

## 14.582 – International Economics II

Fall 2006

Ricardo Caballero ([caball@mit.edu](mailto:caball@mit.edu)) and Guido Lorenzoni ([glorenzo@mit.edu](mailto:glorenzo@mit.edu))

T.A. Tatiana Didier ([tdidier@mit.edu](mailto:tdidier@mit.edu))

### 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

\* Glick, R. and K. Rogoff, 1995. "Global versus country-specific productivity shocks and the current account", *Journal of Monetary Economics* 35(1), 159-92.

\* [Dornbusch, R.](#), 1983. "Real Interest Rates, Home Goods and Optimal External Borrowing", *Journal of Political Economy* 91 (1), pp. 141- 153, February.

\* [Gourinchas, P.O. and H. Rey](#), 2005. "International Financial Adjustment", NBER WP No. 11155.

\* [Kraay, A. and J. Ventura](#), 2000. "Current Accounts in Debtor and Creditor Countries", *Quarterly Journal of Economics* 115 (4), pp. 1137-1166, November.

\* Corsetti, G., L. Dedola, and S. Leduc, 2006. "Productivity, External Balance and Exchange Rates: Evidence on the Transmission Mechanism Among G7 Countries", NBER WP No. 12483.

[Mercereau, B.](#), 2003. "The Role of Stock Markets in Current Account Dynamics: a Time Series Approach", BE Press, Topics in Macroeconomics 3 (1) (also IMF Working Paper 04/50).

[Obstfeld, M. and K. Rogoff](#), 1995. "The Intertemporal Approach to the Current Account", in *Handbook of International Economics*, Gene Grossman and Ken Rogoff, eds., North Holland.

[Obstfeld, M. and K. Rogoff](#), 2004. "The Unsustainable US Current Account Position Revisited", NBER WP No. 10869.

[Razin, A. and L. Svensson](#), 1983. "The Terms of Trade and the Current Account: The Harberger-Laursen-Metzler Effect," *Journal of Political Economy*, 91 (1), pp. 97—125, February.

## 2. Complete Markets and International RBC (2 lectures)

\* Obstfeld and Rogoff, Chapter 5

\* [Backus, D., P. Kehoe, and F. Kydland](#), 1992. "International Real Business Cycles", *Journal of Political Economy* 100 (4), pp. 745-775, August.

\* [Backus, D., P. Kehoe, and F. Kydland](#), 1994. "Relative Price Movements," in *Handbook of International Economics*, Gene Grossman and Ken Rogoff, eds., North Holland.

Backus, D. and G. Smith, 1993. "[Consumption and Real Exchange Rates](#)", *Journal of International Economics* 35 (3-4), pp. 297-316, November.

[Backus, D., P. Kehoe, and F. Kydland](#), 1994. "Dynamics of the Trade Balance and the Terms of Trade: The J curve", *American Economic Review* 84 (1), pp. 84-103, March.

## 3. Portfolio Diversification and Capital Flows (3 lectures)

### 3.1 The International Diversification Puzzle

\* [Obstfeld, M.](#), 1994. "Risk Taking, Global Diversification and Growth", *American Economic Review* 84 (5), pp.1310-1329.

\* [Obstfeld, M. and K. Rogoff](#), 2001. "The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?", *NBER Macroeconomic Annual*.

\* Cole, H. and M. Obstfeld, 1991. "Commodity Trade and International Risk Sharing: How much do Financial Markets Matter?", *Journal of Monetary Economics* 28, pp. 3-24, August.

\* [Heathcote, J. and F. Perri](#), 2004. "The International Diversification Puzzle Is Not as Bad as You Think", [2004 Meeting Papers](#) 152, Society for Economic Dynamics.

\* P. De Marzo, [Ron Kaniel](#), and [Ilan Kremer](#), 2004. "Diversification as a Public Good: Community Effects in Portfolio Choice", *Journal of Finance* 59, pp. 1677-1715.

\* Lorenzoni, G., 2005. Notes on Home Bias Puzzle.

\* Coeurdacier, N., 2005. Do trade costs in goods markets lead to home bias in equities?, Paris-Jourdan Sciences Economiques mimeo.

\* [Corsetti, G., L. Dedola, and S. Leduc](#), 2004. "International Risk-Sharing and The Transmission of Productivity Shocks", European Central Bank WP No. 308, also International Finance Discussion Papers 826, Board of Governors of the Federal Reserve System (2005).

\* Veldkamp, L. and S. Van Nieuwerberg, 2005. "Information Immobility and The Home Bias Puzzle", NYU Stern mimeo.

Obstfeld and Rogoff, Chapter 5.

Baxter, M. and U. Jermann, 1997. "The International Diversification Puzzle Is Worse Than You Think", *American Economic Review* 87 (1), pp. 170-180.

[Pesenti, P. and E. van Wincoop](#), 2000. "Can Nontradables Generate Substantial Home Bias?", *Journal of Money, Credit and Banking* 34 (1), pp. 25-50.

[Bottazi, L., P. Pesenti, and E. van Wincoop](#), 1996. "Wages, Profits and the International Portfolio Puzzle," *European Economic Review* 40 (2), pp. 219-254.

Athanosoulis, S and E. van Wincoop, 2000. "Growth Uncertainty and Risk-Sharing," *Journal of Monetary Economics* 45, pp. 477-505.

[Kraay, A., N. Loayza, L. Servén, and J. Ventura](#), 2000. "Country Portfolios," NBER WP No. 7795 and CEPR DP No. 2974, 2000.

Martin, P. and H. Rey, 2000. "Financial Integration and Asset Returns", *European Economic Review* 44, pp. 1327-1350.

Martin, P. and H. Rey, 2001. "Financial Supermarkets: Size Matters for Asset Trade", NBER WP 8476.

### 3.2 Risk Premia and Exchange Rate Volatility: Forward Premium Puzzle

\* Lustig, H. and A. Verdelhan, 2005. "Cross-Section of Currency Risk Premia and US Consumption Growth Risk", NBER WP No. 11104.

\* 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)

Bacchetta, P. and E. Van Wincoop, 2005. "Rational Inattention: A Solution to the Forward Discount Puzzle", NBER WP 11633.

Bacchetta, P. and E. Van Wincoop, 2003. "Can Information Heterogeneity Explain the Exchange Rate Determination Puzzle?", NBER WP No 9498, also University of Lausanne mimeo (2005).

Lane, P. and G. M. Milesi-Ferretti, 2001. "The External Wealth of Nations: Measures of Foreign Assets and Liabilities for Industrial and Developing Countries", *Journal of International Economics* 55(2), 263-294, also IMF WP 99/115, August.

Lane, P. and G.M. Milesi Ferretti, 2003. "International Financial Integration", CEPR DP No. 3769.

Gourinchas, P. O. and O. Jeanne, 2002. "The Elusive Gains from International Financial Integration", NBER WP No. 9684.

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

\* A. Atkeson, 1991. "International Lending with Moral Hazard and Risk of Repudiation", *Econometrica* 59 (4), pp. 1069-1089, July.

\* C. Arellano, 2006. "[Default Risk and Income Fluctuations in Emerging Economies](#)," August 2006, University of Minnesota mimeo.

Eaton, J. and R. Fernandez, 1995. "Sovereign debt", *Handbook of International Economics* 3, chapter 39, pp. 2032-2077. Also NBER WP No. 5131.

\* Bulow, K. and K. Rogoff, 1989. "Sovereign Debt: Is to Forgive to Forget?", *American Economic Review* 79, pp. 43-50, March.

\* Kletzer K. and B. Wright, 2000. "Sovereign Debt as Intertemporal Barter", *American Economic Review* 90, pp. 621-639, June.

Bulow, K. and K. Rogoff, 1989. "A Constant Recontracting Model of Sovereign Debt", *Journal of Political Economy* 97, pp. 155-78.

Kehoe, P. and F. Perri, 2002. "International Business Cycles with Endogenous Incomplete Markets", *Econometrica* 70, pp. 907-928, May.

Kletzer, K. M., 1994. "Sovereign Immunity and International Lending" in R. van der Ploeg (ed.), *Handbook of International Macroeconomics*, London: Basil Blackwell.

Haldane, A., A. Penalver, V. Saporta, and H.S. Shin, 2003. "Analytics of Sovereign Debt Restructuring", Bank of England mimeo.

[Shleifer, A.](#), 2003. "Will The Sovereign Debt Market Survive?", NBER WP No. 9493

Sachs, J., 1984. "Theoretical Issues in International Borrowing", *Princeton Studies in International Finance* 54, July.

Cole, H. and P. Kehoe, 1997. "Reviving Reputation Models of International Debt", *Federal Reserve Bank of Minneapolis Quarterly Review*, Winter.

Obstfeld, M. and A. Taylor, 2003. "Sovereign Risk, Credibility and the Gold Standard: 1870-1913 versus 1925-31", *Economic Journal* v113(Apr), 241-275.

## 6. Money and Exchange Rates (2 lectures)

\* [Dornbusch, R.](#), 1976. "Expectations and Exchange Rate Dynamics", *Journal of Political Economy* 84 (6), pp. 1161-1176, December.

[Chari, V.V., P. Kehoe, and E. McGrattan](#), 2002. "Can Sticky Price Models Generate Volatile and Persistent Real Exchange Rates?", *Review of Economic Studies* 69 (3), pp. 553-63.

[Benigno, G.](#), 2004. "Real Exchange Rate Persistence With Endogenous Monetary Policy", *Journal of Monetary Economics* 51, pp. 473-502.

### 6.1 Prices and Market Structure

\* [Dornbusch, R.](#), 1987. "Exchange Rates and Prices", *American Economic Review* 77 (1), pp. 93 – 106, March.

\* [Krugman, P.](#), 1986. "Pricing to Market When the Exchange Rate Changes", NBER WP No. 1926. Also in S. Arndt and J.D. Richardson (eds.) *Real-Financial Linkages among Open Economies*. Cambridge, Mass. MIT Press (1993).

\* Atkeson, A. and A. Burstein, 2005. "Trade Costs, Pricing To Market, and International Relative Prices", UCLA mimeo.

[Corsetti, G. and L. Dedola](#), 2003. "Macroeconomics of International Price Discrimination.", CEPR Working Paper 3710.

\* [Burstein, A., M. Eichenbaum, and S. Rebelo](#), 2002. "Why Are Inflation Rates So Low After A Devaluation?", NBER WP No. 8748.

[Burstein, A., J. C. Neves, and S. Rebelo](#), 2003. "Distribution Costs and Real Exchange Rate Dynamics During Exchange-Rate Based Stabilizations", *Journal of Monetary Economics* 50, pp. 1189-1214.

[Burstein, A., M. Eichenbaum and S. Rebelo](#), 2004. "Large Devaluations and The Real Exchange Rate", NBER WP No. 10986.

[Campa, J. and L. Goldberg](#), 2004. "Do Distribution Margins Solve The Exchange Rate Disconnect Puzzle?", New York Fed mimeo.

### 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

[Chen, S. and C. Engel](#), 2004. "Does Aggregation Bias Explain the PPP Puzzle", NBER WP No. 10304.

Reidel, D. and J. Szilagyi, 2004. "A Biased View of PPP", Harvard University mimeo.

Crucini, M. J. and M. Shintani, 2004. "Persistence of Law-of-One Price Deviations: Evidence from micro data", Vanderbilt University mimeo.

Parsley, D. and W. Shang-Jin, 2004. "A Prism Into the PPP Puzzle: The Micro Foundations of Big Mac Real Exchange Rates", CEPR DP No. 4486.

## Part II: Touring the World with Models

### 7. Global Imbalances (2 lectures)

#### 7.1 The Facts

Backus, D. and F. Lambert, 2005. "Current Account Fact and Fiction", Mimeo ([slides](#))

Lane, P. and G. Milesi-Ferretti, 2005. "A Global Perspective on External Positions", IMF WP No. 05/161.

#### 7.2 The Conventional ("Disequilibrium") View

Bergsten, C. and J. Williamson, 2004. *Dollar Adjustment: How Far? Against What?* Special Report 17. Washington, D.C.: Institute for International Economics.

Bergsten, C. and J. Williamson, 2003. *Dollar Overvaluation and the World Economy*. Special Report 16. Washington, D.C.: Institute for International Economics.

Roubini, N. and B. Setser, 2005. "How Scary Is the Deficit? American Power and American Borrowing: Our Money, Our Debt, Our Problem", *Foreign Affairs* 84(4), pp. 194-98.

Roubini, N. and B. Setser, 2005. "The Sustainability of US External Imbalances", *CESifo Forum* 6(1), pp. 8-15.

Blanchard, O., F. Giavazzi, and F. Sa, 2005. "The U.S. Current Account and the Dollar", *Brookings Papers on Economic Activity*, 2005 issue 1, 1-49.

Obstfeld, M. and K. Rogoff, 2005. "The Unsustainable US Current Account Positioned Revisited", *Brookings Papers on Economic Activity*, 2005 issue 1, 67-123.

Edwards, S., 2005. "Is the U.S. Current Account Deficit Sustainable? And If Not, How Costly is Adjustment Likely To Be?", *Brookings Papers on Economic Activity*, 2005 issue 1, 211-271.

#### 7.3 New ("Equilibrium") Views

Cooper, R., 2005. "Is the Current Account Deficit Sustainable?", *CESifo Forum* 6(1), pp. 3-7.

Cooper, R., 2005. "Global Current Account Imbalances and Exchange Rate Adjustments: Comment", *Brookings Papers on Economic Activity* v. 0 (1), pp. 124-28.

Caballero, R., E. Farhi, and P.O. Gourinchas, 2006. "An equilibrium model of "Global Imbalances" and low interest rates", NBER WP 11996.

Caballero, R., E. Farhi, and M. Hammour, 2006. "Speculative Growth: Hints from the U.S. Economy," *American Economic Review*, September.

Bernanke, B., 2005. "The Global Saving Glut and the U.S. Current Account," Remarks at the Sandridge Lecture, Virginia Association of Economics, Richmond, VA, March 10.

Hausmann, R. and F. Sturzenegger, 2006. "Global Imbalances or Bad Accounting? The Missing Dark Matter in the Wealth of Nations", CID Working Paper No. 124.

Gourinchas, P. O. and H. Rey, 2005. "From World Banker to World Venture Capitalist: US External Adjustment and the Exorbitant Privilege", NBER WP No. 11563.

Engel, C. and J.H. Rogers, 2006 "The U.S. Current Account Deficit and the Expected Share of World Output," *Journal of Monetary Economics* 5, 1063-1093.

Doley, M., D. Folkerts Landau, and P. Garber, 2004. "The revived Bretton Woods System", NBER WP No. 10332.

Doley, M., D. Folkerts Landau, and P. Garber, 2004. "The US Current Account Deficit and Economic Development: Collateral for a Total Return Swap", NBER WP No. 10727.

Kraay, A. and J. Ventura, 2005. "The Dot-Com Bubble, The Bush Deficits, and the U.S Current Account", NBER WP No. 11543.

Ventura, J., 2002. "Bubbles and Capital Flows", NBER WP No. 9304.

## **8. Sudden Stops (4 lectures)**

### *8.1 The Facts*

Calvo, G., A. Izquierdo, and L. F. Meija, 2004. "On the Empirics of Sudden Stops: The Relevance of Balance Sheet Effects", NBER WP No. 10520.

Kaminsky, G., C. Reinhart, and C. Vegh, 2004. "When it Rains, it Pours: Procyclical Capital Flows and Macroeconomic Policies", NBER WP No. 10780.

Caballero, R., 2000. "Macroeconomic Volatility in Latin America: A View and Three Case Studies", *Economia* 1(1), pp. 31-108, Fall. *Reprinted in Estudios de Economia* 28 (1), pp. 5-52, June 2001.

### *8.2 Domestic Problems and Policy*

#### 8.2.1 The Private Sector

Caballero, R. and A. Krishnamurthy, 2001. "International and Domestic Collateral Constraints in a Model of Emerging Market Crises", *Journal of Monetary Economics* 8 (3), pp. 513-548.

Caballero, R. and A. Krishnamurthy, 2002. "A Dual Liquidity Model of Emerging Markets", *American Economic Review, Papers and Proceedings*, 92(2), pp. 33-37.

Caballero, R. and A. Krishnamurthy, 2003. "Excessive Dollar Debt: Financial Development and Underinsurance", *Journal of Finance* 58(2), pp. 867-893, April.

Caballero, R. and A. Krishnamurthy, 2004. "Smoothing Sudden Stops", *Journal of Economic Theory* 119 (1), pp. 104 – 127.

Caballero, R. and A. Krishnamurthy, 2005. "Exchange Rate Volatility and the Credit Channel in Emerging Markets: A Vertical Perspective", *International Journal of Central Banking* (1) 1, May, 207-245.

Holmstrom, B. and J. Tirole 2002, "Domestic and International Supply of Liquidity," AER May, pp42-45

Lorenzoni, G., 2005. "Inefficient Credit Booms", MIT Mimeo.

Caballero, R.J. and A. Krishnamurthy, 2006, "Collective Risk Management in a Flight to Quality Event," MIT mimeo, October.

Caballero, R. and A. Krishnamurthy, 2006. "Bubbles and Capital Flow Volatility: Causes and Risk Management", *Journal of Monetary Economics* 53(1), 33-53.

Rappaport, V., 2004. "Persistence of Dollarization after Price Stabilization", MIT mimeo.

- Reinhart, C., K. Rogoff, and M. Savastano, 2003. "Debt Intolerance", *Brookings Papers on Economic Activity* v2003(1), 1-74, (also NBER WP No. 9908.)
- Reinhart, C., K. Rogoff, and M. Savastano, 2003. "Addicted to Dollars", NBER WP No. 10015.
- Tirole, J., 1985. "Asset Bubbles and Overlapping Generations", *Econometrica* 53 (6), pp. 1499-1528, November.
- Hellwig, C. and G. Lorenzoni, 2003. "Bubbles and Private Liquidity", MIT mimeo.
- Uribe, M., 2006, "Individual versus Aggregate Collateral Constraints and the Overborrowing Syndrome," NBER wp #12260.

### 8.2.2 The Government

- Hemming, R., M. Kell, and A. Schimmelpfening, 2005. "Fiscal Vulnerability and Financial Crises in Emerging Market Economies", *IMF Occasional Paper* 218.
- Berg, A., E. Borensztein, G. Milesi-Ferretti, and C. Pattillo, 1999. "Anticipating Balance of Payment Crises: The Role of Early Warning Systems", *IMF Occasional Paper* 186.
- Rosenberg, C., I. Halikias, B. House, C. Keller, 2005. "Debt-Related Vulnerabilities and Financial Crises", *IMF Occasional Paper* 240.
- Tirole, J., 2003. "Inefficient Foreign Borrowing: A Dual- and Common-Agency Perspective", *American Economic Review* 93 (5), pp. 1678 – 1702, December.
- Caballero, R. and A. Krishnamurthy, 2004. "Fiscal Policy and Financial Depth", NBER WP 10532.

### *8.3 External Problems and International Financial Architecture*

- Calvo, G., 2005. "Crises in Emerging Market Economies: A Global Perspective", NBER WP No. 11305.
- Caballero, R. and S. Panageas, 2005. "A Quantitative Model of Sudden Stops and External Liquidity Management", NBER WP 11293.
- Caballero, R. and S. Panageas, 2006. "Hedging Sudden Stops and Precautionary Contractions," *Journal of Development Economics* (also NBER WP 9778.)
- Caballero, R. 2003. "The Future of the IMF", *American Economic Review, Papers and Proceedings*, 93(2), pp. 31-38, May.
- Calvo, G. *Emerging Markets in Turmoil: Bad Luck or Bad Policy?* Forthcoming MIT Press
- Broner, F., G. Lorenzoni, and S. Schmukler, 2004. "Why Do Emerging Economies Borrow Short Term?", World Bank Policy Research Working Paper No. 3389.
- Allen, F. and D. Gale, "Financial Contagion," *Journal of Political Economy*, 2000.
- Holmstrom, B. and J. Tirole, "Financial Intermediation, Loanable Funds, and the Real Sector," *Quarterly Journal of Economics* 1998.
- Borensztein, E., M. Chamon, O. Jeanne, P. Mauro, and J. Zettelmeyer, 2005. "Sovereign Debt Structure for Crisis Prevention", *IMF Occasional Papers* 237.
- Mody, A., P. Gupta, and B. Eichengreen, 2006. "Sudden Stops and IMF Supported Programs", IMF Working Papers 06/101.
- Eichengreen, B. and R. Hausmann, 2005. *Debt Denomination and Financial Instability in Emerging Market Economies*. Chicago and London: University of Chicago Press.
- Eichengreen, B., R. Hausmann, and U. Panizza, 2005. *The Pain of Original Sin*. Chicago and London: University of Chicago Press.

Eichengreen, B., K. Kletzer, and A. Mody, 2003. "Crisis Resolution: Next Steps", in *Brookings Trade Forum 2003*, eds. S. Collins and D. Rodrik, Brookings Institution Press. (also NBER WP No. 10095).

Bolton, P. and O. Jeanne, 2005. "Structuring and Restructuring Sovereign Debt: The Role of Seniority", CEPR Discussion Papers 4901.

Eichengreen, B., and A. Mody, 2004. "Do Collective Action Clauses Raise Borrowing Costs?", *Economic Journal* 114(495), pp. 247-64.

Eichengreen, B., and A. Mody, 2003. "Restructuring Sovereign Debt", *Journal of Economic Perspectives* 17(4), pp. 75-98.

Hadane, A., A. Penalver, V. Saporta, and H. Shin, 2005. "Analytics of Sovereign Debt Restructuring", *Journal of International Economics* 65(2), pp. 315-33.

Portes, R., 2004. "Resolution of Sovereign Debt Crises: The New Old Framework", CEPR Discussion Papers 4717.

Weinschelbaum, F. and J. Wynne, 2005. "Renegotiation, Collective Action Clauses and Sovereign Debt Markets", *Journal of International Economics* 67(1), pp. 47-72.

## **9. Capital Account Liberalization (1 lecture)**

"The IMF and Recent Capital Account Crises: Indonesia, Korea, Brazil", IMF and IMF Independent Evaluation Office, 2003.

Arteta, C., B. Eichengreen, and C. Wyplosz, 2001. "When does capital account liberalization help more than it hurts?", NBER WP No. 8414.

Schmukler, S., 2003. "Financial Globalization: Gain and Pain for Developing Countries", World Bank Working Paper 30141.

Edison, H., M. Klein, L. Ricci, and T. Sloek, 2002. "Capital Account Liberalization and Economic Performance: Survey and Synthesis", NBER Working Paper No. 9100.

Aoki, K., G. Benigno and N. Kiyotaki, "Adjusting to Capital Account Liberalizations," Mimeo, Princeton, April 2006.

Caballero, R.J. and M. Hammour, "On the Ills of Adjustment," *Journal of Development Economics* 51, 1996, 161-192

Gourinchas, P.O. and O. Jeanne, "The Elusive Gains from International Financial Integration," *Review of Economic Studies*, forthcoming 2006.

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

Matsuyama, K. "Financial Market Globalization and the Endogenous Inequality of Nations," *Econometrica*, May 2004.

## **10. Persistent Appreciations (1 lecture)**

"Yuan step from the edge", *The Economist* March 30, 2006.

Eichengreen, B., 2004. "Chinese Currency Controversies", CEPR Discussion Papers 4375.



Prasad, E., T. Rumbaugh and Q. Wang, 2005. "Putting the Cart Before the Horse? Capital Account Liberalization and Exchange Rate Flexibility in China", IMF Policy Discussion Paper No. 05/1.

Goldstein, M., 2005. "Renminbi Controversies", IIE mimeo.

Williamson, J., 2003. "The Renminbi Exchange Rate and the Global Monetary System", Outline of a lecture delivered at the Central University of Finance and Economics in Beijing, China.

Corden, W.M., 1984 "Booming Sector and Dutch Disease Economics: Survey and Consolidation," *Oxford Economic Papers* 36(3), November 359—380.

Krugman, P. 1987, "The Narrow Moving Band, the Dutch Disease, and the Competitive Consequences of Mrs. Thatcher," *Journal of Development Economics* 27, 41-55.

Caballero, R.J. and G. Lorenzoni, 2006 "Persistent Appreciations, Overshooting and Optimal Exchange Rate Intervention," MIT mimeo, September.

## **11. Currency Crises and Financial Frictions (3 lectures)**

### *10.1 First and second generation models of currency crises*

Flood, R. and P. Garber, 1984. "Collapsing Exchange Rate Regimes: Some Linear Examples." *Journal of International Economics* 17, pp. 1-13

Krugman, P., 1979. "A Model of Balance of Payments Crises", *Journal of Money, Credit and Banking* 3, pp. 311-325.

Krugman, P., 1992. *Currencies and Crises*, MIT Press.

Obstfeld, M., 1996. "Models of Currency Crises With Self-Fulfilling Features", *European Economic Review* 40, pp. 1037-1047, also NBER WP No. 5285.

Obstfeld, M., 1994. "The Logic of Currency Crises", NBER WP No. 4640.

Burnside, C., M. Eichenbaum, and S. Rebelo, 2003. "Government Finance in the Wake of Currency Crises", NBER WP No. 9786.

Alesina, A and Drazen, A., 1991. "Why Are Stabilizations Delayed?", *American Economic Review* 81 (5), pp. 1180-1188, December.

Morris, S. and H. S. Shin, 1998. "Unique Equilibrium in a Model of Self-Fulfilling Currency Attacks", *American Economic Review* 88, pp. 587-97, June.

Heinemann, F., 2000. "Unique Equilibrium in a Model of Self-Fulfilling Currency Attacks: Comment", *American Economic Review* 90, pp. 316-18. (Correction to Morris and Shin's theorem 2.)

### *11.2 Moral Hazard*

Chang, R., 1999. "Understanding Recent Crises in Emerging Markets," *Federal Reserve Bank of Atlanta Economic Review*, pp. 6-17, Second Quarter.

Dooley, M., 1997. "A Model of Crises in Emerging Markets," NBER WP No. 6300.

Krugman, P., 1998. "What Happened to Asia?," MIT mimeo.

Mc Kinnon, R., and H. Pill, 1996. "Credible Liberalizations and International Capital Flows: The Overborrowing Syndrome," in T. Ito and A. Krueger (eds.), *Financial Deregulation and Integration in East Asia*, Chicago: Chicago University Press.

### 11.3 Balance sheets and currency crises

Aghion, P., P. Bacchetta, and A. Banerjee. "A Simple Model of Monetary Policy and Currency Crises", *European Economic Review* 44, pp. 728-738.

Aghion, P., P. Bacchetta, and A. Banerjee, 2004. "Financial Development and the Instability of Open Economies, NBER WP No. 10246, *Journal of Monetary Economics* forthcoming.

Calvo, G., 1998. "Capital Flows and Capital Market Crises: The Simple Analytics of Sudden Stops." *Journal of Applied Economics* 1, pp. 35-54.

Céspedes, L., R. Chang, and A. Velasco, 2004. "Balance Sheets and Exchange Rate Policy", *American Economic Review* 94 (4), pp. 1183-93.

Céspedes, L., R. Chang, and A. Velasco, 2003. "IS-LM-BP in the Pampas", *IMF Staff Papers* 50, pp. 143-56.

Krugman, P., 1999. "Balance Sheets, the Transfer Problem and Financial Crises", in: *International Finance and Financial Crises*, P. Isard, A. Razin and A. Rose (eds.), Kluwer Academic Publishers.

Burnside, C., M. Eichenbaum, and S. Rebelo, 2001. "Hedging and Financial Fragility in Fixed Exchange Rate Regimes", *European Economic Review* 45 (7), pp. 1151-1193.

Devereux, M. and P. Lane, 2003. "Exchange Rate Regimes and Monetary Policy Rules for Emerging Markets", University of British Columbia mimeo, *Economic Journal* forthcoming.

Gertler, M., S. Gilchrist, and F. Natalucci, 2003. "External Constraints on Monetary Policy and the Financial Accelerator", NYU mimeo.

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