Texts

Maurice Obstfeld and Kenneth Rogoff, *Foundations of International Macroeconomics*, MIT Press, 1996 is an excellent background for many of the topics in this reading list.

Outline of the course

The following outline gives a guide to the material that will be covered in the course. Updates to this outline may be given during class. Lectures are indicative: we may well find that some topics require more (or less) time to cover. The emphasis of the course is on financial markets and their imperfections. We will start with the foundations and gradually build in context.

Course requirements

Periodic short assignments: these may be problems but will also consist of answering short questions assigned during class, related to course readings. You are encouraged to work with your classmates, and you may give answers in groups. One mid-term quiz (in October) and one final quiz (on the last day of classes) carrying equal weights.

Part I: The Core

1. Intertemporal Approach to the Current Account (2 lectures)

* Obstfeld and Rogoff, Chapter 2


2. Complete Markets and International RBC (2 lectures)

* Obstfeld and Rogoff, Chapter 5


3. Portfolio Diversification and Capital Flows (3 lectures)

3.1 The International Diversification Puzzle


Obstfeld and Rogoff, Chapter 5.


3.2 Risk Premia and Exchange Rate Volatility: Forward Premium Puzzle


* A. Atkeson, F. Alvarez and P. Kehoe *Time varying risk, interest rates, and exchange rates in general equilibrium*

* Craig Burnside, Martin Eichenbaum, Isaac Kleshchelski and Sergio Rebelo *The Returns to Currency Speculation* (August 2006)


5. Capital Market Imperfections: Limited Commitment in International Capital Markets. (2 lectures)


6. Money and Exchange Rates (2 lectures)


6.1 Prices and Market Structure


6.2 The PPP puzzle

* Imbs, J., H. Mumtaz, M. Ravn, and H. Rey. “PPP Strikes Back: Aggregation and the Real Exchange Rate”, NBER WP No. 9372


Part II: Touring the World with Models

7. Global Imbalances (2 lectures)

7.1 The Facts


7.2 The Conventional (“Disequilibrium”) View


7.3 New (“Equilibrium”) Views


8. Sudden Stops (4 lectures)

8.1 The Facts


8.2 Domestic Problems and Policy

8.2.1 The Private Sector


### 8.2.2 The Government


### 8.3 External Problems and International Financial Architecture


Calvo, G. *Emerging Markets in Turmoil: Bad Luck or Bad Policy?* Forthcoming MIT Press


9. Capital Account Liberalization (1 lecture)


Gourinchas, P.O. and O. Jeanne, “Capital Flows to Developing Countries: The Allocation Puzzle,” Mimeo UCB, September 2006-10-06


10. Persistent Appreciations (1 lecture)


11. Currency Crises and Financial Frictions (3 lectures)

10.1 First and second generation models of currency crises


11.2 Moral Hazard


11.3 Balance sheets and currency crises


11.4 Financial panics and liquidity crises


12. Target Zones and Realignments (1 lecture)


