Macroeconomics in Open Economies

This course will study the fundamental theories of international macroeconomics, as well as their application for issues of current interest in the academic literature, and their implications for monetary and exchange rate policies. It will involve theoretical readings applying tools of dynamic programming. Several short problem sets will be assigned during the course.

The course website contains links to the readings as well as homework assignments: http://faculty.econ.ucdavis.edu/faculty/bergin/kiel/


**Topic 1: Global Financial Imbalances and Intertemporal Models of the Current Account**

Do current account imbalances serve a useful role in facilitating macroeconomic adjustment? Develop an intertemporal optimization-based theory of the current account. Evaluate theory empirically, and apply it to recent experiences in Europe, China and US.


Other references:
- “Why Germany’s current-account surplus is bad for the world economy,” *The Economist*, July 8, 2017.

**Topic 2: International Co-movement in Business Cycles**

To what degree do recessions of countries move together? Discuss other empirical regularities in their national business cycles, and how well simple business cycle models can explain them.


Other references:

Topic 3: **International Risk Sharing and Portfolio Diversification**

Consider recent evidence on the degree of integration and diversification in equity markets. Establish the gains from international risk sharing. Compare theories for a lack of full diversification.

Reading: Jonathan Heathcote and Fabrizio Perri (2013)."The International Diversification Puzzle Is Not as Bad as You Think," Journal of Political Economy 121, 1108-1159.

Other references:

Topic 4: **What Determines Exchange Rates?**

Summarize empirical tests of real exchange rate behavior. Consider theories for why real and nominal exchange rates move.


Other references:
- Engel, Charles, Kenneth West, and Nelson C. Mark, 2008, "Exchange Rate Models are Not As Bad as You Think," NBER Macroeconomics Annual (draft posted)

**Topic 5: Monetary Policy in the Open Economy**

Study models of monetary policy based on sticky prices.


**Other references:**

**Topic 6: Financial Integration and Interest Rate Parity**

Tests of uncovered interest rate parity and their implications.


**Other References:**

**Topic 7: Optimal Monetary Policy and International Coordination**

What types of monetary policy rules promote welfare within an open economy? Compare fixed and flexible exchange rate regimes, and coordinated versus noncoordinated policies.

Other references:

Topic 8: Financial Frictions and Shocks
Study how exchange rate fluctuations imply international wealth reallocation, and how this affects international monetary policy transmission.


Other References: