

460-1 International Economics

Martin Eichenbaum and Guido Lorenzoni

Syllabus - Part I (GL)

This part of the course is focused on the role of financial markets and shocks to the capital account in international macro.

In topics 1 and 2 we'll go over some basic tools used to think about the sources of trade in financial assets across countries and about the real consequences of international capital flows in economies with nominal rigidities. The models in topic 2 allow us to think about the role of monetary policy in stabilizing the effects of capital flows, about how monetary policy is affected by the exchange rate regime, and about other policy tools (fiscal policy, capital controls, currency interventions).

In topics 3 to 6 we'll cover a variety of current research work that builds and expands on the material in topics 1 and 2.

1 Basic forces driving the current account

1.1 Intertemporal trade

- M. Obstfeld and K. Rogoff. 1996. "The Intertemporal Approach to the Current Account", NBER WP 4893
- M. Aguiar and G. Gopinath. Emerging market business cycles: The cycle is the trend. *Journal of Political Economy*, 115(1), 2007

1.2 Portfolio adjustment

- A. Kraay and J. Ventura. 2000. "Current Accounts in Debtor and Creditor Countries", *Quarterly Journal of Economics* 115 (4), pp. 1137-1166.
- P. O. Gourinchas and H. Rey, 2007. "International Financial Adjustment", *Journal of Political Economy* 115 (4).

1.3 Current account and relative prices

- Maurice Obstfeld and Kenneth Rogoff. The six major puzzles in international macroeconomics: Is there a common cause? Working Paper 7777, National Bureau of Economic Research, July 2000
- Guido Lorenzoni. Do tariffs reduce the current account deficit? Working paper, Northwestern University, 2019

2 Nominal rigidities and monetary policy in open economies

2.1 Adjustment to external shocks under fixed and flexible exchange rates

- Emmanuel Farhi and Ivan Werning. Dealing with the trilemma: Optimal capital controls with fixed exchange rates. mimeo MIT
- Stephanie Schmitt-Grohe and Martin Uribe. Downward nominal wage rigidity, currency pegs, and involuntary unemployment. mimeo Columbia
- Sebastian Fanelli. Monetary policy, capital controls, and international portfolios. Working paper, MIT, 2017

2.2 Sudden stops and dollar liabilities

- Guido Lorenzoni. International financial crises. In K. Rogoff E. Helpman, G. Gopinath, editor, *Handbook of International Economics*. 2014
- Mark Aguiar. Investment, devaluation, and foreign currency exposure: The case of Mexico. *Journal of Development Economics*, 78(1):95–113, 2005
- Sebnem Kalemli-Ozcan, Herman Kamil, and Carolina Villegas-Sanchez. What hinders investment in the aftermath of financial crises: Insolvent firms or illiquid banks? *Review of Economics and Statistics*, 98(4):756–769, 2016
- G. A. Calvo. Explaining sudden stops, growth collapses and bop crises: The case of distortionary output taxes. NBER Working Paper 9864, 2003
- L.J. Christiano, C. Gust, and J. Roldos. Monetary policy in a financial crisis. *Journal of Economic Theory*, 119(1):64–103, 2004

2.3 Dilemmas/trilemmas for emerging economies

- Silvia Miranda-Agrippino and Hélène Rey. World asset markets and the global financial cycle. Technical report, National Bureau of Economic Research, 2015
- Graciela L Kaminsky. The center and the periphery: Two hundred years of international borrowing cycles. Technical report, National Bureau of Economic Research, 2017
- Maurice Obstfeld, Jonathan D Ostry, and Mahvash S Qureshi. A tie that binds: Revisiting the trilemma in emerging market economies. *Review of Economics and Statistics*, (0), 2017

- Carlos A Vegh, Luis Morano, Diego Friedheim, and Diego Rojas. Between a rock and a hard place: The monetary policy dilemma in latin america and the caribbean. Semiannual report, The World Bank, October 2017

3 Currency interventions

- Manuel Amador, Javier Bianchi, Luigi Bocola, and Fabrizio Perri. Exchange rate policies at the zero lower bound. Technical report, National Bureau of Economic Research, 2017
- Sebastián Fanelli and Ludwig Straub. A theory of foreign exchange interventions. Working paper, Harvard, 2016

4 The role of the dollar and financial architecture

- Emmanuel Farhi and Matteo Maggiori. A model of the international monetary system. *The Quarterly Journal of Economics*, 133(1):295–355, 2017
- Gita Gopinath and Jeremy C Stein. Banking, trade, and the making of a dominant currency. Technical report, National Bureau of Economic Research, 2018

5 Banking and financial shocks

- Xavier Gabaix and Matteo Maggiori. International liquidity and exchange rate dynamics. *The Quarterly Journal of Economics*, 130(3):1369–1420, 2015
- Ricardo J. Caballero and A. Krishnamurthy. Global imbalances and financial fragility. *American Economic Review Papers and Proceedings*, 2009
- Ricardo J Caballero and Alp Simsek. A model of fickle capital flows and retrenchment. Technical report, National Bureau of Economic Research, 2016
- H.S. Shin. Global banking glut and loan risk premium. Technical report, 2011. IMF 2011 Mundell-Fleming Lecture

6 Panics and financial stability

- Luigi Bocola and Guido Lorenzoni. Financial crises, dollarization, and lending of last resort in open economies. Technical report, Northwestern, 2018

- M. Obstfeld, J.C. Shambaugh, and A.M. Taylor. Financial stability, the trilemma, and international reserves. *American Economic Journal. Macroeconomics*, 2(2):57–94, 2010

7 Sovereign debt and fiscal space

- G.A. Calvo. Servicing the public debt: The role of expectations. *American Economic Review*, 78(4):647–661, 1988
- H.L. Cole and T. Kehoe. Self-fulfilling debt crises. *Review of Economic Studies*, 67(1):91–116, 2000
- Guido Lorenzoni and Ivan Werning. Slow moving debt crises. mimeo, 2013
- Luigi Bocola. The pass-through of sovereign risk. 2014
- Seunghoon Na, Stephanie Schmitt-Grohé, Martin Uribe, and Vivian Z Yue. The twin ds: Optimal default and devaluation. *American Economic Review*, 108(7), 2018