

CARLETON UNIVERSITY
Department of Economics
International Monetary Theory
ECON 5602 W – 2023 Winter

COURSE INFORMATION

Lectures: Mondays 11:35-14:25

Location: Nicol Building Room: 3038

Office Hours: In person or virtual and by appointment via email (use your Carleton email).

CONTACT INFORMATION

Professor: Raul Razo-Garcia

Office: A-804 Loeb Building

Course Website: The course website will be hosted by **Brightspace**. Brightspace will be used for all the course announcements and email; office hours; assignments; links to the course slides; and online submission of the assignments. Students are responsible for regularly checking the course website to ensure that they are up to date with any announcements and have access to the documents posted.

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OVERVIEW OF THE COURSE:

This is an advanced and theoretical course in international macroeconomics, international monetary theory, and international finance. The main objective of the course is to develop macroeconomic models for small open economies that can be usefully applied to international economic phenomena. We will study concepts such as the current account, the determination of exchange rates, the effect of fiscal and monetary policies under different exchange rate regimes and currency crises.

Supplementary Textbooks:

- (SU) Martín Uribe and Stephanie Schmitt-Grohé, *Open Macroeconomics*, Princeton University Press, 2017.
- (SUW) Stephanie Schmitt-Grohe, Martin Uribe and Michael Woodford, *International Macroeconomics: A Modern Approach*, Princeton University Press, First Edition (ISBN: 9780691189543). **More info here.**

- (OR) Maurice Obstfeld and Kenneth Rogoff, *Foundations of International Macroeconomics*, MIT Press, 1996.

GRADING POLICY:

- Assignment 1: 15% (Monday Feb 13 before 11:59pm) tentative
- Assignment 2: 15% (Monday April 10 before 11:59pm) tentative
- Paper Presentation: 15% (March 27, and April 3 and 10)
- Midterm Examination: 27% (Monday Feb 27)
- Final Examination (take-home): 28% (during the April Exam Period as Scheduled by the University)

This % grade will then be converted into the alphabetical grade system using the standard equivalences, as outlined in Section 2.3 of the Academic Regulations of the University in the 2021-2022 Undergraduate Calendar.

Final Grades: Please note that “Standing in a course is determined by the course instructor subject to the approval of the Faculty Dean. This means that grades submitted by an instructor may be subject to revision. No grades are final until they have been approved by the Dean.”

TEACHING DELIVERY: In-person lectures. If for some reason the Professor cannot deliver the lecture in person, the lecture will be delivered virtually via Zoom. If that’s the case, I will make the announcement at least 1 day in advance of the online lecture.

Office Hours Delivery: Office hours will take place via Zoom. Students can request via email an online appointment with the Professor. To request such an appointment use your Carleton email address.

ACTIVITIES:

Assignments: The assignments will consist of several questions and problems and must be submitted before **11:59 pm** (Eastern Canada Time) **via Brightspace** on the due date. I recommend to start working on the assignments as soon as they are posted to **Brightspace** (it is very likely that you won’t finish the assignment on time if you start working on it one or two days before the due date). Note that assignments will **NOT** be accepted by email. **Late assignments will NOT be accepted and will receive a grade of ZERO.** Students can submit only **ONE pdf or word** file for each assignment. Students may wish to work together on assignment material, **BUT each student MUST write up their own solutions INDEPENDENTLY. Students working in groups cannot submit identical solutions.** In this connection, please be sure to read the following document “**Academic Integrity and Offenses of Conduct.**”

Midterm (take-home): At 11:30am ET on **February 27** the exam will be available for you to see in Brightspace. You should write the exam at home and upload your answers to Brightspace by 11:30am on the next day (February 28). The **24-hour take-home** midterm exam will cover all the material included in the material reviewed in class until (and including) February 13. The exam is being set as if it was an in-person exam and you are expected to write them as if you were writing

in person. That is, **you should not consult/discuss your solutions with other classmates or anyone else. This is an individual activity, so students cannot work in groups.** You will also be required to sign a statement that says what you have uploaded is your own. If you miss the midterm it will be treated in two ways:

- First, you may provide written evidence from an authority explaining your absence (e.g. doctor's note or police report, **the documentation provided by students for missed midterm may be subject to verification**). If you meet this condition you can write a make-up exam or you can receive the same rank-based score you earned on the final (if you choose the rank-based approach, you will have to answer a few more problems in the final exam to cover the topics included in the midterm). You have until March 1st to submit your document along the "Consent to Release Information to a Third Party" form (you can download this form from **Brightspace**).
- Alternatively, absent written explanations, you will receive a zero for the midterm.

FINAL EXAM: The final exam will cover the material reviewed from March 8 to April 10. The 24-hour take-home final exam is being set as if it was an in-person exam and you are expected to write them as if you were writing in person. That is, **you should not consult/discuss your solutions with other classmates or anyone else. This is an individual activity, so students cannot work in groups.** You will also be required to sign a statement that says what you have uploaded is your own. Application to write a deferred final examination must be made at the Registrar's Office. In the event that a student writes a deferred examination, the deferred examination will carry the same weight as the final examination in determining the course grade. Needless to say, any deferred examination will not be identical to the original final examination.

Presentations: On March 27, April 3 and 10, the students, in groups or individually, will present a paper. In the third week of the term, the Professor will assign the papers to each student/group. The student/group will present for about 60 minutes with the requirement that **ALL** the team-members will be responsible for one part of the presentation (each student has to present approximately 60/N minutes where N is the number of students on his/her team). During the presentation the Professor can ask, to any member of the team, a question related to the paper and/or to continue with the presentation. A handout must be submitted at least 24hrs before the presentation. The grade will be assigned individually. **If you do not show up for your presentation on the designated day, you will receive a grade of zero.**

Re-grading Policy: Any request for regrading exams must be **submitted in writing** within **one week** of that exam first being returned to the class. The request should contain a detailed explanation of why you feel you should receive a higher grade. Please note that I will regrade the entire exam not just the contentious question. As a result, the revised grade may be higher than, lower than or the same as the original grade.

Academic Support: The Centre for Student Academic Support (CSAS) designs, develops, and implements educational programs and services that are available to support all Carleton University students to have successful academic experiences, achieve their goals and improve their learning. CSAS offers academic assistance with online student success, course content, academic writing and skills development. For more information, visit the **CSAS website**.

Student Mental Health Support: As a University student you may experience a range of mental health challenges that significantly impact your academic success and overall well-being. If you need

help, please speak to someone. There are numerous resources available both on- and off-campus to support you. **Here** is a list that may be helpful

ACADEMIC ACCOMMODATIONS

You may need special arrangements to meet your academic obligations during the term. For an accommodation request the processes are as follows:

1. **Pregnancy Obligation:** Please contact your instructor with any requests for academic accommodation during the first two weeks of class, or as soon as possible after the need for accommodation is known to exist. For more details, visit the **Equity Services website**.

2. **Religious Obligation:** Please contact your instructor with any requests for academic accommodation during the first two weeks of class, or as soon as possible after the need for accommodation is known to exist. For more details, visit the **Equity Services website**.

3. **Academic Accommodations for Students with Disabilities:** If you have a documented disability requiring academic accommodations in this course, please contact the Paul Menton Centre for Students with Disabilities (PMC) at 613 – 520 – 6608 or pmc@carleton.ca for a formal evaluation or contact your PMC coordinator to send your instructor your Letter of Accommodation at the beginning of the term. You must also contact the PMC no later than two weeks before the first in-class scheduled test or exam requiring accommodation (if applicable). After requesting accommodation from PMC, meet with your instructor as soon as possible to ensure accommodation arrangements are made. Please check the **PMC website**.

4. **Survivors of Sexual Violence:** As a community, Carleton University is committed to maintaining a positive learning, working and living environment where sexual violence will not be tolerated, and is survivors are supported through academic accommodations as per Carleton’s Sexual Violence Policy. For more information about the services available at the university and to obtain information about sexual violence and/or support, visit: carleton.ca/sexual-violence-support

5. **Accommodation for Student Activities:** Carleton University recognizes the substantial benefits, both to the individual student and for the university, that result from a student participating in activities beyond the classroom experience. Reasonable accommodation must be provided to students who compete or perform at the national or international level. Please contact your instructor with any requests for academic accommodation during the first two weeks of class, or as soon as possible after the need for accommodation is known to exist: carleton.ca/senate/wp-content/uploads/Accommodation-for-Student-Activities-1.pdf

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Reading List:

1 Traditional Models of International Monetary Economics

DORNBUSCH, R. (1976): “Expectations and Exchange Rate Dynamics,” *The Journal of Political Economy*, 84.

ENGEL, C., N. C. MARK, AND K. D. WEST (2007): “Exchange Rate Models Are Not as Bad as You Think,” *National Bureau of Economic Research Working Paper Series*, No. 13318.

MUNDELL, R. A. (1961): “A Theory of Optimum Currency Areas,” *The American Economic Review*, 51.

MUNDELL, R. A. (1963): “Capital Mobility and Stabilization Policy under Fixed and Flexible Exchange Rates,” *The Canadian Journal of Economics and Political Science*, 29, 475–485.

ROGOFF, K. S. (2002): “Dornbusch’s Overshooting Model After Twenty-Five Years,” *IMF Working Paper*, pp. 1–41.

Obstfeld-Rogoff, 8.1-8.2, 9.1-9.4.

2 (New) Open Economy Macroeconomics

CHARI, V. V., P. J. KEHOE, AND E. R. MCGRATTAN (2002): “Can Sticky Price Models Generate Volatile and Persistent Real Exchange Rates?,” *The Review of Economic Studies*, 69.

CHOUDHRI, E. U., H. FARUQEE, AND D. S. HAKURA (2005): “Explaining the exchange rate pass-through in different prices,” *Journal of International Economics*, 65(2), 349–374.

CORSETTI, G., L. DEDOLA, AND S. LEDUC (2010): “Optimal Monetary Policy in Open Economies,” *Handbook of Monetary Economics*, Volume III, 861–933.

CORSETTI, G. AND P. PESENTI (2008): “The Simple Geometry of Transmission and Stabilization in Closed and Open Economies,” *NBER International Seminar on Macroeconomics*, National Bureau of Economic Research, Inc., 2007, 65-116.

DEVEREUX, M. B., AND C. ENGEL (2003): “Monetary Policy in the Open Economy Revisited: Price Setting and Exchange-Rate Flexibility,” *Review of Economic Studies*, 70, 765–783.

DUARTE, M., AND M. OBSTFELD (2007): “Monetary Policy in the Open Economy Revisited: The Case for Exchange Rate Flexibility Restored,” manuscript, University of Toronto and UC Berkeley.

ENGEL, C. (2002): “Expenditure Switching and Exchange-Rate Policy,” *NBER Macroeconomics Annual*, 17, 231–272.

GHIRONI, F., AND M. J. MELITZ (2005): “International Trade and Macroeconomic Dynamics with Heterogeneous Firms*,” *Quarterly Journal of Economics*, 120, 865–915.

LANE, P. R. (2001): “The new open economy macroeconomics: a survey,” *Journal of International Economics*, 54(2), 235–266.

OBSTFELD, M., AND K. ROGOFF (1995): “Exchange Rate Dynamics Redux,” *Journal of Political Economy*, 103, 624–660.

————— (2000): “New Directions for Stochastic Open Economy Models,” *Journal of International Economics*, 50, 117–53.

Obstfeld-Rogoff, Ch 10.

Uribe-Stephanie Schmitt-Grohé, Chapters 2, 3, 4, 5, 8, 9 and 10.

3 Currency Crises

FLOOD, R. P., AND P. M. GARBER (1984): “Collapsing exchange-rate regimes : Some linear examples,” *Journal of International Economics*, 17(1-2), 1–13.

JEANNE, O. (2000): “Currency Crises: A Perspective on Recent Theoretical Developments,” *Princeton Special Papers in International Economics*, 20.

KAMINSKY, G. L. (1998): “Currency and banking crises: the early warnings of distress,” International Finance Discussion Papers 629, Board of Governors of the Federal Reserve System (U.S.).

KRUGMAN, P. (1979): “A Model of Balance-of-Payments Crises,” *Journal of Money, Credit and Banking*, 11(3), 311–325.

MORRIS, S., AND H. S. SHIN (1998): “Unique Equilibrium in a Model of Self-Fulfilling Currency Attacks,” *American Economic Review*, 88(3), 587–97.

OBSTFELD, M. (1996): “Models of currency crises with self-fulfilling features,” *European Economic Review*, 40(3-5), 1037–1047.

OBSTFELD, M., AND K. ROGOFF (1995): “The Mirage of Fixed Exchange Rates,” *The Journal of Economic Perspectives*, 9.

GOLDSTEIN, I., OZDENOREN, E. AND K. YUAN (2011): “Learning and Complementarities: Implications for Speculative Attacks,” *The Review of Economic Studies*, Oxford University Press, vol. 78, pages 263–292.

Obstfeld-Rogoff, 8.4.

Mark, Ch 11

4 Recent Studies in International Macroeconomics

AIZENMAN, J., M. BINICI AND M. HUTCHISON (2013): “Credit Ratings and the Pricing of Sovereign Debt during the Euro Crisis,” NBER Working Papers No. 19125.

AIZENMAN, J., AND G. K. PASRICHA (2013): “Why do emerging markets liberalize capital outflow controls? Fiscal versus net capital flow concerns,” NBER Working Papers No. 18879.

BJRNL, H. C. (2009): “Monetary policy and exchange rate overshooting: Dornbusch was right after all,” *Journal of International Economics*, 79(1), 64–77.

BRAUNING, FALK AND VICTORIA IVASHINA (2018): “U.S. Monetary Policy and Emerging Market Credit Cycles,” NBER Working Papers No. 25185.

CABALLERO, RICARDO AND ALP SIMSEK (2018): “A MODEL OF FICKLE CAPITAL FLOWS AND RETRENCHMENT,” NBER Working Papers No. 22751.

- CABALLERO, RICARDO AND EMMANUEL FARHI AND PIERRE-OLIVIER GOURINCHAS (2015): “Global Imbalances and Currency Wars at the ZLB,” NBER Working Papers No. 21670.
- GUILLERMO A. CALVO AND ALEJANDRO IZQUIERDO AND RUDY LOO-KUNG (2012): “Optimal Holdings of International Reserves: Self-Insurance against Sudden Stop,” NBER Working Papers No. 18219.
- CHARI, V., P. J. KEHOE, AND E. R. MCGRATTAN (2008): “New Keynesian Models: Not Yet Useful for Policy Analysis,” NBER Working Papers 14313, National Bureau of Economic Research, Inc.
- DEVEREUX, M. B., AND A. SUTHERL (2010): “Valuation effects and the dynamics of net external assets,” *Journal of International Economics*, 80(1), 129–143.
- DEVEREUX, M. B., AND J. YETMAN (2013): “Capital Controls, Global Liquidity Traps and the International Policy Trilemma,” NBER Working Papers No. 19091.
- EDWARDS, S., AND R. RIGOBON (2009): “Capital controls on inflows, exchange rate volatility and external vulnerability,” *Journal of International Economics*, 78(2), 256–267.
- EICHENGREEN, BARRY AND DOMENICO LOMBARDI (2015): “RMBI OR RMBR: IS THE RENMINBI DESTINED TO BECOME A GLOBAL OR REGIONAL CURRENCY?,” NBER Working Papers No. w21716.
- ENGEL, CHARLES AND JUNGJAE PARK (2018): “Debauchery and Original Sin: The Currency Composition of Sovereign Debt,” NBER Working Papers No. w24671.
- FRATZSCHER, M. (2009): “How successful is the G7 in managing exchange rates?,” *Journal of International Economics*, 79(1), 78–88.
- GALÍ, J., AND T. MONACELLI (2008): “Optimal monetary and fiscal policy in a currency union,” *Journal of International Economics*, 76(1), 116–132.
- GITA GOPINATH (2015): “The International Price System,” NBER Working Papers No. w21646.
- REUVEN GLICK AND ANDREW K. ROSE (2015): “Currency Unions and Trade: A Post-EMU Mea Culpa,” NBER Working Papers No. w21535.
- GOURINCHAS, P.-O., AND O. JEANNE (2006): “The Elusive Gains from International Financial Integration,” *Review of Economic Studies*, 73(3), 715–741.
- (2007): “Capital Flows to Developing Countries: The Allocation Puzzle,” *Quarterly Journal of Economics*.
- GOURINCHAS, P.-O., AND H. REY (2007): “International Financial Adjustment,” *Journal of Political Economy*, 115(4), 665–703.
- GOURINCHAS, P.-O., AND H. REY (2016): “REAL INTEREST RATES, IMBALANCES AND THE CURSE OF REGIONAL SAFE ASSET PROVIDERS AT THE ZERO LOWER BOUND,” NBER Working Papers No. 22618.
- GOURINCHAS, P. O. AND M. OBSTFELD (2011): “Stories of the Twentieth Century for the Twenty-First,” NBER Working Papers No. 17252.
- HAN, XUEHUI, AND SHANG-JIN WEI (2016): “INTERNATIONAL TRANSMISSIONS OF MONETARY SHOCKS: BETWEEN A TRILEMMA AND A DILEMMA,” NBER Working Papers No. 22812.

- JINJARAK, Y., I. NOY, AND H. ZHENG (2013): “Capital Controls in Brazil – Stemming a Tide with a Signal?,” NBER Working Papers No. 19205.
- MENDOZA, E. G., AND K. SMITH (2013): “Financial Globalization, Financial Crises, and the External Portfolio Structure of Emerging Markets,” NBER Working Papers No. 19072.
- MIRANDA-AGRIPPINO, SILVIA AND REY, HÉLENE (2015): "World Asset Markets and the Global Financial Cycle," NBER Working Papers No. w21722.
- OBSTFELD, M., J. C. SHAMBAUGH, AND A. M. TAYLOR (2008): “Financial Stability, the Trilemma, and International Reserves,” Discussion paper, National Bureau of Economic Research, Inc.
- OBSTFELD, MAURICE (2009): “International Finance and Growth in Developing Countries: What Have We Learned?,” *NBER Working Paper No. 14691*, 2009.
- OBSTFELD, MAURICE, AND ROGOFF, KENNETH S. (2005): “Global Current Account Imbalances and Exchange Rate Adjustments,” *Brookings Papers on Economic Activity*, 2005(1), 67–123.
- HÉLENE REY (2015): “World Asset Markets and the Global Financial Cycle,” NBER Working Papers No. w21162.
- A. M. TAYLOR (2013): “The Future of International Liquidity and the Role of China,” NBER Working Papers No. 18771.
- TILLE, C., AND E. VAN WINCOOP (2010): “A New Perspective on The New Rule of the Current Account,” *Journal of International Economics*, vol. 80(1), 89–99.

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