

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) *International Economics: Theory and Policy*. Boston: Addison-Wesley. Chapter 12.

Obstfeld, M. and K. Rogo (2000) The six major puzzles in international macroeconomics: Is there a common cause? *Brookings Papers on Economic Activity* **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 deficits? A multi-country analysis. mimeo.

Blanchard, O. (1985) Debt, deficits, and finite horizons. *Journal of Political Economy* **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. *Journal of International Money and Finance* **68**, 159–187.

Obstfeld, M. and K. Rogo (1996) The intertemporal approach to the current account, in G. Grossman and K. Rogo (eds.) *Handbook of International Trade*, vol. 3. Amsterdam: North-Holland.

Taylor, A. (2002) A century of current account dynamics. *Journal of International Money and Finance* **21**, 725–748.

3. INTERNATIONAL CAPITAL FLOWS

Barro, R., G. Mankiw and X. Sala-i-Martin (1995) Capital mobility in neoclassical models. *American Economic Review* **85**

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 heterogeneous 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.

Coourdacier, 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.