

Economics W4505  
**International Monetary Theory and Policy**  
Spring 2014

**Instructor:**

Stephanie Schmitt-Grohé. ss3501@columbia.edu. Office Hours: Mondays 4:15-5:15pm, IAB 1109B.

**Meetings:** Mondays and Wednesdays 8:40am-9:55am, 428 Pupin Laboratories.

**Teaching Assistants:**

Matthieu Bellon. mb3413@columbia.edu. Office Hours: Mondays 4:30-5:30pm, Lehman Library.

Samer Shousha. sfs2146@columbia.edu. Office Hours: Tuesdays 2-3pm, Lehman Library.

**Recitations: (attend one per week)**

Thursdays, 4:10-5:30pm, 603 Hamilton, taught by Matthieu Bellon

Fridays, 3:00-4:30pm, 403 IAB, taught by Samer Shousha.

**Prerequisites:** Economics W3211 and Economics W3213.

**Midterm Exams:** Wednesday, February 19, and Monday March 31, in class.

**Final Exam:** Wednesday, May 14 from 9 to 12 (projected).

**Course description:** Econ W4505 is a field course in International Macroeconomics. The course develops a theoretical framework for the analysis of the determinants of international capital movements, trade imbalances, and nominal and real exchange rates. The theoretical framework is then used as the basis for the discussion of policy issues such as the emergence of the United States as the largest foreign debtor, the recent European debt crisis, currency unions, debt default, balance-of-payment crises, and the effect of the Great Recession of 2008 on the world economy.

**Text:** “International Macroeconomics,” by Stephanie Schmitt-Grohé and Martín Uribe, textbook manuscript, Columbia University, 2013. The textbook manuscript and any additional readings will be posted on courseworks.

**Requirements:** The final grade will be based on written homework assignments (20%), two midterm examinations (50%), and a cumulative final exam (30%). No late problem sets will be accepted and no makeup exams will be given. Homework assignments will be posted on courseworks one week before they are due. You may miss one of the homework assignments.

**Outline of the material to be covered in class:**

**1. Global Imbalances**

- *International Macroeconomics*, Chapters 1 and 2.
- Additional Readings:
  - Milesi-Ferretti, Gian Maria, “A \$2 Trillion Question,” VOX, January 28, 2009, available online at <http://www.voxeu.org>.
  - Hausmann, Ricardo and Federico Sturzenegger, “U.S. and Global Imbalances: Can Dark Matter Prevent a Big Bang?,” Working Paper, CID (Center For International Development), Harvard University, 2005.
  - Gourinchas, Pierre-Olivier, and Hélène Rey, “From World Banker to World Venture Capitalist: U.S. External Adjustment and the Exorbitant Privilege,” in Richard H. Clarida, editor, *G7 Current Account Imbalances: Sustainability and Adjustment*, University of Chicago Press, May 2007, pp. 11-66.

## 2. Current Account Sustainability

*International Macroeconomics*, chapter 2.

## 3. A Theory of Current Account Determination

*International Macroeconomics*, chapters 3 and 5.

## 4. Uncertainty and the Current Account

*International Macroeconomics*, chapter 4.

## 5. External Adjustment in Small and Large Economies

*International Macroeconomics*, chapter 6.

Additional Reading:

- Ben S. Bernanke, “*The Global Saving Glut and the U.S. Current Account Deficit*,” Homer Jones Lecture, St. Louis, Missouri, April 14, 2005.

## 6. Twin Deficits: Fiscal Deficits and Current Account Imbalances

*International Macroeconomics*, chapter 7.

## 7. International Capital Market Integration

- *International Macroeconomics*, chapter 8.
- Additional Readings:
  - Obstfeld, Maurice and Alan M. Taylor, Globalization and Capital Markets, in Michael D. Bordo, Alan M. Taylor and Jeffrey G. Williamson, Editors, *Globalization in Historical Perspective*, University of Chicago Press, 2003.
  - “Carry on Speculating,” *The Economist Magazine*, February 24, 2007, page 90.

## 8. The Law of One Price, Purchasing Power Parity, and Real Exchange Rates

- *International Macroeconomics*, chapter 9 and chapter 10.1.
- Additional Readings:
  - Taylor, Alan M. and Mark P. Taylor, “The Purchasing Power Parity Debate,” *Journal of Economic Perspectives* 18, Fall 2004, 135-158.

## 9. The Macroeconomics of External Debt

*International Macroeconomics*, chapter 11.

## 10. Monetary Policy and Nominal Exchange Rates

- *International Macroeconomics*, chapter 12.
- Additional Readings:

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