Goals

The primary goal of this course is to motivate and initiate graduate student research in the field of international economics. Hence, lectures and quizzes are complemented by student presentations in class of research papers in the literature and, before the end of the semester, of an original research project.

Overview

In the course, we focus on a number of key areas in contemporary international economic research. Notably, while traditionally a dichotomy is drawn between the fields of International Trade and International Finance, this distinction has become increasingly blurred, and you will find that we basically ignore it. The course consists of six, self-contained modules; each module exclusively studies a single topic.

In Module I, we build a foundation for our analytical frameworks. Specifically, we establish the inter-temporal approach to current account determination and capital flows, and to models of aggregate fluctuations in open economies. In Module II, we take a serious look at the data, and identify some key empirical regularities and puzzles which motivate current research concerning trade in goods, trade in assets, and the determination of real exchange rates. Module III analyzes models concerning trade in goods; models that try to explain the growth of trade relative to income, the increasing pattern of trade concentration between industrialized countries – rather than between poor and rich countries - and the increasing pattern of concentration of trade in certain categories of goods. Some of these are models with imperfect competition and increasing returns, some are dynamic, general equilibrium versions of originally static partial equilibrium models from trade theory. Module IV focuses on models that try to account for the key features of trade in financial assets; explanations of capital flows, and international crises in capital flows. Module V concerns modern theories of real exchange rate determination.
**Structure**

There are two, one hour fifty minute classes per week.

Every Tuesday will be devoted to “lecture material” from the text, (although time devoted to the textbook is minimized, and students are expected to complete readings and problem sets independently), and to overviews of recent research papers. There will be occasional, random quizzes on this material.

The Thursday class is allocated to student presentations of existing research papers, of which there are roughly four per student, and to student presentations of their original research. The presentations of existing literature are designed to improve reading, comprehension and presentation skills, and to familiarize students with the methods, models and results at the brink of this research field. They will be graded, and treated as “assignments”. In addition, students develop a research project over the course of the semester, and present the results before the end of the semester. The paper should be developed along similar lines as a doctoral dissertation proposal. There is also a final exam.

**Pre-requisites**

The pre-requisites for this class are ECON 503 and ECON 505, with a strong recommendation that ECON 603 and ECON 605 are also completed.

**Textbooks**

There is a single textbook for this class. It is:

*Foundations of International Macroeconomics* by Maurice Obstfeld and Kenneth Rogoff.

I regard its reading and comprehension as the absolute minimal standard for an adequate education of international macroeconomics by a PhD student.

**Evaluation**

Your final grade in the class will be determined as the following weighted average of your work throughout the semester

- Class Presentations (non research project) 20 %
- Research Project (presentations) 20%
- Research Paper (written draft) 60%

The final draft of the written research project is due on the final examination date. The research paper cannot be the same as that submitted to another class, in this or any other semester. Obviously, its subject matter must be in the field of International Economics.
COURSE OUTLINE AND REQUIRED READINGS

“*” denotes a reading for class presentation

I. INTRODUCTION

A. Definitions, Concepts and Issues
Review (undergraduate texts) on balance of payments, nominal and real exchange rate definitions, measures of openness, arbitrage, law of one price, purchasing power parity, trade balance, portfolio and direct investment, uncovered and covered interest rate parity conditions, hedging, forward markets, futures markets, speculation, options, open economy national income accounting. (Students are responsible for this material. If you have no background in international economics, you can sit in my undergraduate course for the first few classes).

B. Inter-temporal Models of the Current Account
Background material on inter-temporal open economy models, the intertemporal terms of trade, and capital flows in a one sector world economy.

Obstfeld and Rogoff, Chapters 1 and 2
Mick Devereux’s notes on Obstfeld and Rogoff

C. Trade and Real Exchange Rates
Background material on multi-sector models of trade and capital flows, relative prices, non-traded goods, and real exchange rates.

Obstfeld and Rogoff, Chapters 4 and 5
Mick Devereux’s notes on Obstfeld and Rogoff

II. A LOOK AT THE DATA

A. Trade Data


**B. Capital Flows Data**


**C. Price Data**


* Crucini, M., C. Telmer, and M. Zachariadis “Understanding European Real Exchange Rates,” unpublished manuscript, Vanderbilt University
III. EXPLAINING TRADE FLOWS

A. Dynamic Trade Models

Obstfeld and Rogoff, Chapters 4 and 5


B. Increasing Returns and Imperfect Competition


IV. EXPLAINING CAPITAL FLOWS AND CAPITAL CRISSES

Obstfeld and Rogoff, Chapters 5, 6, and 7
V. EXPLAINING REAL EXCHANGE RATES

A. Multi-Sector Models


B. Monetary Models

Obstfeld and Rogoff, Chapters 8, 9 and 10


