

北京大学国家发展研究院研究生课程

国际金融专题

**Topics in International Finance**

**Course Syllabus**

**Spring 2018**

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Class Time: Thursday 09:00-12:00am at room 201(经济中心小教室)

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**COURSE DESCRIPTION**

This course introduces advanced topics in international finance and macroeconomics for graduate students. The course has two parts. In the first part, we will present toolboxes for analyzing international business cycles and international capital markets, including solving and estimating international DSGE models. The second part focuses on the applications of these tools in international finance and macroeconomics, including international business cycles, credit booms and financial crises, capital controls and macro-prudential policies, medium-long run effect of financial crises, capital flows and global imbalances, exchange rates, fiscal policy and monetary policy in open-economies.

**PREREQUISITE**

Knowledge of economics at the level of advanced macroeconomics and econometrics is assumed.

**GRADING**

- **Replications (30%):** This course has three assignments of replicating published articles in order to make students learn modeling, computational and empirical skill.
- **Refereeing an article (30%):** Pick up an unpublished article, subject to my approval, and write a detailed referee report.
- **Term paper (50%)**
- **Class Attendance and Participation (10%)**

## REFERENCES

**CV:** Carlos A. Vegh. Open Economy Macroeconomics in Developing Countries. MIT Press, 2013.

**LS:** Ljungqvist, Lars, and Thomas J. Sargent. Recursive macroeconomic theory. MIT press, 2012.

**OR:** Obstfeld, Maurice and Kenneth S. Rogoff. Foundations of International Macroeconomics. Vol. 30. Cambridge, MA: MIT press, 1996.

**SU:** Schmitt-Grohe, Stephanie, and Martin Uribe. Open Economy Macroeconomics. 2015, <http://www.columbia.edu/~mu2166>

**GHR:** Gopinath, Gita, Elhanan Helpman, and Kenneth Rogoff, eds. Handbook of International Economics. Vol. 4. Elsevier, 2014.

**HM:** Burkhard Heer and Alfred Mauner. 2009. Dynamic General Equilibrium Modeling: Computational Methods and Applications (2nd ed. 2009. 2nd printing ed.). Springer Publishing Company, Incorporated.

## COURSE CONTENT (articles with \* will be covered in class)

### **Week 0: The toolbox: Solving Dynamic Stochastic General Equilibrium (DSGE) Models**

#### 1. Local approximation methods:

- Textbook reference: HM (chapter 1,2)
- Schmitt-Grohe, Stephanie, and Martin Uribe. "Closing Small Open Economy Models." Journal of international Economics 61.1 (2003): 163-185.
- Schmitt-Grohe, Stephanie & Uribe, Martin, 2004. "Solving dynamic general equilibrium models using a second-order approximation to the policy function," Journal of Economic Dynamics and Control, Elsevier, vol. 28(4), pages 755-775, January.
- Johnston, Michael K. and King, Robert G. and Lie, Denny, "Straightforward Approximate Stochastic Equilibria for Nonlinear Rational Expectations Models" (September 1, 2014). CAMA Working Paper No. 59/2014. Available at SSRN: <http://ssrn.com/abstract=2496154> or <http://dx.doi.org/10.2139/ssrn.2496154>
- Free software: *Dynare*

#### 2. Global solution methods:

- Textbook reference: HM (chapter 4 and the following chapters therein)
- Carroll, Christopher D., 2006. "The method of endogenous gridpoints for solving dynamic stochastic optimization problems," Economics Letters, Elsevier, vol. 91(3), pages 312-320, June.
- Thomas Hintermaier, Winfried Koeniger, " The method of endogenous gridpoints with occasionally binding constraints among endogenous variables ", Journal of

### **Week 1-2: Introduction and basic models**

1. \*SU Book Chapter 2-4
2. \*Backus, David K., 1993. "Interpreting co-movements in the trade balance and the terms of trade," *Journal of International Economics*, vol. 34(3-4), pages 375-387.

### **Week 3: Puzzles in international macroeconomics**

3. Textbook references: OR (1.1 1.2 1.3)
4. \*Obstfeld, Maurice, and Kenneth Rogoff. "The Six Major Puzzles in International Macroeconomics: is there a Common Cause?." *NBER Macroeconomics Annual 2000*, Volume 15. MIT press, 2001. 339-412.
5. \*Gourinchas, Pierre-Olivier and Olivier Jeanne, 2013. "Capital Flows to Developing Countries: The Allocation Puzzle," *Review of Economic Studies*, Oxford University Press, vol. 80(4), pages 1484-1515.
6. Felstein, Martin, and Charles Horioka. "Domestic Savings and International Capital Flows." *The Economic Journal* 90 (1980): 314-329.
7. French, Kenneth R., and James Michael Poterba. "Investor Diversification and International Equity Markets." *American Economic Review* 81.2 (1991): 222-226.
8. Backus, David K., and Gregor W. Smith. "Consumption and Real Exchange Rates in Dynamic Economies with Non-Traded Goods." *Journal of International Economics* 35.3 (1993): 297-316.
9. McCallum, John. "National Borders Matter: Canada-US Regional Trade Patterns." *The American Economic Review* (1995): 615-623.
10. Rogoff, Kenneth. "The Purchasing Power Parity Puzzle." *Journal of Economic literature* (1996): 647-668.
11. Coeurdacier, Nicolas, and H el ene Rey. 2013. "Home Bias in Open Economy Financial Macroeconomics." *Journal of Economic Literature*, 51(1): 63-115.

### **Week 4-5: International real business cycles: model vs. data**

12. Textbook references: CV (1) OR (2) SU (5-6) LS (8 16 17)
13. \*Mendoza, Enrique G. "Real Business Cycles in a Small Open Economy." *The American Economic Review* (1991): 797-818.
14. \*Neumeyer, Pablo A., and Fabrizio Perri. "Business Cycles in Emerging Economies: the Role of Interest Rates." *Journal of monetary Economics* 52.2 (2005): 345-380.
15. Uribe, Martin, and Vivian Z. Yue. "Country Spreads and Emerging Countries: Who Drives Whom?." *Journal of international Economics* 69.1 (2006): 6-36.
16. Backus, David K., Patrick J. Kehoe, and Finn E. Kydland. "International Real Business Cycles." *Journal of political Economy* (1992): 745-775.
17. Guerron-Quintana, P., Rubio-Ramirez, J. F., Fern andez-Villaverde, J., and Uribe, M. (2011). "Risk Matters: The Real Effects of Volatility Shocks." *American Economic Review*, 101, 2530-2561.

## **Week 6: Stochastic trend in business cycles**

18. \*Aguiar, Mark, and Gita Gopinath. "Emerging Market Business Cycles: The Cycle Is the Trend." *Journal of Political Economy* 115.1 (2007): 69-102.
19. \*Garcia-Cicco, Javier, Roberto Pancrazi, and Martin Uribe. "Real Business Cycles in Emerging Countries?." *American Economic Review* 100.5 (2010): 2510-31.
20. Boz, Emine, Christian Daude, and C. Bora Durdu. "Emerging Market Business Cycles: Learning About the Trend." *Journal of Monetary Economics* 58.6 (2011):616-631.
21. Chang, Roberto, and Andr es Fern andez. "On the Sources of Aggregate Fluctuations in Emerging Economies." *International Economic Review* 54.4 (2013):1265-1293.

## **Week 7-9: Credit booms and financial crises**

22. Textbook references: CV (2 16 17) SU (10)
23. \*Lorenzoni, Guido. "Inefficient Credit Booms". *The Review of Economic Studies* 75.3 (2008): 809–833.
24. \*Mendoza, Enrique G. "Sudden Stops, Financial Crises, and Leverage." *The American Economic Review* 100.5 (2010): 1941-1966.
25. \*Bianchi, Javier. 2011. "Over-borrowing and Systemic Externalities in the Business Cycle." *American Economic Review*, 101(7): 3400-3426.
26. \*Stephanie Schmitt-Groh e and Mart ın Uribe, "Downward Nominal Wage Rigidity, Currency Pegs, and Involuntary Unemployment," *Journal of Political Economy* 124, no. 5 (October 2016): 1466-1514.
27. \*Devereux, Michael B., and Changhua Yu. *International Financial Integration and Crisis Contagion*. No. w20526. National Bureau of Economic Research, 2014.
28. Lorenzoni, Guido "International Financial Crises." *Handbook of international Economics* 4 (2013), 647-87
29. Caballero, Ricardo J. and Krishnamurthy, Arvind "International and Domestic Collateral Constraints in a Model of Emerging Market Crises." *Journal of Monetary Economics* 48.3 (2001):513-548
30. Chang, R and. A. Velasco "A Model of Financial Crises in Emerging Markets" *Quarterly Journal of Economics* 116.2 (2001): 489-517.
31. Adrian, Tobias and Hyun Song Shin, 2014. "Procyclical Leverage and Value-at-Risk," *Review of Financial Studies*, Society for Financial Studies, vol. 27(2), pages 373-403.

## **Week 9-11: Capital controls and Macroprudential Policies**

32. \*Bianchi, Javier, and Enrique G. Mendoza. "Optimal Time-Consistent Macro-prudential Policy." Forthcoming, *Journal of Political Economy*
33. \*Devereux, Michael B., Eric R. Young and Changhua Yu (2015) "A New Dilemma: Capital Controls and Monetary Policy in Sudden Stop Economies" , NBER Working Paper 21791, 2015.
34. \*Bianchi, Javier. 2016. "Efficient Bailouts?" *American Economic Review*, 106(12): 3607-59.

35. \*Luca Fornaro and Federica Romei, 2017, "Aggregate demand externalities in a global liquidity trap", Working Paper, Universitat Pompeu Fabra
36. Emmanuel Farhi, Gita Gopinath and Oleg Itskhoki, 2014. "Fiscal Devaluations," *Review of Economic Studies*, Oxford University Press, vol. 81(2), pages 725-760.
37. Costinot, Arnaud, Guido Lorenzoni and Ivan Werning, 2014. "A Theory of Capital Controls as Dynamic Terms-of-Trade Manipulation," *Journal of Political Economy*, University of Chicago Press, vol. 122(1), pages 77 - 128.
38. Korinek, Anton, "The New Economics of Prudential Capital Controls: A Research Agenda," *IMF Economic Review* 59, August 2011, 523-561.

### **Week 12: Medium-Long run effect of financial crises**

39. \*Cerra, Valerie, and Sweta Chaman Saxena. "Growth Dynamics: The Myth of Economic Recovery." *The American Economic Review* 98.1 (2008): 439-457.
40. \*Kalantzis, Yannick. "Financial fragility in small open economies: firm balance sheets and the sectoral structure." *The Review of Economic Studies* 82.3 (2015): 1194-1222.
41. \*Gita Gopinath & Şebnem Kalemli-Özcan & Loukas Karabarbounis & Carolina Villegas-Sanchez, 2017. "Capital Allocation and Productivity in South Europe," *The Quarterly Journal of Economics*, Oxford University Press, vol. 132(4), pages 1915-1967.
42. Reinhart, Carmen M., and Kenneth S. Rogoff. "Recovery from Financial Crises: Evidence from 100 Episodes." *The American Economic Review* 104.5 (2014):50-55.
43. Queralto, Albert. "A Model of Slow Recoveries from Financial Crises". Board of Governors Working Paper, 2013.
44. Gornemann, N. M. Sovereign Default, "Private Investment and Economic Growth." mimeo. University of Pennsylvania, 2013.
45. Guerron-Quintana, Pablo, and Ryo Jinnai. "Liquidity, Trends and the Great Recession." Tokyo Center for Economic Research (TCER) Paper No. E-66 (2014).

### **Week 13: Capital flows and global imbalances**

46. Textbook references: GHR (10)
47. \*Caballero, Ricardo J., Emmanuel Farhi, and Pierre-Olivier Gourinchas. "An Equilibrium Model of "Global Imbalances" and Low Interest Rates." *The American Economic Review* (2008): 358-393.
48. \*Mendoza, Enrique G., Vincenzo Quadrini, and Jose-Victor Rios-Rull. "Financial Integration, Financial Development, and Global Imbalances." *Journal of Political Economy* 117.3 (2009).
49. \*Coeurdacier, Nicolas, Stéphane Guibaud, and Keyu Jin. "Credit constraints and growth in a global economy." *The American Economic Review* 105.9 (2015): 2838-2881.
50. Bengui, Julien and Mendoza, Enrique G. and Quadrini, Vincenzo, 2013. "Capital mobility and international sharing of cyclical risk," *Journal of Monetary Economics*, vol. 60(1), pages 42-62.
51. Devereux Michael B. and Alan Sutherland, 2011. "Country Portfolios In Open Economy Macro Models," *Journal of the European Economic Association*, vol. 9(2), pages 337-369.
52. McGrattan, Ellen R. and Edward C. Prescott, 2010. "Technology Capital and the US Current Account," *American Economic Review*, vol. 100(4), pages 1493-1522, September.

## **Week 14-15: Exchange rates, fiscal policy and monetary policy in open-economies**

53. Textbook references: GHR (8) CV (8-11) SU (8 9)
54. \*Gali, Jordi, and Tommaso Monacelli. "Monetary Policy and Exchange Rate Volatility in a Small Open Economy." *The Review of Economic Studies* 72.3 (2005): 707-734.
55. \*Engel, Charles. "Exchange rates, interest rates, and the risk premium." *The American Economic Review* 106.2 (2016): 436-474.
56. \*Xavier Gabaix and Matteo Maggiori. "International Liquidity and Exchange Rate Dynamics." *The Quarterly Journal of Economics* (2015) 130 (3): 1369-1420.
57. \*Michael B. Devereux and Changhua Yu, "Exchange Rate Adjustment in Financial Crises", *IMF Economic Review*, August 2017, Volume 65, Issue 3, pp 528–562
58. \*Gopinath, Gita, and Jeremy Stein. 2017, "Banking, Trade and the Making of a Dominant Currency", Working Paper, Harvard University
59. Mark Aguiar, Manuel Amador, Emmanuel Farhi and Gita Gopinath, 2015. "Coordination and Crisis in Monetary Unions," *The Quarterly Journal of Economics*, Oxford University Press, vol. 130(4), pages 1727-1779.
60. Chari, Varadarajan V., Patrick J. Kehoe, and Ellen R. McGrattan. "Can Sticky Price Models Generate Volatile and Persistent Real Exchange Rates?." *The Review of Economic Studies* 69.3 (2002): 533-563.
61. Cespedes, L., R. Chang, and A. Velasco, "Balance Sheets and Exchange Rate Policy," *American Economic Review* 94, September 2004, 1183-1193.
62. Corsetti, Giancarlo and Dedola, Luca and Leduc, Sylvain. "Optimal Monetary Policy in Open Economies" *Handbook of Monetary Economics*, 2010.
63. Farhi, Emmanuel, Gita Gopinath and Oleg Itskhoki, 2014. "Fiscal Devaluations," *Review of Economic Studies*, Oxford University Press, vol. 81(2), pages 725-760.
64. Rey, Helene (2015) "Dilemma not Trilemma: the Global Financial Cycle and Monetary Policy Independence." Working Paper 21162, National Bureau of Economic Research.
65. Bruno, Valentina, and Hyun Song Shin (2015a) "Capital Flows and the Risk-taking Channel of Monetary Policy." *Journal of Monetary Economics* 71(C), 119–132.
66. Bruno, Valentina, and Hyun Song Shin (2015b) "Cross-Border Banking and Global Liquidity." *Review of Economic Studies* 82(2), 535–564.

## **Week 16: Students present their research proposals**