UNIVERSITY OF COLORADO
Department of Economics

ECON8423
International Finance

Spring 2010

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COURSE DESCRIPTION

4 is a graduate course in open-economy macroeconomics and international finance. We will discuss a number of topics in these areas. Here is a partial list of issues that will be discussed:

1. Real and nominal exchange rates are highly correlated.
2. Exchange rates are volatile and persistent.
3. Forward exchange rates are poor and biased predictors of future spot exchange rates.
4. International differences in interest rates are large and persistent.
5. Portfolios are not internationally diversified.
6. The extent of international consumption risk-sharing is less than expected.
7. Savings and investment are highly correlated.
8. The trade balance and the current account are countercyclical.
9. Business cycles are highly correlated across countries.

EVALUATION

The assessment for this class consists of

Test:

Course Outline

1. INTRODUCTION

Mark Chapter 1.

Krugman, P. and M. Obstfeld (2005) *P* . Boston: Addison-Wesley. Chapter 12.

Obstfeld, M. and K. Rogo (2000) The six major puzzles in international macroeconomics: Is there a common cause? *B R A u* **15**, 339–390.

2. THE INTERTEMPORAL APPROACH TO THE CURRENT ACCOUNT

Obstfeld and Rogo Chapters 1 to 3.

Boileau, M. and M. Normandin (2008) Do tax cuts generate twin deficts? A multi-country analysis. mimeo.

Blanchard, O. (1985) Debt, deficits, and finite horizons. *J u f P* **93**, 233–247.

Nason, J. and J. Rogers (2005) The present-value model of the current account has been rejected: Round up the usual suspects. *J u f* **68**, 159–187.

Obstfeld, M. and K. Rogo (1996) The intertemporal approach to the current account, in G. Grossman and K. Rogo (eds.) *H b k f* , vol. 3. Amsterdam: North-Holland.

Taylor, A. (2002) A century of current account dynamics. *J u f* **21**, 725–748.

3. INTERNATIONAL CAPITAL FLOWS

Barro, R., G. Mankiw and X. Sala-i-Martin (1995) Capital mobility in neoclassical models. *A - R v w* **85**, 103–115.

Gourinchas, P.O. and O. Jeanne (2008) Capital flows to developing countries: The allocation puzzle. mimeo.

Lane, P. and G. Milesi-Ferretti (2001) Long term capital movements. mimeo.

Lucas, R. (1990) Why doesn't capital flow from rich countries to poor countries. *A - R v w* **80**, 92–96.

4. INTERNATIONAL RISK SHARING

Obstfeld and Rogo Chapter 5.

Backus, D. and G. Smith (1993) Consumption and real exchange rates in dynamic economies with non-traded goods. *J u f* **35**, 297–316.

Brandt, M., J. Cochrane, and P. Santa-Clara (2006) International risk sharing is better than you think, or exchange rates are too smooth. *J u f* **53**, 671–698.

Cole,

Chari, V., Kehoe, P., and E. McGrattan (2002) Can sticky price models generate volatile and persistent real exchange rates? *R v w f S u* **69**, 533–563.

Lane, P. (2001) The New Open Economy Macroeconomics: A Survey. *J u f* **54**, 235–266.

Obstfeld and Rogo (1995) Exchange Rate Dynamics Redux. *J u f P* **103**, 624–660.

8. SOME ISSUES IN INTERNATIONAL TRADE

Burnstein, A. and A. Atkeson (2007) Pricing-to-market, trade costs, and international relative prices. mimeo.

Crucini, M., Telmer, C., and M. Zachariadis (2005) Understanding european real exchange rates. *A R v w* **95**, 724–738.

Engel, C. (1993) Real exchange rates and relative prices: An empirical investigation. *J u f* **32**, 35–50.

Ghironi, F. and M. Melitz (2005) International trade and macroeconomic dynamics with hetero-geneous firms. *Qu J u f* **120**, 865–915.

Imbs, J., Mumtaz, H., Ravn, M., and H. Rey (2005) PPP strikes back: Aggregation and the real exchange rate. *Qu J u f* **120**, 1–43.

9. SOME ISSUES IN INTERNATIONAL FINANCE

Atkeson, A., Alvarez, F., and P. Kehoe (2008) Time varying risks, interest rates, and exchange rates in general equilibrium. mimeo.

Baxter, M. and U. Jermann (1997) The international diversification puzzle is worse than you think. *A R v w* **87**, 170–180.

French, K. and J. Poterba (1991) Investor diversification and international equity markets. *A - R v w* **81**, 222–226.

Coeurdacier, N., Kollman, R., and P. Martin (2008) International portfolios, capital accumulation, and foreign asset dynamics. mimeo.

Devereux, M. and A. Sutherland (2006) Country portfolio dynamics. mimeo.

Heathcote, J. and F. Perri (2008) The international diversification puzzle is not as bad as you think. Mimeo University of Minnesota.

Lewis, K. (1995) Puzzles in international financial markets, in G. Grossman and K. Rogo (eds.) *H b k f* , Vol. 3, Amsterdam: North-Holland.