Economics 252: International Finance

Spring 2018, University of Pennsylvania

Instructor: Alessandro Dovis

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　　　　　Office: 445 McNeil Building

Lecture Times: Tuesdays and Thursdays, 10:30am to noon.
　　　　　　　　(There will be no class on Tuesday April 3.)

Lecture Location: GLAB 101

Office Hours: Wednesdays 9:00am - 10:00am (in my office) and by appointment

Teaching Assistant: The TA for the course is Maria Orraca Corona. Her e-mail address is morra@sas.upenn.edu. She will have office hours on Mondays from 6pm to 8pm in 363 McNeil Building.

Course Website: Course information is available in Canvas, which I recommend to check regularly. Canvas is the official channel I will use to make announcements, post slides, homework, exercises and, from time to time, relevant papers for you to read.

Course Description: This is a one-semester course in international finance and open economy macroeconomics. The objective is to build the analytical foundation for understanding and debating key macro issues in the world economy such as such as current account deficits and global imbalances, the global financial cycle, the optimality of the Euro, and the current financial crisis.

To this end, we will develop a set of theoretical tools to model an economy open to trade in goods and assets. Broadly speaking, we are going to cover the following topics:

1. Current Account determination: Data and Theory

2. Asset Prices, Risk Sharing, Nominal Exchange Rates and Interest Rate Parities

3. External Debt and Sovereign Default

4. Nominal Exchange Rates and Monetary Policy

5. The international financial system and the role of the US dollar

6. Case Study: European Debt Crisis

Attendance: Students are expected and strongly encouraged to attend every lecture.

Pre-requisites:

- Econ 101 and Econ 102. Intermediate Micro and Intermediate Macro.

- Math 104. Calculus 1

- Math 114 or Math 115. Calculus 2

Grading: Your grade will be based on:

- 3 homeworks (equally weighted, 25% of total grade)

- 3 in class midterms (equally weighted, 75% of total grade)

If a student misses a class during which a midterm takes place, and the student has a valid excuse, the missed event may be made up in one of two ways that are to be decided by the instructor:

- the student will take a make-up version for the missed evaluative event; or

- the student will be excused from the missed event, and the weight of that event in the overall course grade will be reassigned to the average of the other midterms.

The **first midterm** is scheduled for **Thursday, February 8th**; the **second midterm** is tentatively scheduled for **Thursday, March 22th;** the **third midterm** is scheduled for the last class, **Tuesday, April 24**.

Working on home works will be essential preparation for the exams. You can work in groups on the home works, but you must write up your own solutions.

We will make every effort to have the tests and the homeworks graded and handed back in a week. If you have any concern with the grade, you have one week to return your exam with a written explanation of why you think the grade is incorrect. After that week grades cannot be modified.

Course Policies: The Department of Economics maintains a common set of policies that apply to all classes. By taking this class you agree to abide by these policies. You are encouraged to read these policies carefully. Full details can be found here: **http:// economics.sas.upenn.edu/undergraduate-program/course-information/guidelines/ policies**

Reading List The most important material to prepare for the midterms and the final exam are my classes, my slides and the homeworks. I will post opportunely.

There is no textbook for the course. The main references are the lecture notes from Stephanie Schmitt-Grohe, Martin Uribe, and Michael Woodford (referred to as SGUW below) available on the course webpage and at http://www.columbia.edu/~mu2166/ UIM/index.html

During the class, I will make connections to current advances in the research in international finance and to policy issues. The following readings are complementary to my lectures. I will indicate during the course of the class which are required (and I will likely add more). I will also post articles from Financial Times, The Economics, The Wall Street Journal related to the topics we are covering.

Section 1. Current Account determination: Data and Theory

SGUW Chapters 1 - 6

Gourinchas, Pierre-Olivier, and Helene Rey. "From world banker to world venture capitalist: US external adjustment and the exorbitant privilege." In *G7 Current Account Imbalances: Sustainability and Adjustment*, pp. 11-66. University of Chicago Press, 2007.

McGrattan, Ellen R., and Edward C. Prescott. "Technology Capital and the US Current Account." *The American Economic Review* 100, no. 4 (2010): 1493.

Section 2. Asset Prices, Risk Sharing, Nominal Exchange Rates and Interest Rate Parities

SGUW Chapter 8

Gourinchas, Pierre-Olivier, Hélène Rey, and Nicolas Govillot. *Exorbitant privilege and exorbitant duty*. No. 10-E-20. Institute for Monetary and Economic Studies, Bank of Japan, 2010.

Section 3. External Debt and Sovereign Default

SGUW Chapter 12

Eaton, Jonathan, and Mark Gersovitz. "Debt with potential repudiation: Theoretical and empirical analysis." The Review of Economic Studies (1981): 289-309.

Cole, Harold L., and Timothy J. Kehoe. "A self-fulfilling model of Mexico's 1994–1995 debt crisis." Journal of international Economics 41.3 (1996): 309-330.

Reinhart, Carmen M., and M. Belen Sbrancia. The liquidation of government debt. No. w16893. National Bureau of Economic Research, 2011.

Chari, V.V., Dovis, Alessandro, and Patrick J. Kehoe. "On the Optimality of Financial Repression." (2014).

Reinhart, Carmen, and Kenneth Rogoff. 2014. "This Time Is Different: A Panoramic View of Eight Centuries of Financial Crises." Annals of Economics and Finance 15 (2). Cambridge: Harvard University: 1065-1188.

Reinhart, Carmen M, and Kenneth Rogoff. 2011. "From Financial Crash to Debt Crisis." American Economic Review 101: 1676-1706.

Chari, Varadarajan V., and Patrick J. Kehoe. Asking the Right Questions about the IMF. Federal Research Bank of Minneapolis, 1999.

Section 4. Nominal Exchange Rates and Monetary Policy

Chari, V. V., Alessandro Dovis, and Patrick Kehoe. "Rethinking optimal currency areas." *2014 Meeting Papers*. Vol. 826. 2013.

SGUW Chapter 11 and 13

Schmitt-Grohé, Stephanie, and Martin Uribe. 2013. "Downward Nominal Wage Rigidity and the Case for Temporary Inflation in the Eurozone." Journal of Economic Perspectives, 27(3): 193-212.

Section 5. The international financial system and the role of the US dollar

Rey, Hélène. "International channels of transmission of monetary policy and the mundellian trilemma." *IMF Economic Review* 64.1 (2016): 6-35.

Farhi, Emmanuel, and Matteo Maggiori. *A Model of the International Monetary System*. No. w22295. National Bureau of Economic Research, 2016.

Ilzetzki, Ethan, Carmen M. Reinhart, and Kenneth S. Rogoff. Exchange Arrangements Entering the 21st Century: Which Anchor Will Hold?. No. w23134. National Bureau of Economic Research, 2017.

Gopinath, Gita. The international price system. No. w21646. National Bureau of Economic Research, 2015.

Section 6. European Debt Crisis

Chari, V. V., Alessandro Dovis, and Patrick J. Kehoe. "A journey down the slippery slope to the European crisis: a theorist's guide." (2017).

Fernández-Villaverde, Jesús, Luis Garicano, and Tano Santos. 2013. "Political Credit Cycles: The Case of the Eurozone." Journal of Economic Perspectives, 27(3): 145-66.

Bulow Jeremy, and Kenneth Rogoff. 2015. The modern Greek tragedy. Vox-EU. Available at http://voxeu.org/article/modern-greek-tragedy.

Brunnermeier, M, L Garicano, P Lane, M Pagano, R Reis, T Santos, D Thesmar, S Van Nieuwerburgh, and D Vayanos (2016a), "The sovereign-bank diabolic loop and ESBies", American Economic Review Papers and Proceedings, 106 (5), 508-512.