**TOPICS ON INTERNATIONAL FINANCE**

Emory University

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**Outline and Objective of the Course**

The course begins with a workhorse representative-agent RBC framework with stochastic, non- insurable shocks to study international business cycles. The course then explores how this framework can be modified and enriched to study financial crises, sovereign default, and sudden reversals of capital inflows driven by financial imperfections. This course aims to bring students to the frontier of research in International Macroeconomics. By the end of the course, students are expected to demonstrate ability to formulate, characterize, estimate, and simulate theoretical and statistical models at the level of a paper publishable in a top field journal.

**Textbooks and Other Reading Materials**

The course is based largely on journal articles and working papers. The reading list is intentionally comprehensive with the aim of providing suggestions for further reading (required readings are identified explicitly).

**Reference Texts:**

Uribe, Martin and Stephanie Schmitt-Grohe, “Open Economy Macroeconomics” Princeton University Press.

Obstfeld, Maurice & Kenneth Rogoff, *Foundations of International. Macroeconomics*, MIT Press 1996.

Reinhart, Carmen M. & Kenneth Rogoff*, This Time is Different: Eight Centuries of Financial Folly,* Princeton Univ. Press.

Ljungqvist, Lars & Sargent, Thomas J., *Recursive Macroeconomic Theory,* MIT Press, 2004.

Carlos A. Végh Open Economy Macroeconomics in Developing Countries, MIT Press.

**Topics:**

* 1. Business Cycles Models for Small Open Economies
* Uribe and Schmitt-Grohe Chapter 1-3
* Obstfeld and Rogoff, Chapter 1-3.
* Mendoza, Enrique, 1991, “Real Business Cycles in a Small Open Economy,” American Economic Review, 81, 797-818.
* Schmitt-Grohe, Stephanie and Martin Uribe, 2003, “Closing Small Open Economy Models,” Journal of International Economics, 61, 163-185.

Obstfeld and Rogoff, “The Intertemporal Approach to the Balance of Payments,” in Handbook of International Economics, Vol 3.

Schmitt-Grohe, Stephanie and Martin Uribe, “Solving Dynamic General Equilibrium Models Using a Second-Order Approximation to the Policy Function,”

Uhlig, Harold, 1999, “A Toolkit for Analysing Nonlinear Dynamic Stochastic Models Easily,” in Computational Methods for the Study of Dynamic Economies, Ramon Marimon and Andrew Scott (editors), Oxford University Press.

Klein, Paul, 2004, “Using the Generalized Schur Form to Solve a Multivariate Linear Rational Expectations Model,” Journal of Economic Dynamics and Control, vol. 28, pp 755-775.

* 1. International Real Business Cycles
* Uribe and Schmitt-Grohe Chapter 4-6
* Uribe, M. and Z. V. Yue, “Country Spreads and Emerging Countries: Who Drives Whom?,”

*Journal of Internatioanl Economics*, 2006.

* Aguiar, Mark and Gopinath, Gita, 2007, “Emerging Market Business Cycles: The Cycle is the Trend,” Journal of Political Economy.
* Backus, David, Patrick Kehoe and Finn Kydland, 1992, “International Real Business Cycles,” Journal of Political Economy, 745-775.
* Obstfeld, Maurice and Kenneth Rogoff, 2000, “The six puzzles in international macroeconomics: Is there a common cause?”

Neumeyer, Pablo A. and Fabrizio Perri, 2005, “Business Cycles in Emerging Markets: The Role of Interest Rates,” Journal of Monetary Economics, 52/2, 345-380.

Gracio-Cicco, Javier, Roberto Pancrazi, and Martin Uribe, 2010, “Real Business Cycles in Emerging Countries, “American Economic Review, 100, 2510-2531.

Backus, David and Finn Kydland, 1995, “International Real Business Cycles,” in Frontiers of Business Cycle Research.

Backus, David K., Patrick Kehoe and Finn Kydland, 1994, “Dynamics of the Trade Balance and the Terms of Trade: The J-Curve?” American Economic Review, 84, 64-103.

Baxter, Marianne and Mario Crucini, 1995, “Business Cycles and the Asset Structure of Foreign Trade,” International Economic Review, v36, 821-854.

* 1. Endogenous Incomplete Markets
* Kehoe Patrick., Fabrizio Perri, 2002, “International Business Cycles with Endogenous Incomplete Markets,” Econometrica, v703, 907-928.
* Bai, Yan and Jing Zhang, 2010 “Can Financial Frictions Account for the Cross-Section Feldstein-Horioka Puzzle?” Econometrica, v78, 603-632.

Alvarez, Fernando and Urban Jermann, 2000, “Efficiency, Equilibrium, and Asset Pricing with Risk of Default,” Econometrica, v68, 775-797.

Heathcote, Jonathan and Fabrizio Perri, 2002, “Financial Autarky and International Business Cycles,” Journal of Monetary Economics, v49, 601-627.

* 1. Sovereign Debt and Default
* Uribe and Schmitt-Grohe Chapter 13
* Eaton, Jonathan and Mark Gersovitz, 1981, “Debt with Potential Repudiation: Theoretical and Empirical Analysis,” Review of Economic Studies, 48, 289-309.
* Arellano, Cristina, 2008, “Default Risk, Income Fluctuations and Real Exchange Rates,” American Economic Review, 98 (3), 690-712.
* Mendoza, Enrique and Vivian Z. Yue, 2012, “A Solution to the Default Risk-Business Cycles Disconnect,” Quarterly Journal of Economics, vol. 127, no. 2, pp. 889-946.
* Yue, Vivian Z. 2010, “Sovereign Default and Debt Renegotiation,” Journal of International Economics, vol 80 (2), 176-187.
* Dovis, Alessandro, 2018, “Efficient Sovereign Default,” Review of Economic Studies.
* Na, Seunghoon, Stephanie Schmitt-Grohe, Martin Uribe and Vivian Yue, “A Model of the Twin Ds: Optimal Default and Devaluation,” 2018, American Economic Review.
* Gilchrist, Simon, Bin Wei, Vivian Yue and Egon Zakrajsek, 2018, “Sovereign Risk and Financial Risk,” Working Paper.

Atkeson, Andew, 1991, “International Lending with Moral Hazard and Risk of Repudiation,” Econometrica, 59, 1069-89. (see also Chapter 15 of T. Sargent and L. Ljunquist, 2000, Recursive Macroeconomic Theory, MIT Press.)

Bulow, Jeremy and Kenneth Rogoff, 1989, “Sovereign Debt: Is to Forgive or Forget?,” American Economic Review, 79, 43-50.

Cole, Harold and Patrick J. Kehoe, 1998, “A General Reputation Model of Sovereign debt,” International Economic Review,

Fernandez, Raquel and Robert W. Rosenthal, 1990, "Strategic Models of Sovereign-Debt Renegotiations," Review of Economic Studies, 57, 331-349.

Wright, Mark and David Benjamin, 2009, “Recovery Before Redemption: A Theory of Delays in Sovereign Debt Renegotiations”, Manuscript, UCLA.

Aguiar, Amador, Farhi, Gopinath, 2013, “Crisis and Commitment: Inflation Credibility and the Vulnerability to Sovereign Debt Crises,” Working paper

Araujo, Leon, Santos, 2013, “Welfare Analysis of Currency Regimes with Defaultable Debts,” Journal of International Economics, 89, 143-153.

Aguiar, Amador, Farhi, Gopinath, 2015, “Coordination and Crisis in Monetary Union,” Quarterly Journal of Economics.

Luigi Bocola, 2016, "The Pass-Through of Sovereign Risk." Journal of Political Economy.

Cole, Harold and Tim Kehoe, 2000, “Self-Fulfilling Debt Crises,” Review of Economic Studies, 67, 91-116.

Lorenzori and Ivan Werning, 2014, “Slow Moving Debt Crises,” MIT and Northwestern.

Aguiar, Mark and Manuel Amador, “Sovereign Debt,” Handbook of International Economics, Vol 4, Elsevier, 2014.

Bianchi, Javier, Pablo Ottonello, Ignacio Presno, “Fiscal Policy, Sovereign Risk, and Unemployment,” manuscript, Federal Reserve Bank of Minneapolis, 2018.

* 1. Financial Frictions and Sudden Stops
* Uribe and Schmitt-Grohe Chapter 12
* Mendoza, E., “Sudden Stops, Financial Crises and Leverage” *American Economic Review,* 2010.
* Uribe, Martin, “On Overborrowing,” American Economic Review Papers and Proceedings 96, May 2006, 417-421.
* Schmitt-Grohe, Stephanie, and Martin Uribe, “Multiple Equilibria in Open Economy Models with Collateral Constraints: Overborrowing Revisited,” Columbia University, December 2017.

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

Bernanke, B., M. Gertler, and S. Gilchrist (1999):, “The financial accelerator in a quantitative business cycle model," in *Handbook of Macroeconomics*, ed. by J. Taylor, and M. Woodford.

Bianchi, J. “Overborrowing and Systemic Externalities in the Business Cycle” *American Economic Review*.

Caballero, R. and A. Krishnamurthy, “International and Domestic Collateral Constraints in a Model of Emerging Market Crises,” *Journal of Monetary Economics*, 2001.

Mian, Atif, and Amir Suffi, “Finance and Business Cycles: The Credit-Driven Household Demand Channel,” Journal of Economic Perspectives, forthcoming, 2018.

Davila, Eduardo, and Anton Korinek, “Pecuniary Externalities in Economies with Financial Frictions,” Review of Economic Studies 85, January 2018, 352395.

Lorenzoni, Guido, “Inefficient Credit Booms,” Review of Economic Studies 75, 2008, 809-833.

Uribe, Martin, “Individual Versus Aggregate Collateral Constraints and the Overborrowing Syndrome,” NBER Working Paper No. 12260, May 2006.

6. Optimal Capital-Control Policy (time permitting)

\* Uribe and Schmitt-Grohe, chapter 10, “Exchange-Rate Policy and Capital Controls.”

* Bianchi, Javier, and Enrique G. Mendoza, “Optimal Time-Consistent Macroprudential Policy,” Journal of Political Economy, forthcoming, 2018.
* Schmitt-Grohe, Stephanie, and Martin Uribe, “Is Optimal Capital-Control Policy Countercyclical In Open-Economy Models With Collateral Constraints?,” IMF Economic Review 65, August 2017, 498-527.

Farhi, Emmanuel and Ivan Werning, “Dealing With the Trilemma: Optimal Capital Controls With Fixed Exchange Rates,” Harvard University, June 2012

Korinek, Anton, “Regulating Capital Flows to Emerging Markets: An Externality View,” NBER working paper 24152, December 2017.

Farhi, Emmanuel and Ivan Werning, “Fiscal Unions,” American Economic Review 107, December 2017, 3788-3834.

Fernandez, Andres, Alessandro Rebucci, and Martin Uribe, “Are Capital Controls Countercyclical?,” Journal of Monetary Economics 76, 2015, 1-14.

Fernandez, Andres, Michael W. Klein, Alessandro Rebucci, Martin Schindler, and Marin Uribe, “Capital Control Measures: A New Dataset,” IMF Economic Review 64, 2016, 548-574.

Benigno, Gianluca, Huigang Chen, Christopher Otrok, Alessandro Rebucci, and Eric R. Young,

“Optimal Capital Controls and Real Exchange Rate Policies: A Pecuniary Externality Perspective,” CEPR Discussion Paper No. 9936, April 2014.

Jeanne, Olivier, “Macroprudential Policies in a Global Perspective,” NBER Working Paper No. 19967, March, 2014.

Benigno, Gianluca, Huigang Chen, Christopher Otrok, Alessandro Rebucci, and Eric R. Young, “Financial Crises and Macro-Prudential Policies,” Journal of International Economics 89, 2013, 453-470.

Jeanne, Olivier, and Anton Korinek, “Macroprudential Regulation Versus Mopping Up After the Crash,” NBER Working Paper No. 18675, January 2012