

INTERNATIONAL FINANCE THEORY AND POLICY II

Department of Economics, National Chi Nan University
Syllabus (Fall 2018)

Professor: Yo-Long Lin

Contact: yolong@ncnu.edu.tw

Webpage: <http://staffweb.ncnu.edu.tw/yolong>

Time and Location: Tuesday 1–4pm in College of Management Building 320R

Office Hours: Tuesday 12–1pm or by appointment

Class code: 115042

Course Objective: In this semester we continue to survey several topics in open macroeconomics theory, including international current account models, currency crisis models, and some monetary theories of credit and inflation.

Textbooks: The format of the class will be primarily lectures, so there is no single textbook required for this class. While the followings are strongly recommended for any macroeconomic economist:

- Obstfeld, M. and K. Rogoff, 1996, *Foundations of International Macroeconomics*, The MIT Press.
- Ljungqvist, L. and T. J. Sargent, 2012, *Recursive Macroeconomic Theory*, 3rd edition, The MIT Press.

Grading: There will be several problem sets and several oral presentations (or a term paper instead).

Course Outlines:

1. Review: The New Keynesian and DSGE model
2. The International Approach to the Current Account
 - (a) Two-period Two-asset Model
 - (b) International Trade and Current Account
 - (c) A Simple Stochastic Current Account Model
 - (d) Infinite Horizon Economy
3. Currency Crisis
 - (a) Krugman (1979) model
 - (b) Flood and Garber (1984) model
 - (c) Obstfeld (1986, 1996) model
 - (d) ABB (2000) model
 - (e) Contagion and Herd Behavior
4. Credit and Currency

- (a) The Pareto Problem
 - (b) A Fiat Monetary Economy
 - (c) The Friedman Rule
5. Monetary Theories of Inflation
- (a) Zero Inflation Policy
 - (b) Exchange Rate Indeterminacy

Reading List:

I. The International Approach to the Current Account:

1. Bergin, P. R. and S. M. Sheffrin, 2000, Interest Rates, Exchange Rates, and Present Value Models of the Current Account, *Economic Journal*, 110, 535-558.
2. Borio, C., 2016, On the Centrality of the Current Account in International Economics, *Journal of International Money and Finance*, 68, 266-274.
3. Dornbusch, R., 1983, Real Interest Rates, Home Goods, and Optimal External Borrowing, *Journal of Political Economy*, 91, 141-153.
4. Forbes, K., I. Hjortsoe and T. Nenova, 2017, Current Account Deficits during Heightened Risk: Menacing or Mitigating? *Economic Journal*, 127, 571-623.
5. Glick, R. and K. Rogoff, 1995, Global vs. Country-specific Productivity Shocks and the Current Account, *Journal of Monetary Economics*, 35, 159-192.
6. Kraay, A. and J. Ventura, 2000, Current Accounts in Debtor and Creditor Countries, *Quarterly Journal of Economics*, 1137-1166.
7. Nason, J. M. and J. H. Rogers, 2006, The Present-value Model of the Current Account Has Been Rejected: Round Up the Usual Suspects, *Journal of International Economics*, 68:1, 159-187.
8. Obstfeld, M. and K. Rogoff, 1995, The Intertemporal Approach to the Current Account. In G.M. Grossman and K. Rogoff (eds.), *Handbook of International Economics*, Volume 3, chapter 34, 1731-1799, Elsevier.
9. Persson, T. and L. E. O. Svensson, 1985, Current Account Dynamics and the Terms of Trade: Harberger-Laursen-Metzler Two Generations Later, *Journal of Political Economy*, 93, 43-65.
10. Svensson, L. E. O., 1984, Oil Prices, Welfare and the Trade Balance: An Intertemporal Approach, *Quarterly Journal of Economics*, 99, 649-672.

II. The New Keynesian model:

1. Ball, L., N.G. Mankiw and D. Romer, 1988, The New Keynesian Economics and the Output-inflation Trade-off, *Brookings Papers on Economic Activity*, 1988:1, 1-65.

2. Batini, N., B. Jackson and S. Nickell, 2005, An Open-economy New Keynesian Phillips Curve for the U.K., *Journal of Monetary Economics* 52, 1061-1071.
3. Blanchard, O. J. and N. Kiyotaki, 1987, Monopolistic Competition and the Effects of Aggregate Demand, *American Economic Review*, 77:4, 647-666.
4. Bullard, J. and K. Mitra, 2002, Learning about Monetary Policy Rules, *Journal of Monetary Economics*, 49, 1105-1129.
5. Galí, J. and T. Monacelli, 2005, Monetary Policy and Exchange Rate Volatility in a Small Open Economy, *Review of Economic Studies*, 72, 707-734.
6. Calvo, G. A., 1983, Staggered Prices in a Utility-maximizing Framework, *Journal of Monetary Economics*, 12, 383-398.
7. Caraianni, P., 2016, The Role of Money in DSGE models: A Forecasting Perspective, *Journal of Macroeconomics*, 47, 315-330.
8. Cogley, T. and A. M. Sbordone, 2008, Trend Inflation, Indexation, and Inflation Persistence in the New Keynesian Phillips Curve, *American Economic Review*, 98:5, 2101-2126.
9. Flamini. A., 2007, Inflation Targeting and Exchange Rate Pass-through, *Journal of International Money and Finance*, 26, 1113-1150.
10. Clarida, R., J. Galí and M. Gertler, 1999, The Science of Monetary Policy: A New Keynesian Perspective, *Journal of Economic Literature*, 1661-1709.
11. Golosov, M. and R. E. Lucas, 2007, Menu Costs and Phillips Curves, *Journal of Political Economy*, 115:21, 171-199.
12. Jensen, H., 2002, Targeting Nominal Income Growth or Inflation? *American Economic Review*, 92:4, 928-956.
13. Rabanal, P. and J. F. Rubio-Ramírez, 2005, Comparing New Keynesian Models of the Business Cycle: A Bayesian Approach, *Journal of Monetary Economics*, 52, 1151-1166.
14. Rudd, J. and K. Whelan, 2005, New Tests of the New-Keynesian Phillips Curve, *Journal of Monetary Economics*, 52, 1167-1181.
15. Woodford, M., 1999, Optimal Monetary Policy Inertia, *The Manchester School*, 67:S1, 1-35.
16. Yun, T., 1996, Nominal Price Rigidity, Money Supply Endogeneity, and Business Cycles, *Journal of Monetary Economics*, 37, 345-370.

III. Currency and Financial Crisis:

1. Abreu, D. and M. K. Brunnermeier, 2003, Bubbles and Crashes, *Econometrica*, 71:1, 173-204.
2. Agénor, P.-R., J. S. Bhandari and R. P. Flood, 1992, Speculative Attacks and Models of Balance-of-payments Crises, *IMF Staff Papers*, 39, 357-394.

3. Aghion, P., P. Bacchetta and A. Banerjee, 2000, A Simple Model of Monetary Policy and Currency Crises, *European Economic Review*, 44, 728-738.
4. Aguiar, M. and G. Gopinath, 2009, Defaultable Debt, Interest Rates and the Current Account, *Journal of International Economics*, 69, 2006, 64-83.
5. Banerjee, A. V., 1992, A Simple Model of Herd Behavior, *Quarterly Journal of Economics*, 107:3, 797-817.
6. Dominguez, K. M. E., Y. Hashimoto and T. Ito, 2012, International Reserves and the Global Financial Crisis, *Journal of International Economics*, 88, 388-406.
7. Flood, R. P. and P. M. Garber, 1984, Collapsing Exchange-Rate Regimes: Some Linear Examples, *Journal of International Economics*, 17, 1-13.
8. Gagnon, J. E., 2009, Currency Crashes and Bond Yields in Industrial Countries, *Journal of International Money and Finance*, 28, 161-181.
9. Kaminsky, G. L. and C. M. Reinhart, 2000, On Crises, Contagion, and Confusion, *Journal of International Economics*, 51, 145-168.
10. Krishnamurthy, A., 2010, How Debt Markets Have Malfunctioned in the Crisis, *Journal of Economic Perspectives*, 24:1, 3-28.
11. Krugman, P. R., 1979, A Model of Balance-of-payments Crises, *Journal of Money, Credit, and Banking*, 11, 311-325.
12. Mao, J., 2014, Introduction to Economic Theory of Bubbles, *Journal of Mathematical Economics*, 53, 130-136.
13. Obstfeld, M., 1986, Rational and Self-fulfilling Balance-of-payments Crises, *American Economic Review*, 76:1, 72-81,
14. Obstfeld, M., 1994, The Logic of Currency Crises, *Cahiers Économiques et Monétaires*, 43, 189-213.
15. Obstfeld, M., 1996, Models of Currency Crises with Self-fulfilling Features, *European Economic Review*, 40, 1037-1047.
16. Oechssler, J., C. Schmidt and W. Schmedler, 2011, On the Ingredients for Bubble Formation: Informed Traders and Communication, *Journal of Economic Dynamics & Control*, 35, 1831-1851
17. Phillips, P. C. B., S. Shi and J. Yu, 2015, Testing for Multiple Bubbles: Historical Episodes of Exuberance, *International Economic Review*, 56:4, 1043-1077.
18. Saxena, S. C., 2004, The Changing Nature of Currency Crises, *Journal of Economic Surveys*, 18:3, 321-350.
19. Taylor, J. B., 1988, Housing and Monetary Policy, NBER Working Paper 13682.
20. Williamson, S. D., 2012, Liquidity, Monetary Policy, and the Financial Crisis: A New Monetarist Approach, *American Economic Review*, 102:6, 2570-2605.