

EC9C4: Topics in International Economics

Part A, Weeks 1-6

Course Page: EC9C4

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OH: Fridays, 10:00 - 12:00

Time and Location:

Tuesdays (weeks 1-6), 9am - 11am, Room S1.141

Fridays (weeks 1, 2, 4 and 5), 2pm - 4pm, Room S1.141

(No lecture on Friday, October 18)

Materials:

Most lectures will be based on the journal articles and working papers from the reading list below, but for some lectures, as well as for more structured approach to the topics, I would recommend the following (text)books:

- Schmitt-Grohe and Uribe, *Open Economy Macroeconomics*, Princeton University Press, 2017. (SGU)
- Maurice Obstfeld and Kenneth Rogoff *Foundations of International Macroeconomics*, MIT Press 1996. (OR)
- Reinhart, Carmen M. and Kenneth Rogoff *This Time is Different: Eight Centuries of Financial Folly*, Princeton University Press 2009 (RR)

Assessment: This is one half of the course (part A), and therefore counts for 50 percent of the total mark. Of these 50 percent, 30 percent will be based on in-class discussions (papers with * are the ones to be presented), and 70 percent on a take-home exam.

SHORT DESCRIPTION OF THE COURSE

This course is the first part of the elective module for 2nd year MRes students, Topics in International Economics. The main objective of this module is to introduce students to some relevant research areas in international macroeconomics, and to provide some of the tools necessary to understand main questions in these research areas. We will start with reviewing some empirical evidence, by looking at international business cycles. We will build a simple canonical open-economy dynamic equilibrium model to try to bring theory and empirics together. We will then try to understand how these models can be adopted for the purpose of answering important questions in international macro, such as: How are macroeconomic shocks transmitted internationally? Why countries overborrow? Do (and why) countries default in bad times? How desirable (efficient) are bailouts?

1. Business Cycles in Emerging Economies: Empirical Evidence

SGU, Chapter 1.

Finn E. Kydland and Carlos E.J.M.Zarazaga, 1997. "Is the business cycle of Argentina "different?"", *Economic and Financial Policy Review*, Federal Reserve Bank of Dallas, issue Q IV, pages 21-36.

Graciela L. Kaminsky and Carmen M. Reinhart and Carlos A. Vegh, 2004. "When it Rains, it Pours: Procyclical Capital Flows and Macroeconomic Policies," NBER Working Papers 10780, National Bureau of Economic Research, Inc.

Lane, Philip R. and Milesi-Ferretti, Gian Maria, 2007. "The external wealth of nations mark II: Revised and extended estimates of foreign assets and liabilities, 1970-2004," *Journal of International Economics*, vol. 73(2), pages 223-250, November.

Pierre-Olivier Gourinchas and Rodrigo Valdes and Oscar Landerretche, 2001. "Lending Booms: Latin America and the World," *Economia*, LACEA Journal, vol. 0 (Spring 20), pages 47-100, January.

Vincenzo Quadrini and Fabrizio Perri, 2008. "Understanding the international great moderation," 2008 Meeting Papers 1057, Society for Economic Dynamics.

Backus, David K. and Patrick J. Kehoe (1992), "International Evidence on the Historical Properties of Business Cycles", *American Economic Review*, vol. 82, no.4, 864-888.

2. Business Cycles in Emerging Economies: Theory

- RBC Theories

SGU Chapters 4,5

Mendoza, Enrique G, 1991. "Real Business Cycles in a Small Open Economy," *American Economic Review*, vol. 81(4), pages 797-818, September.

Backus, David K and Kehoe, Patrick J and Kydland, Finn E, 1992. "International Real Business Cycles," *Journal of Political Economy*, vol. 100(4), pages 745-775, August.

Schmitt-Grohe, Stephanie and Uribe, Martin, 2003. "Closing small open economy models," *Journal of International Economics*, vol. 61(1), pages 163-185, October.

Mark Aguiar and Gita Gopinath, 2007. "Emerging Market Business Cycles: The Cycle Is the Trend," *Journal of Political Economy*, vol. 115, pages 69-102.

Javier Garcia-Cicco and Roberto Pancrazi and Martin Uribe, 2010. "Real Business Cycles in Emerging Countries?," *American Economic Review*, vol. 100(5), pages 2510-2531, December.

- The Terms of Trade, the World Interest Rate, and Country Spreads

SGU Chapters 6,7; OR Chapter 4

Mendoza, Enrique G, 1995. "The Terms of Trade, the Real Exchange Rate, and Economic Fluctuations," *International Economic Review*, vol. 36(1), pages 101-137, February.

Backus, David K and Kehoe, Patrick J and Kydland, Finn E, 1994. "Dynamics of the Trade Balance and the Terms of Trade: The J-Curve?," *American Economic Review*, vol. 84(1), pages 84-103, March.

Neumeyer, Pablo A. and Perri, Fabrizio, 2005. "Business cycles in emerging economies: the role of interest rates," *Journal of Monetary Economics*, vol. 52(2), pages 345-380, March.

Uribe, Martin and Yue, Vivian Z., 2006. "Country spreads and emerging countries: Who drives whom?," *Journal of International Economics*, vol. 69(1), pages 6-36, June.

- International Transmission of Shocks

SGU, Chapter 4.

Baxter, Marianne and Crucini, Mario J, 1995. "Business Cycles and the Asset Structure of Foreign Trade," *International Economic Review*, vol. 36(4), pages 821-854, November.

Schmitt-Grohe, Stephanie, 1998. "The international transmission of economic fluctuations:: Effects of U.S. business cycles on the Canadian economy," *Journal of International Economics*, vol. 44(2), pages 257-287, April.

- Overborrowing

SGU, Chapter 4.

Martin Uribe, 2006. "On Overborrowing," *American Economic Review*, vol. 96(2), pages 417-421, May.

* Javier Bianchi, 2011. "Overborrowing and Systemic Externalities in the Business Cycle," *American Economic Review*, vol. 101(7), pages 3400-3426, December.

Ricardo J. Caballero and Arvind Krishnamurthy, 2003. "Excessive Dollar Debt: Financial Development and Underinsurance," *Journal of Finance*, vol. 58(2), pages 867-894, April.

Enrique G. Mendoza and Javier Bianchi, 2011. "Overborrowing, Financial Crises and Macro-prudential Policy," IMF Working Papers 11/24, International Monetary Fund.

3. Financial Frictions and Sudden Stops

Cristina Arellano and Enrique G. Mendoza, 2002. "Credit Frictions and 'Sudden Stops' in Small Open Economies: An Equilibrium Business Cycle Framework for Emerging Markets Crises," NBER Working Papers 8880, National Bureau of Economic Research, Inc.

Guillermo A. Calvo, 1998. "Capital Flows and Capital-Market Crises: The Simple Economics of Sudden Stops," *Journal of Applied Economics*, vol. 1, pages 35-54, November.

- Enrique G. Mendoza and Vincenzo Quadrini and Jose-Victor Rios-Rull, 2009. "Financial Integration, Financial Development, and Global Imbalances," *Journal of Political Economy*, vol. 117(3), pages 371-416, June
- Mendoza, Enrique G. and Smith, Katherine A., 2006. "Quantitative implications of a debt-deflation theory of Sudden Stops and asset prices," *Journal of International Economics*, Elsevier, vol. 70(1), pages 82-114, September.
- * Enrique G. Mendoza, 2010. "Sudden Stops, Financial Crises, and Leverage," *American Economic Review*, vol. 100(5), pages 1941-1966, December.
- Lorenzoni, Guido, 2014. "International Financial Crises," *Handbook of International Economics*, Elsevier.

4. Lending Under Imperfect Enforcement

- Empirical Evidence

RR

Jonathan Eaton and Mark Gersovitz, 1981. "Debt with Potential Repudiation: Theoretical and Empirical Analysis," *Review of Economic Studies*, vol. 48(2), pages 289-309.

Michael Tomz and Mark L. J. Wright, 2007. "Do Countries Default in "Bad Times" ?," *Journal of the European Economic Association*, vol. 5(2-3), pages 352-360, 04-05.

- Theory

SGU, Chapter 13, OR, Chapter 6

Eaton, Jonathan and Fernandez, Raquel, 1995. "Sovereign debt," *Handbook of International Economics*, in: G. M. Grossman and K. Rogoff (ed.), vol 3, chapter 3, pages 2031-2077.

Aguiar, M. and Chatterjee, S. and Cole, H. and Stangebye, Z., 2016. "Quantitative Models of Sovereign Debt Crises," *Handbook of Macroeconomics*.

Cristina Arellano, 2008. "Default Risk and Income Fluctuations in Emerging Economies," *American Economic Review*, vol. 98(3), pages 690-712, June.

Enrique G. Mendoza and Vivian Z. Yue, 2012. "A General Equilibrium Model of Sovereign Default and Business Cycles," *The Quarterly Journal of Economics*, Oxford University Press, vol. 127(2), pages 889-946.

Juan Carlos Hatchondo and Leonardo Martinez and Cesar Sosa-Padilla, 2016. "Debt Dilution and Sovereign Default Risk," *Journal of Political Economy*, vol. 124(5), pages 1383-1422.

Aguiar, Mark and Gopinath, Gita, 2006. "Defaultable debt, interest rates and the current account," *Journal of International Economics*, vol. 69(1), pages 64-83, June.

Harold L. Cole and Timothy J. Kehoe, 2000. "Self-Fulfilling Debt Crises," *Review of Economic Studies*, vol. 67(1), pages 91-116.

- * Juan Carlos Conesa and Timothy J. Kehoe, 2017. "Gambling for redemption and self-fulfilling debt crises," *Economic Theory*, vol. 64(4), pages 707-740, December.
- Bulow, Jeremy and Rogoff, Kenneth, 1989. "Sovereign Debt: Is to Forgive to Forget?," *American Economic Review*, vol. 79(1), pages 43-50, March.
- The Role for Renegotiations and Bailouts
 - * Javier Bianchi, 2016. "Efficient Bailouts?," *American Economic Review*, vol. 106(12), pages 3607-3659, December.
 - * Yue, Vivian Z., 2010. "Sovereign default and debt renegotiation," *Journal of International Economics*, vol. 80(2), pages 176-187, March.
 - Cole, Harold L. and Kehoe, Timothy J., 1996. "A self-fulfilling model of Mexico's 1994-1995 debt crisis," *Journal of International Economics*, vol. 41(3-4), pages 309-330.
 - Boz, Emine, 2011. "Sovereign default, private sector creditors, and the IFIs," *Journal of International Economics*, vol. 83(1), pages 70-82.
 - Fink, Fabian and Scholl, Almuth, 2016. "A quantitative model of sovereign debt, bailouts and conditionality," *Journal of International Economics*, vol. 98(C), pages 176-190.
 - Pancrazi, Roberto and Seoane, Hernan D and Vukotic, Marija, 2015. "Sovereign Risk, Private Credit, and Stabilization Policies," Working Paper, University of Warwick