

DEPARTMENT OF ECONOMICS
INTERNATIONAL MONETARY THEORY
Syllabus Fall 2015

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Office Hours: Tuesday, 1.00-2.00pm, and by appointment

Goals

The primary goal of this course is to motivate and initiate innovative graduate research in the field of international macroeconomics. Lectures are complemented by student presentations in class of research papers in the literature, and by the completion of an original research project. While traditionally the field of international economics has been divided into two areas – international finance and international trade – the most interesting contemporary research in international macroeconomics blends the two, using inter-temporal general equilibrium models with explicit microeconomic and especially sectorial detail. We focus on issues, models, and quantitative work at the intersection of international finance and international trade. The course does not attempt to be an exhaustive review of all research areas in International Macroeconomics; the core topics (sections 1 through 6) are supplemented with a selection of research areas that varies from year to year according to student interests.

Structure

There is one, three hour class per week. In general, the first half of each class will be devoted to lecture material based loosely on textbooks, (although time devoted to the textbook is minimized, and students are expected to complete textbook readings independently), my own notes, and overviews of recent research papers. The second half of each class is allocated to two, 40 minute student presentations of existing research papers. The presentations of existing literature are designed to improve reading, comprehension and presentation skills, and to more deeply familiarize students with the methods, models and results in the established core and at the brink of this research field. Presentations will be graded, and treated as “assignments”. All students are expected to read the papers that are due to be presented, and to ask questions and comment during the presentations.

In addition, students develop an original research project during the semester. The paper should be developed along similar lines as a doctoral dissertation proposal; it can be exploratory and does not need to be a completed project, but there needs to

be significant development of an idea for a paper. There is also a take-home final exam.

Tips on Preparing for the Presentations via Tim Kehoe

Communication of results is an essential component of economic research. Many economists prefer attending conferences, workshops, and seminars to reading working papers and journal articles as a way of picking up ideas. The fundamental ingredient in a good presentation is preparation. Try to practice the presentation more than once. When you are preparing slides, make sure that the font is large enough to be readable.

Since time is precious to you in your presentation, you should think carefully about how you want spend it. Long introductions are almost always a bad idea. What the audience usually wants to learn during the introduction is the question that the author whose work you are presenting intend to answer, why the question and the answer are important, and, probably, what the author's answer is going to be. In general, audiences do not like research presentations to be mysterious. Surprise endings are fine for novels and films, but usually not for economic research. You will learn a lot in preparing for your presentations. You can also learn a lot from the other presentations.

Pre-requisites

The pre-requisite for this class is ECON 602, with a strong recommendation that ECON 605 is also successfully completed.

Textbooks

The course does not follow any textbook. However, students are expected to familiarize themselves with core material from the following book:

Foundations of International Macroeconomics by Maurice Obstfeld and Kenneth Rogoff

I regard the comprehension of material in this book as a necessary condition for a graduate education in international macroeconomics, and certain readings from this book are required and included on the reading list below. Another book which will be useful for (especially early) parts of the course is

Advanced International Trade: Theory and Evidence R.C. Feenstra

which is good reading for anyone that has not previously studied international trade. In addition, there are some very good sets of lecture notes online which you might like to look at as supplements to the lectures in this course. For example,

Notes on Graduate International Trade Costas Arkolakis, unpublished manuscript, Yale University

<http://www.econ.yale.edu/~ka265/teaching/GradTrade/notes/ClassNotes.pdf>

Evaluation

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

Class Presentations	40%
Written Research Project	30%
Take-Home Final Exam	30%

The final draft of the written research project is due on the scheduled final examination date. The research paper *cannot* be the same as that submitted to another class. Obviously, the topic must be drawn from the field of International Economics.

Course Outline And Required Readings

“*” denotes a reading for potential class presentation

0. Introduction

A tiny bit of history of thought
Some trade facts
Preliminaries, concepts and measurement

1. Foundations

A. Traditional Trade Theory

Feenstra, Chapters 1-3.

R. Dornbusch, S. Fischer, and P. Samuelson (1977) “Comparative Advantage, Trade and Payments in a Ricardian Model with a Continuum of Goods”, *American Economic Review*, 67, 823-839

R. Dornbusch, S. Fischer, and P. Samuelson (1980) “Heckscher-Ohlin Trade Theory with a Continuum of Goods”, *Quarterly Journal of Economics*, 95, 203-224

B. Inter-temporal Models of the Current Account

Obstfeld and Rogoff, Chapters 1 and 2.

*D. Backus, P. Kehoe and F. Kydland (1992) "International Real Business Cycles," *Journal of Political Economy*, 100, 745-775.

2. Increasing Returns, Monopolistic Competition, and Trade

Feenstra, Chapter 5

E. Helpman (1984) "Increasing Returns, Imperfect Markets, and Trade Theory," in R.W. Jones and P. Neary (Ed.s) *Handbook of International Economics*, vol. 1 Amsterdam: North Holland, 325-365.

* P. Krugman (1979) "Increasing Returns, Monopolistic Competition, and International Trade," *Journal of International Economics*, 9, 469-479.

* J. Markusen (1986) "Explaining the Volume of Trade: An Eclectic Approach," *American Economic Review*, 76, 1002-1011.

E. Helpman and P. Krugman (1985) *Market Structure and Foreign Trade: Increasing Returns, Imperfect Competition, and the International Economy* MIT Press.

* D. Hummels and J. Levinsohn (1995) "Monopolistic Competition and International Trade: Reconsidering the Evidence," *Quarterly Journal of Economics*, 110, 799-836.

*R. Bergoeing and T. J. Kehoe, "Trade Theory and Trade Facts," Federal Reserve Bank of Minneapolis, Staff Report 284, 2003.

3. Dynamic Trade

Obstfeld and Rogoff, Chapters 4, 5, and 7

*C. Bajona and T. J. Kehoe (2010), "Trade, Growth, and Convergence in a Dynamic Heckscher-Ohlin Model," *Review of Economic Dynamics*, 13, 487-513.

H. Uzawa (1964), "Optimal Growth in a Two-Sector Model of Capital Accumulation," *Review of Economic Studies*, 31, 1-24.

R. Lucas (1990) "Why Doesn't Capital Flow from Rich Countries to Poor Countries", *American Economic Review*, Papers and Proceedings, 80, 92-96

* R. Lucas (2007) "Trade and the Diffusion of the Industrial Revolution", NBER Working Paper #13286

G. Grossman and E. Helpman (1991) *Innovation and Growth in the Global Economy* MIT Press

- * J. Ventura (1997) "Growth and Interdependence," *Quarterly Journal of Economics*, 112, 57-84
- * A. Young (1991) "Learning by Doing and the Dynamic Effect of International Trade," *Quarterly Journal of Economics*, 106, 369-405
- E. R. McGrattan and E. C. Prescott (2007), "Openness, Technology Capital, and Development," Federal Reserve Bank of Minneapolis Working Paper 651.
- *C. Broda, J. Greenfield, and D. E. Weinstein (2006), "From Groundnuts to Globalization: A Structural Estimate of Trade and Growth," NBER Working Paper 12033.
- D. K. Backus, P. J. Kehoe and T. J. Kehoe (1992), "In Search of Scale Effects in Trade and Growth," *Journal of Economic Theory*, 58, 377-409.
- *S. L. Baier and J. H. Bergstrand (2001), "The Growth of World Trade: Tariffs, Transport Costs, and Income Similarity," *Journal of International Economics*, 53, 1-27.

4. Models with Heterogeneous Firms

- C. Arkolakis (2008), "Market Access Costs and the New Consumers Margin in International Trade," Yale University of Minnesota.
- *T. Chaney (2008), "Distorted Gravity: Heterogeneous Firms, Market Structure, and the Geography of International Trade," *American Economic Review*, 98, 1707-1721.
- *J. Eaton and S. Kortum (2002), "Technology, Geography, and Trade," *Econometrica*, 70, 1741-1779.
- J. Eaton, S. Kortum, and F. Kramarz (2005), "An Anatomy of International Trade: Evidence from French Firms," New York University, University of Minnesota, and CREST-INSEE.
- M. J. Gibson (2006), "Trade Liberalization, Reallocation, and Productivity," University of Minnesota.
- T. J. Kehoe and K. J. Ruhl (2009), "On Models of International Trade with Heterogeneous Firm," University of Minnesota.
- *M. Melitz (2003), "The Impact of Trade on Aggregate Industry Productivity and Intra-Industry Reallocations," *Econometrica*, 71, 1695-1725.
- *K. J. Ruhl (2008), "The Elasticity Puzzle in International Economics," University of Texas at Austin.

*T. J. Kehoe and K. J. Ruhl (2013), "How Important is the New Goods Margin in International Trade?" *Journal of Political Economy*, 121, 358–392.

5. Structural Change, Trade, and Growth

* N. Stokey (2001) "A Quantitative Model of the British Industrial Revolution, 1780-1850," *Carnegie-Rochester Conference Series on Public Policy*, 55, 55-109

N. Stokey (1991) "The Volume and Composition of Trade between Rich and Poor Countries," *Review of Economic Studies*, 58, 63-80

* J. Coleman (2007) "Accommodating Emerging Giants," mimeo. Duke University

D. Gollin, S. Parente and R. Rogerson (2007) "The Food Problem and the Evolution of International Income Differences," *Journal of Monetary Economics*, 54(4), 1230-55.

M. Ungor (2012) "Deindustrialization of the Riches and the Rise of China", working paper.

C. Betts, R. Giri and R. Verma (2015) "Trade, Reform, and Structural Transformation in South Korea", working paper.

*T. Uy, K-M Yi and J. Zhang (2013) "Structural Change in an Open Economy," *Journal of Monetary Economics*, 60 (6), 687-682.

6. Exchange Rates and Prices

Obstfeld and Rogoff, Chapters 4, 8, 9 and 10

C. Betts and T. Kehoe (2001) "Tradability of Goods and Real Exchange Rate Fluctuations," mimeo. University of Minnesota and USC.

*G. Fernandez de Cordoba and T. J. Kehoe (2000), "Capital Flows and Real Exchange Rate Fluctuations Following Spain's Entry into the European Community," *Journal of International Economics*, 51, 49-78.

G. Alessandria (2001) "International Relative Price Volatility and Intra-national Price Dispersion," mimeo.

* R.E. Lucas (1982) "Interest Rates and Currency Prices in a Two-Country World," *Journal of Monetary Economics*, 10, 335-60.

* M. Obstfeld and K. Rogoff (1995) "Exchange Rate Dynamics Redux," *Journal of Political Economy*, 103, 624-660.

* C. Betts and M. Devereux (2000) "Exchange Rate Dynamics in a Model of Pricing-to-Market," *Journal of International Economics*, 50, 215-244.

* C. Engel and J. Rogers (1996) "How Wide is the Border?" *American Economic Review* 86, 1112-1125.

* C. Engel (1999) "Accounting for US Real Exchange Rate Changes", *Journal of Political Economy* 107, 507-538.

* C. Betts and T. Kehoe (2008) "Real Exchange Rate Movements and the Relative Price of Non-Traded Goods", NBER WP# 14437.

C. Betts and T. Kehoe (2006) "US Real Exchange Rate Fluctuations and Relative Price Fluctuations", *Journal of Monetary Economics*, 53, 1297-1326.

Crucini, M., C. Telmer, and M. Zachariadis (2005) "Understanding European Real Exchange Rates," *American Economic Review*, 95, 724-738.

M. Crucini and C. Telmer (2006) "Microeconomic Sources of Real Exchange Rate Variation," mimeo.

* J. Imbs, H. Mumtaz, M. O. Ravn, and H. Rey (2005), "PPP Strikes Back: Aggregation and the Real Exchange Rate," *Quarterly Journal of Economics*, 120, 1-44.

7. Capital Crises and Global Imbalances

*M. Aguiar, M. Amador, E. Farhi, and G. Gopinath (2012), "Crisis and Commitment: Inflation Credibility and the Vulnerability to Sovereign Debt Crises," Princeton University.

C. Chamley and B. Pinto (2011), "Why Official Bailouts Tend Not to Work: An Example Motivated by Greece 2010," *The Economists' Voice*, 8.

H. L. Cole and T. J. Kehoe (1996), "A Self-Fulfilling Model of Mexico's 1994-95 Debt Crisis," *Journal of International Economics*, 41, 309-330.

*H. L. Cole and T. J. Kehoe (2000), "Self-Fulfilling Debt Crises," *Review of Economic Studies*, 67, 91-116.

J. C. Conesa and T. J. Kehoe (2012), "Gambling for Redemption and Self-Fulfilling Debt Crises," Federal Reserve Bank of Minneapolis.

J. M. Da Rocha, E. Gimenez, and F. Lores (2013), "Self-Fulfilling Crises with Default and Devaluation," *Economic Theory*, 53, 499-535.

T. J. Kehoe (1995), "What Happened in Mexico in 1994–95?" in P. J. Kehoe and T. J. Kehoe, editors, *Modeling North American Economic Integration*, Kluwer Academic Publishers, 131–47.

T. J. Kehoe and K. J. Ruhl (2009), "Sudden Stops, Sectoral Reallocations, and the Real Exchange Rate," *Journal of Development Economics*, 89, 235–49.

*T. J. Kehoe, K. J. Ruhl, and J. B. Steinberg (2013), "Global Imbalances and Structural Change in the United States," *Federal Reserve Bank of Minneapolis Staff Report 489*.