesdays, 2:10-4pm, 1102 IAB.

Office Hours: Mondays 4:15 to 5:15, 1109B IAB.

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Requirements: The final grade will be based on four written assignments due in weeks 4, 7, 10, and 13 and on a term paper due at the end of the course. In the final grade, each written assignment will have a weight of 15 percent, and the term paper a weight of 40 percent.

Summary Course Description: This course brings students to the frontier of research in International Macroeconomics. It covers developments in a number of topics relevant for understanding the workings of open economies, including financial frictions, sovereign default, nominal frictions and exchange-rate policy, terms-of-trade shocks, real exchange-rate determination, and international aspects of business-cycle analysis. By the end of the course, students are expected to demonstrate ability to formulate, characterize, estimate, and simulate theoretical and statistical models at the level of a paper publishable in a top field journal.

Main Text: *Open Economy Macroeconomics,* Martín Uribe and Stephanie Schmitt-Grohé, Princeton University Press, 2017 (hereafter USG).

Topics To Be Covered and Suggested Reading:

Each topic listed below is followed by a set of suggested readings containing both background material and additional references meant for students wishing to deepen their knowledge of particular topics.

1. **Financial Frictions, Aggregate Instability, and Macroprudential Policy**

   *USG, chapter 12, "Financial Frictions and Aggregate Instability."

   Mian, Atif, and Amir Suffi, "Finance and Business Cycles: The Credit-Driven Household Demand Channel," *Journal of Economic Perspectives,* forthcoming, 2018.

   Dávila, Eduardo, and Anton Korinek, "Pecuniary Externalities in Economies with Financial Frictions," *Review of Economic Studies 85,* January 2018, 352395.

   Schmitt-Grohé, Stephanie, and Martín Uribe, "Multiple Equilibria in Open Economy Models with Collateral Constraints: Overborrowing Revisited," Columbia University, December 2017.

   Schmitt-Grohé, Stephanie, and Martín Uribe, "Adjustment to Small, Large, and Sunspot Shocks in Open Economies With Stock Collateral Constraints," *Ensayos Sobre Política Económica 35,* April 2017, 2-9.

   Bianchi, Javier, "Overborrowing and Systemic Externalities in the Business Cycle," *American Economic Review 101,* December 2011, 3400-3426.

   Mendoza, Enrique G., "Sudden Stops, Financial Crisis, and Leverage," *American Economic Review 100,* December 2010, 1941-1966.

   Lorenzoni, Guido, "Inefficient Credit Booms," *Review of Economic Studies 75,* 2008, 809-833.

   Uribe, Martín, "On Overborrowing," *American Economic Review Papers and Proceedings 96,* May 2006, 417-421.

   Uribe, Martín, "Individual Versus Aggregate Collateral Constraints and the Overborrowing Syndrome," NBER Working Paper No. 12260, May 2006.

2. Exchange Rates, Nominal Rigidities and Crises in Emerging Countries

*USG, chapter 9, "Nominal Rigidity, Exchange Rates, And Unemployment."

Itskhoki, Oleg, and Dmitry Mukhin, "Exchange Rate Disconnect," NBER working paper 23401, May 2017.

Schmitt-Grohé, Stephanie, and Martín Uribe, "Downward Nominal Wage Rigidity, Currency Pegs, and Involuntary Unemployment," *Journal of Political Economy 124,* October 2016, 1466-1514.

Fornaro, Luca, "Financial Crises and Exchange Rate Policy," *Journal of International Economics 95,* 2015, 202-215.

Drenik, Andres, "Labor Market Dynamics after Nominal Devaluations," Stanford University, December 2015.

Ottonello, Pablo, "Optimal Exchange Rate Policy Under Collateral Constraints and Wage Rigidity," Columbia University, 2015.

Schmitt-Grohé, Stephanie, and Martín Uribe, "Downward Nominal Wage Rigidity and the Case for Temporary Inflation in the Eurozone," *Journal of Economic Perspectives 27,* Summer 2013, 193-212.

Calvo, Guillermo, Fabrizio Coricelli, and Pablo Ottonello, "Jobless Recoveries During Financial Crises: Is Inflation the Way Out?," NBER working paper 19683, November 2013.

Schmitt-Grohé, Stephanie, and Martín Uribe, "Managing Currency Pegs," *American Economic Review: Papers and Proceedings 102,* May 2012, 192-197.

Calvo, Guillermo, "Monetary Policy Challenges in Emerging Markets: Sudden Stop, Liability Dollarization, and Lender of Last Resort," NBER,working paper No. 12788, 2006.

Cook, David, "Monetary policy in emerging markets: Can liability dollarization explain contractionary devaluations?," *Journal of Monetary Economics 51,* 1155-1181, 2004.

Galí, Jordi, and Tommaso Monacelli, "Monetary Policy and Exchange Rate Volatility in a Small Open Economy," *The Review of Economic Studies 72,* July 2005, 707-734.

Eichenbaum, Martin, and Charles L. Evans, "Some Empirical Evidence on the Effects of Shocks to Monetary Policy on Exchange Rates," *Quarterly Journal of Economics 110,* November 1995, 975-1009.

3. Optimal Capital-Control Policy

*USG, chapter 10, "Exchange-Rate Policy and Capital Controls."

Korinek, Anton, "Regulating Capital Flows to Emerging Markets: An Externality View," NBER working paper 24152, December 2017.

Bianchi, Javier, and Enrique G. Mendoza, "Optimal Time-Consistent Macroprudential Policy," *Journal of Political Economy,* forthcoming, 2018.

Farhi, Emmanuel and Ivan Werning, "Fiscal Unions," American Economic Review 107, December 2017/ 3788-3834.

Schmitt-Grohé, Stephanie, and Martín Uribe, "Is Optimal Capital-Control Policy Countercyclical In Open-Economy Models With Collateral Constraints?," *IMF Economic Review 65,* August 2017, 498-527.

Fernández, Andrés, Alessandro Rebucci, and Martín Uribe, "Are Capital Controls Countercyclical?," *Journal of Monetary Economics 76,* 2015, 1-14.

Fernández, Andrés, Michael W. Klein, Alessandro Rebucci, Martin Schindler, and Mart'ın Uribe, "Capital Control Measures: A New Dataset," *IMF Economic Review 64,* 2016, 548-574.

Benigno, Gianluca, Huigang Chen, Christopher Otrok, Alessandro Rebucci, and Eric R. Young, "Optimal Capital Controls and Real Exchange Rate Policies: A Pecuniary Externality Perspective," CEPR Discussion Paper No. 9936, April 2014.

Jeanne, Olivier, "Macroprudential Policies in a Global Perspective," NBER Working Paper No. 19967, March, 2014.

Benigno, Gianluca, Huigang Chen, Christopher Otrok, Alessandro Rebucci, and Eric R. Young, "Financial Crises and Macro-Prudential Policies," *Journal of International Economics 89,* 2013, 453-470.

Jeanne, Olivier, and Anton Korinek, "Macroprudential Regulation Versus Mopping Up After the Crash," NBER Working Paper No. 18675, January 2013.

Farhi, Emmanuel and Ivan Werning, "Dealing With the Trilemma: Optimal Capital Controls With Fixed Exchange Rates," Harvard University, June 2012.

4. Country Spreads, Terms of Trade, and Commodity-Price Shocks

*USG, chapter 6, "Interest-Rate Shocks."

*USG, chapter 7, "Importable Goods, Exportable Goods, and the Terms of Trade."

*USG, chapter 8, "Nontradable Goods and the Real Exchange Rate."

Fernández, Andrés, Andrés González, and Diego Rodríguez, "Sharing a Ride on the Commodities Roller Coaster: Common Factors in Business Cycles of Emerging Economies," *Journal of International Economics,* 2018, forthcoming.

Schmitt-Grohé, Stephanie, and Martín Uribe, "How Important Are Terms Of Trade Shocks?," International Economic Review 50, February 2018/ forthcoming.

Drechsel, Thomas, Silvana Tenreyro, "Commodity Booms and Busts in Emerging Economies," NBER working paper 23716, August 2017.

Ayres, Joao, Constantino Hevia, and Juan Pablo Nicolini, "Real Exchange Rates and Primary Commodity Prices," manuscript, Federal Reserve Bank of Minneapolis, June 2017.

Fernández, Andrés, Fernández, Andrés, Martín Uribe, "World Shocks, World Prices, and Business Cycles: An Empirical Investigation," Journal of International Economics 108, May 2017/ S2-S14.

Baskaya, Yusuf Soner, Julian di Giovanni, Sebnem Kalemli-zcan, José-Luis Peydro, and Mehmet Fatih Ulu, "Capital Flows and the International Credit Channel," *Journal of International Economics 108,* May 2017, Supp. 1.

Baskaya, Yusuf Soner, Julian di Giovanni, Sebnem Kalemli-Ozcan, and Mehmet Fatih Ulu, "International Spillovers and Local Credit Cycles," NBER working paper 23149, February 2017.

Shousha, Samer, "Macroeconomic Effects of Commodity Booms and Busts: The Role of Financial Frictions," Columbia University, January 1, 2016.

Fernández, Andrés and Adam Gulan, "Interest Rates, Leverage, and Business Cycles in Emerging Economies: The Role of Financial Frictions," *American Economic Journal: Macroeconomics 7,* 2015, 153-188.

Akinci, Özge, "Global Financial Conditions, Country Spreads, And Macroeconomic Fluctuations In Emerging Countries," *Journal of International Economics,* 91, 2013/ 358-371.

Uribe, Martín and Z. Vivian Yue, "Country Spreads and Emerging Counties: Who Drives Whom?," *Journal of International Economics 69,* June 2006, 6-35.

Neumeyer, Pablo A. and Fabrizio Perri, "Business Cycles in Emerging Markets:The Role of Interest Rates," *Journal of Monetary Economics 52,* March 2005, 345-380.

Kose, M. A., "Explaining business cycles in small open economies: How much do world prices matter," *Journal of International Economics 56,* 2002, 295-330.

Mendoza, Enrique, "The Terms of Trade, the Real Exchange Rate, and Economic Fluctuations," *International Economic Review 36,* 1995, 101-137.

Time Permitting:

5. Lending Under Imperfect Enforcement

*USG, chapter 13, "Sovereign Default."

Bianchi, Javier, Pablo Ottonello, Ignacio Presno, "Fiscal Policy, Sovereign Risk, and Unemployment," manuscript, Federal Reserve Bank of Minneapolis, 2018.

Arellano, Cristina, Yan Bai, and Sandra Lizarazo, "Sovereign Risk Contagion," Federal Reserve Bank of Minneapolis, Staff Report 559, November 2017.

Na, Seunghoon, Stephanie Schmitt-Grohé, Martín Uribe, and Vivian Z. Yue, "A Model of the Twin Ds: Optimal Default and Devaluation," *American Economic Review,* forthcomeing, 2018.

Arellano, Cristina, "Default Risk and Income Fluctuations in Emerging Economies," *American Economic Review 98,* June 2008, 690-712.

Arellano, Cristina, and Ananth Ramanarayanan, "Default and the Maturity Structure in Sovereign Bonds," *Journal of Political Economy 120,* 2012, 187-232.

Ayres, João, Gaston Navarro, Juan Pablo Nicolini, and Pedro Teles, "Sovereign Default: The Role of Expectations," Federal Reserve Bank of Minneapolis, Working Paper 723, May 2015.

Benjamin, David, and Mark L.J. Wright, "Recovery Before Redemption: A Theory of Delays in Sovereign Debt Renegotiations," Working Paper, University of California Los Angeles, 2013.

Bi, Ran, "Debt Dilution and Maturity Structure of Sovereign Bonds," University of Maryland, February 2006.

Borensztein, Eduardo, and Ugo Panizza, "The Costs of Sovereign Default," *IMF Staff Papers 56,* 2009, 683-741.

Broner, Fernando A., Guido Lorenzoni, and Sergio L. Schmukler, "Why do emerging economies borrow short term?," *Journal of the European Economic Association 11(S1),* January 2013, 67-100.

Bulow, Jeremy, and Kenneth Rogoff, "Sovereign Debt: Is to Forgive to Forget?," *American Economic Review 79,* March 1989, 43-50.

Bulow, Jeremy and Kenneth Rogoff, "A Constant Recontracting Model of Sovereign Debt," *Journal of Political Economy 97,* February 1989, 155-178.

Chatterjee, Satyajit, and Burcu Eyigungor, "Maturity, Indebtedness, and Default Risk," *American Economic Review 102,* October 2012, 2674-2699.

Cruces, Juan J. and Christoph Trebesch, "Sovereign Defaults: The Price of Haircuts," *American Economic Journal: Macroeconomics 5,* 2013, 85-117.

Dias, Daniel A., Christine Richmond, and Mark L.J. Wright, "The stock of external sovereign debt: Can we take the data at face value?," *Journal of International Economics 94,* September 2014, 1-17.

Du, Wenxin, and Jesse Schreger, "Sovereign Risk, Currency Risk, and Corporate Balance Sheets," Harvard University, May 22, 2015.

Durdu, Bora, Ricardo Nunes, and Horacio Sapriza, "News and sovereign default risk in small open economies," *Journal of International Economics 91,* September 2013, 1-17.

Eaton, Jonathan and Mark Gersovitz, "Debt with Potential Repudiation: Theoretical and Empirical Analysis," *Review of Economic Studies 48,* April 1981, 289-309.

Gelos, R. Gaston, Ratna Sahay, and Guido Sandleris, "Sovereign borrowing by developing countries: What determines market access?," *Journal of International Economics 83,* 2011, 243-254.

Gordon, Grey, and Pablo A. Guerron-Quintana, "Dynamics of Investment, Debt, and Default," Indiana University, May 7, 2013.

Hatchondo, Juan Carlos, and Leonardo Martínez, "Long-duration bonds and sovereign defaults," *Journal of International Economics 79,* September 2009, 117-125.

Hatchondo, Juan Carlos, Leonardo Martínez, and Horacio Sapriza, "Quantitative properties of sovereign default models: solution methods matter," *Review of Economic Dynamics 13,* October 2010, 919-933.

Hatchondo, Juan Carlos, Leonardo Martínez, and César Sosa-Padilla, "Debt dilution and sovereign default risk," *Journal of Political Economy,* 2015, forthcoming.

Hébert, Benjamin, and Jesse Schreger, "The Costs of Sovereign Default: Evidence from Argentina," Stanford University, December 2015.

Kim, Yun Jung, and Jing Zhang, "Decentralized borrowing and centralized default," *Journal of International Economics 88,* 2012, 121-133.

Levy Yeyati, Eduardo, and Ugo Panizza, "The elusive costs of sovereign defaults," *Journal of Development Economics 94,* January 2011, 95-105.

Lizarazo, Sandra Valentina, "Default Risk and Risk Averse International Investors," *Journal of International Economics 89,* March 2013, 317-330.

Martínez, José V. and Guido Sandleris, "Is It Punishment? Sovereign Default and the Decline in Trade," *Journal of International Money and Finance 30,* February 2011, 909-930.

Mendoza, Enrique G., and Vivian Z. Yue, "A General Equilibrium model of sovereign default and business cycles," *Quarterly Journal of Economics 127,* 2012, 889-946.

Reinhart, Carmen M., Kenneth Rogoff, and Miguel Savastano, "Debt Intolerance," *Brookings Papers On Economic Activity 2003(1),* 2003, 1-74.

Reinhart, Carmen M., and Kenneth S. Rogoff , *This time is different: eight centuries of financial folly,* Princeton University Press: Princeton, NJ, 2009.

Rose, Andrew K., "One Reason Countries Pay Their Debts: Renegotiation and International Trade," *Journal of Development Economics 77,* 2005, 189-206.

Seoane, Hernán D., "Time-varying volatility, default and the sovereign risk premium," Universidad Carlos III de Madrid, July 2015.

Sturzenegger, Federico, and Jeromin Zettelmeyer, "Haircuts: Estimating Investor Losses in Sovereign Debt Restructurings, 1998-2005," *Journal of International Money and Finance 27,* 2008, 780-805.

Tomz, Michael and Mark Wright, "Do Countries Default in Bad Times?," *Journal of the European Economic Association 5,* April-May 2007, 352-360.

Tomz, Michael, and Mark L.J. Wright, "Empirical Research on Sovereign Debt and Default," *The Annual Review of Economics 5,* 2013, 247-272.

Uribe, Martín, "A Fiscal Theory of Sovereign Risk," *Journal of Monetary Economics 53,* November 2006, 1857-1875.

Yue, Vivian Z. , "Sovereign Default and Debt Renegotiation," *Journal of International Economics 80,* March 2010, 176-187.

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