

Course Syllabus

International Macroeconomics

September 2019 - January 2020

Monday, 4 pm in M 2130

Tuesday, 10 am, in M 5220

Professor Harald Hau, PhD

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This graduate level course familiarizes students with key concepts in international macroeconomics. The focus is on the new open macroeconomics, as well as on issues financial stability and development. Particular attention is given to the recent financial crisis.

The course draws on a wide range of scientific articles of varying difficulty. Students with no background in economics are strongly recommended to master an introductory textbook in macroeconomics. A basic knowledge of statistical and econometric inference is also essential.

1. Course Organization

The course is a blend of lectures and research paper discussions. The required reading assignment for each session consists of one (or at most two) journal article. Students are expected to have carefully read these articles (marked by RR) and be prepared to summarize and discuss their key insights. Other optional reading includes suggested reading (SR) and advanced reading (AR). The final exam can cover (i) the lecture material (slides), (ii) the articles marked RR, and (iii) those which were presented and discussed in class.

The grading will be based on class participation (20%), group assignments (40%), and the final exam (40%). For the group assignments, groups of (at most) 3 students are formed. A *single joint* solution to each group assignment should be sent to Tamarro.Terracciano@unige.ch before the class (in which the solution is discussed). Please adhere to the following naming convention: The e-mail "subject" and world file "name" should correspond to the following form: Assignment_1_group_8 for group 8 handing in assignment #1. A possible catch-up exam only substitutes for the final exam grade (40%), but not for the other grades acquired during the course.

Late submissions are not accepted. The word file has to name (on the top) all group participants who have worked on the solution. You also have to adhere to the page or word restriction on the length of the document. Additional documentation (programs, calculations, etc.) you can but into an appendix. You should be able to present and defend your solution in class.

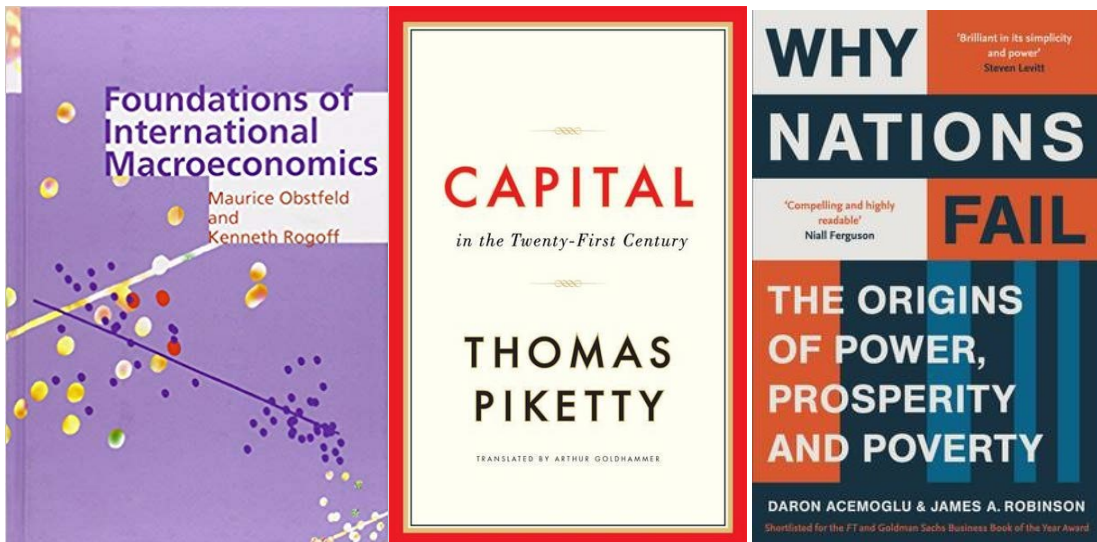
2. Course Material

Principle course textbook:

- Obstfeld, Maurice, and Kenneth Rogoff, *Foundations of International Macroeconomics* (MIT Press, 1996)

Other recommended books:

- Piketty, Thomas, *Capital in the Twenty-First Century* (Harvard University Press, 2014)
- Acemoglu, Daron, and James Robinson, *Why Nations Fail: The Origin of Power, Prosperity and Poverty* (Profile Books, London, 2012)



3. Course Administration

Class participants can contact me or the course assistant any time by e-mail and/or make direct appointments.

COURSE SCHEDULE

Part I: Basic Building Blocks of International Macro

Session 1: Course Introduction (Sept 16)

SR: Angus Deaton, 2015, "Measuring and Understanding Behavior, Welfare, and Poverty", Nobel Prize Lecture, December 8, 2015.

Sessions 2: The Intertemporal Approach to the Current Account (Sept 17)

RR: Obstfeld, Maurice, and Kenneth Rogoff (1996), *Foundations of International Macroeconomics*, chapters 1

Sessions 3: Dynamics in Small Open Economies (Sept 23)

RR: Obstfeld, Maurice, and Kenneth Rogoff (1996), *Foundations of International Macroeconomics*, chapters 2

SR: Syverson, C., 2011, "What determines productivity?" *Journal of Economic Literature*, Vol. 49(2), pp 326-65.

Student Presentation: Noemie Chambet and Jules Basset

SR: Hau, Harald, Yi, Huang and Gewei Wang, 2016, "Firm Response to Competitive Shocks: Evidence from China's Minimum Wage Policy", SFI Research Paper No. 16-47. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2813226

Session 4: External Adjustment in Europe and the Sovereign Debt Crisis (Sept 24)

AR: Gourinchas, Pierre-Olivier, and Helene Rey, 2007, "International Financial Adjustment," *Journal of Political Economy*, 115(4), also at: http://socrates.berkeley.edu/~pog/academic/IFA_JPE07.pdf

Student Assignment #1 (for Session 4): External Adjustment

Watch the following video: <https://www.youtube.com/watch?v=4F4kVZr1LXs> Answer the following questions:

1. What is at the origin of Ireland's problem?
2. What is particular about Ireland's external position? Compare Ireland to Greece.
3. What does Euro membership mean for the Irish adjustment? Compare Ireland to Estonia.
4. What can Ireland do to stabilize its situation?

Length restrictions: 2 pages (max 800 words).

Session 5: The Life Cycle, Tax Policy and the Current Account (Sept 30)

RR: Obstfeld, Maurice, and Kenneth Rogoff (1996), *Foundations of International Macroeconomics*, chapter 3, pp 129-156

SR: Surico, Paolo and Riccardo Trezzi (2015). "Consumer Spending and Property Taxes," Finance and Economics Discussion Series 2015-057. Washington: Board of Governors of the Federal Reserve System, <http://dx.doi.org/10.17016/FEDS.2015.057>.

Student presentation: Daniel Alvarez

Session 6: The Real Exchange Rate and the Terms of Trade (Oct 1)

RR: Obstfeld, Maurice, and Kenneth Rogoff (1996), *Foundations of International Macroeconomics*, chapter 4, pp 199-216

Session 7: Uncertainty and International Financial Markets (Oct 7)

RR: Obstfeld, Maurice, and Kenneth Rogoff (1996), *Foundations of International Macroeconomics*, chapter 5, pp 269-280

SR: Feldstein, Martin, and Charles Horioka, 1980, "Domestic Saving and International Capital Flows", *Economic Journal*, vol. 90, no 358, 314-29.

Student Assignment #2 (for Session 7): Feldstein and Horioka Update

Read careful pages 161-4 of the textbook and answer the following questions:

1. Use the saving, investment and GDP data on the 22 countries in the FH study and reproduce their findings for the 1982-1991 period? Do you get a scatter plot like in Figure 3.4?
2. Use the set of EMU countries and repeat the FH regression for the 10 year pre-EMU period 1989-1998 and the post EMU period 1999-2008? Has the regression fit changed? What is the change in R-squared? Take all regression residual from each period and test if there is a change in variance.
3. For OECD countries not part of the EMU, do we also find a looser relationship between I/Y and S/Y for 1999-2008 relative to

- 1989-1999? What is the change in R-squared?
4. Bonus question: Use now yearly (panel) data on the current account surplus $CA=(S-I)/Y$ for all countries over the period 1989-2008. Can you propose a test to see if the absolute current account imbalance
 5. $|CA|$ increased for countries joining the EMU? You should control for a time trend in your analysis and serial correlation in the current account imbalances.
- Length restrictions: 6 pages with graphs (max 1000 words).

Part II: The Role of the Financial Markets

Session 8: Functions of the Financial Markets (Oct 8)

RR: Hayek, Friedrich, "The use of knowledge in society", *American Economic Review*, XXV, no 4, September 1945, 519-530
 RR: Friedman, Milton, "The Social Responsibility of Business is to Increase its Profits", *The New York Times Magazine*, September 13, 1970.
 SR: Samuel Bowles, Alan Kirman and Rajiv Sethi, 2017, Retrospectives: Friedrich Hayek and the Market Algorithm, *Journal of Economic Perspective*, Vol 31(3), (pp. 215-30
 Suggested video on Hayek: https://www.youtube.com/watch?v=gU8rQnKN_uo

Student Assignment #3 (for Session 8): On the Role of the Financial Market

Read careful the required reading for session 8 and sum up each in no more than 100 words. Length restrictions: 0.5 pages (max 200 words).

Session 9: Financial Markets and Corporate Investment I (Oct 14)

Lecture

Session 10: Risk Pricing in Financial Markets (Oct 15)

Lecture

Student Assignment #4 (for Session 10): Portfolio Theory

Assume you have two assets (stock A and B) with yearly expected returns of 12% and 4%, respectively and standard deviations (of the expected return) of 25% and 8% respectively. Their correlation is 30%.

1. Plot a graph with the of feasible portfolios in terms of expected return and standard deviations if you vary the portfolio weights in stock A and B from 0 to 100%?
2. What happens if the correlation of the two stocks drops to 20%?
3. What portfolio do you obtain if you invest 200% in stock A and -100% in stock B (= you sell or go short in stock B)?

Length restrictions: 1 page, 1 graph (max 50 words).

Session 11: Risk Pricing in Practice (Oct 21)

Lecture

Session 12: Financial Market Efficiency (Oct 22)

Lecture

Suggested video on discussion between Chicago faculty:

https://www.youtube.com/watch?v=bM9bYOBuKF4&list=PLZ24EXLYsTyzaFxUvep7_73XVHprmlQqza

Part III: Distributional Issues

Session 13: Financial Markets and Wealth Distribution (Oct 28)

RR: Piketty, Thomas, *Capital in the Twenty-First Century* (Harvard University Press, 2014), Part II and III

SR: Rodrik, Dani, How the Rich Rule (VoxEu.org, 2014), <http://www.project-syndicate.org/commentary/dani-rodrik-says-that-widening-inequality-drives-economic-elites-toward-sectarian-politics>

Student Presentations:

Piketty book chapters parts II: Mikael Marques and Stella Mirzoyan

Piketty book chapters parts III: Alix de Sarrazin and Agathe Duchemin

Session 14: International Trade and Labor Market Adjustment I (Oct 29)

RR: Autor, David, David Dorn and Gordon Hanson, 2013, "The China Syndrome: Local Labor Market Effects of Import Competition in the United States," *American Economic Review*, Vol. 103(6), 2121-2168.

Student Presentation: Erwan Blanchard and Guillermo GOMEZ

SR: Autor, David, David Dorn, Gordon Hanson, and Jae Song, 2014, "Trade Adjustment: Worker-Level Evidence," *Quarterly Journal of Economics*, Vol. 129(4), 1799-1860

Student Presentation: HUANG Yuanfeng Fanny and Mittal Atharva

Student Assignment #5 (for Session 14): A policy debate on trade shocks

Watch the following Video: <https://piie.com/events/us-labor-market-adjustment-china-trade-shocks> Answer the following questions:

1. How did the adjustment to increasing import competition look like? What was surprising? What was the impact on lower and higher income workers?
2. How do they show that trade the cause of the increasing unemployment in some US counties?
3. What can partly explain the persistence of losses for low skilled workers?
4. Why are the current unemployment and trade adjustment assistance programs not efficient? What alternative policies are suggested?

Length restrictions: 2 pages (max 800 words).

November 4-8, 2019: Reading week

November 11-12, 2019: No class

Session 15: International Trade and Labor Market Adjustment II (Nov 18)

SR: Autor, David, David Dorn and Gordon Hanson, 2013, "The Geography of Trade and Technology Shocks in the United States," *American Economic Review P&P*, Vol. 103(3), 220-225.

Student Presentation: Anna Lelikova and Sofia Koroleva

Student Assignment #6 (for Session 15): Identifying the real effects of trade shocks

Obtain data from the course website and reproduce the main result in Table 3, column 1, in the paper titled "The China Syndrome: Local Labor Market Effects of Import Competition in the United States." You should proceed in the following steps:

1. Plot the ΔIPW_US against the ΔIPW_Other (on x-axis) where you stack the observations for 1990 to 2000 and 2000 to 2007. What do you see?
2. Run a regression of ΔIPW_US on ΔIPW_Other and plot the regression line. This is the first stage regression.
3. Run the 2SLS regression as in Table 3, column 1, with a time fixed effect (dummy) for the period 2000- 2007. Create a scatter plot of the dependent variable (y-axis) and the predicted value/instrumented values of ΔIPW_US on the x-axis to graph the relationship.
4. Discuss why instrumenting ΔIPW_US with ΔIPW_Other improves the results relative to OLS?

Length restrictions: 5 pages (max 800 words plus tables and graphs).

Part IV: Money, Exchange Rates and Flexibel Prices

Session 16: The Money Supply Process (Nov 19)

RR: Abel and Bernanke, *Macroeconomics*, Chapter 15

SR: Temin, P., 1993, *Journal of Economic Perspective*, vol. 7(2), 87-102

SR: Schularick M., and A. Taylor, 2012, Credit Booms Gone Bust: Monetary Policy, Leverage Cycles, and Financial Crises, 1870-2008, *American Economic Review*, 102(2), 1029-61.

Student presentation Schularick article: Julia Goriup and Johan Vuillens

Session 17: Models of the Money Demand (Nov 25)

SR: Bernanke, B., 1983, Nonmonetary Effects of the Financial Crisis in the Propagation of the Great Depression, *American Economic Review*, 73, 257-276.

RR: Obstfeld, Maurice, and Kenneth Rogoff (1996), *Foundations of International Economics*, chapters 8.1-8.3

SR: Obstfeld, Maurice, and Kenneth Rogoff (1996), *Foundations of International Economics*, chapters 8.4

SR: Krugman, Paul (1979). "A Model of Balance-of-Payments Crises", *Journal of Money, Credit, and Banking* 11(3), 311-25.

http://www.tau.ac.il/~yashiv/krugman_1979.pdf

Student presentation Bernanke article: Andreas Heirbrant and Johannes.Fink

Session 18: Banking Instability and Asymmetric Information (Nov 26)

RR: Diamond, Douglas, and Philip Dybvig (1983). "Bank runs, deposit insurance and liquidity", *Journal of Political Economy*, pp 401-19

SR: Stiglitz, J., and Weiss, A., 1981, "Credit rationing in markets with imperfect information", *American Economic Review* 71, 393-410.

Student presentation Diamond and Dybvig: Jérémy Florent Lander and Diego Riva

Student presentation Stiglitz and Weiss: Volodymyr Dzyubynskyy and Muhammad Musa Faraz

Suggested video on bank runs: <https://www.youtube.com/watch?v=EY-HYUFICPs>

Suggested video on the Keynes, Friedman and Hayek: <https://www.youtube.com/watch?v=xj7Zn-UnTVE>

Part V: Money, Exchange Rates and Sticky Prices

Session 19: An Introduction to the New Keynesian Monetary Economics (Dec 2)

Lecture

RR: Clarida, Richard, Gali, Jordi and Gertler, Mark (1999), "The Science of Monetary Policy: A New Keynesian Perspective", *Journal of Economic Literature* 37(4), pp. 1661-1707.

Student presentation: LijingXie and Yingqiu Deng

Student Assignment #7 (for Session 19): Optimal Monetary Policy

Carefully read the required reading for Session 17. The authors distinguish rule based policy with commitment and a discretionary regime without commitment.

Answer the following questions:

1. Which regime generally can achieve better welfare results and why?
2. What are the problems associated with the rule based regime?

Length restrictions: 1 pages (400 words).

Session 20: New Keynesian Open Macroeconomics and Exchange Rates (Dec 3)

RR: Obstfeld, Maurice, and Kenneth Rogoff (1996), *Foundations of International Economics*, chapter 9.

RR: Obstfeld, Maurice, and Kenneth Rogoff (1996), *Foundations of International Economics*, chapter 10.

SR: Bernanke, Ben, and Kevin Carey, 1996, "Nominal Wage Stickiness and Aggregate Supply in the Great Depression," *Quarterly Journal of Economics* Vol. 111, No. 3 (Aug., 1996), pp. 853-883

Student Presentation: Bernanke and Carey: Michael Duarte Gonçalves and Sergio Lago Trillo

SR: Obstfeld, Maurice, and K. Rogoff, 2000, The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?" NBER Macroeconomics Annual.

SR: Rogoff, Kenneth, "Dornbusch's Overshooting Model after 25 Years," IMF Staff Papers 49 (Special Issue 2002): 1-34.

<http://www.imf.org/external/pubs/ft/wp/2002/wp0239.pdf>

SR: Dornbusch, Rudiger, (1976, "Expectations and Exchange Rate Dynamics," *Journal of Political Economy* 84(6), pp. 1161-1176.

<http://jpkc.sysu.edu.cn/guojijinrong/ckwx/5/Expectation%20and%20exchange%20rate%20dynamic.pdf>

SR: Rogoff, K. and C. Reinhart, 2008, "This Time Is Different: A Panoramic View of Eight Centuries of Financial Crises", NBER Working Paper 13881.

SR: Hau, Harald, and Sandy Lai, 2016, "Asset Allocation and Monetary Policy: Evidence from the Eurozone",

Journal of Financial Economics, Vol. 120(2), 309-329, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2293967

Student Presentation Hau and Lai article: Haytem Belahdar

Student Assignment #8 (for Session 20): Nominal Rigidities in the Eurocrisis

Carefully watch the second speaker, Prof. Dr. Hans-Werner Sinn, in the following webcast:

<http://www.aeaweb.org/webcasts/2014/Austerity/NewStandardPlayer.html?plugin=HTML5&mimetype=video%2Fmp4>

Answer the following questions:

1. What different scenarios does he distinguish?
2. What role do nominal rigidities play in his account?

Length restrictions: 1 pages (400 words).

Part VI: Issues in Governance and Economic Development

Session 21: Governance and Globalization (Dec 9)

RR: Morck, R., D. Wolfenzon and B. Yueng, 2005, "Corporate Governance, Economic Entrenchment, and Growth", *Journal of Economic Literature* 43, 655-720.

SR: Hau, Harald, and Thum, Marcel P., "Subprime Crisis and Board (In-)Competence: Private vs. Public Banks in Germany," *Economic Policy*, Vol. 24(60), 701-751, October 2009. Available at SSRN:

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1360698

Two Student Presentations:

Hau and Thum: Fisnik Begzati and Yoan Rebetz:

Morck et al.: Isabelle Schonenberger and Michael Vollmin

Session 22: Guest Lecture I on China (Dec 10)

Difei Ouyang presents "Capital Scarcity and Industrial Decline: Evidence from Real Estate Booms in China"

Student Discussion of paper: Nicolas Rutishauser

Session 23: Guest Lecture II on China (Dec 16)

Weidi Yuan presents "The Flip Side of the China Syndrome: Export Effects on Labor Markets in China"

Student Discussion of paper:

Session 24: Final Exam (Dec 17, 10 am to 12 am)