

Economics 280C

Spring 2008 Reading List

Updated: 1/18/08

Maurice Obstfeld

Classes will be held Tuesdays 10:00 A.M. -12:00 P.M. in 639 Evans Hall.

Textbooks

The main required text for the course is:

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

An additional book you may wish to obtain (available in paperback) is:

Nelson C. Mark, *International Macroeconomics and Finance: Theory and Econometric Methods* (Blackwell Publishers, 2001)

Topics and Additional Readings

Note: Many pre-early 2000s works are available at JSTOR. Elsevier journals are available online. Many recent working papers or pre-publication versions of published works are at <http://www.nber.org>.

1. Traditional Macro Models and Monetary Policy

Baxter, Marianne, and Alan C. Stockman, "Business Cycles and the Exchange Rate Regime: Some International Evidence," *Journal of Monetary Economics* 23 (May 1989): 377-400.

Dornbusch, Rudiger, "Expectations and Exchange Rate Dynamics," *Journal of Political Economy* 84 (December 1976): 1161-76.

Engel, Charles, and Kenneth D. West, "Taylor Rules and the Deutschmark-Dollar Real Exchange Rate," *Journal of Money, Credit, and Banking* 38 (August 2006): 1175-94.

Engel, Charles, Nelson C. Mark, and Kenneth D. West, "Exchange Rate Models Are Not as Bad as You Think," *NBER Macroeconomics Annual 2007*, forthcoming. http://www.nber.org/books_in_progress/macro22/engel-et-al8-2-07.pdf

Flood, Robert P., and Mark P. Taylor, "Exchange Rate Economics: What's Wrong with the Conventional Macro Approach?" in *The Microstructure of Foreign*

Exchange Markets, edited by Jeffrey A. Frankel, Giampaolo Galli, and Alberto Giovannini (University of Chicago Press, 1996).

Keynes, John Maynard, *A Tract on Monetary Reform* (Macmillan, 1923).

Mark, chapters 3, 8.

Mundell, Robert A., "A Theory of Optimum Currency Areas," *American Economic Review* 51 (November 1961): 509-17.

Mundell, Robert A., "Capital Mobility and Stabilization Policy under Fixed and Flexible Exchange Rates," *Canadian Journal of Economics and Political Science* 29 (November 1963): 475-85.

Obstfeld-Rogoff, chapters 8.1-8.2, 9.1-9.4.

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>

2. New Open Economy Macroeconomics

Benigno, Gianluca, and Pierpaolo Benigno, "Exchange Rate Determination under Interest Rate Rules," mimeo, LSE and NYU, October 2006.

<http://homepages.nyu.edu/~pb50/ERD.pdf>

Bowman, David, and Brian M. Doyle, "New Keynesian, Open-Economy Models and Their Implications for Monetary Policy," International Finance Discussion Papers 762, Board of Governors of the Federal Reserve System, March 2003.

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=392402

Chari, V. V., Patrick J. Kehoe, and Ellen McGrattan, "Can Sticky Price Models Generate Volatile and Persistent Real Exchange Rates?" *Review of Economic Studies* 69 (August 2002): 533-63.

Corsetti, Giancarlo, "New Open Economy Macroeconomics," mimeo, EUI, December 2006. (Posted on Econ 280C homepage.)

Corsetti, Giancarlo, and Paolo Pesenti, "The Simple Geometry of Transmission and Stabilization in Closed and Open Economy," Working Paper 11341, National Bureau of Economic Research, May 2005.

Devereux, Michael B., and Charles Engel, "Monetary Policy in the Open Economy Revisited: Price Setting and Exchange-Rate Flexibility," *Review of Economic Studies* 70 (October 2003): 765-83.

<http://ideas.repec.org/a/bla/restud/v70y2003i4p765-783.html>

Devereux, Michael B., Charles Engel, and Peter E. Storgaard, "Endogenous Exchange Rate Pass-Through When Nominal Prices Are Set in Advance," Working Paper 9543, National Bureau of Economic Research, March 2003.

Ghironi, Fabio, and Marc Melitz, "International Trade and Macroeconomic Dynamics with Heterogeneous Firms," *Quarterly Journal of Economics* 120 (August 2005): 865-915.

Lane, Philip, "The New Open Economy Macroeconomics: A Survey," *Journal of International Economics* 54 (August 2001): 235-66.

Mark, chapter 9.

Obstfeld, Maurice, "International Macroeconomics: Beyond the Mundell-Fleming Model," *IMF Staff Papers* 47 (Special Issue 2001): 1-39.

Obstfeld, Maurice, "Pricing-to-Market, the Interest-Rate Rule, and the Exchange Rate," Working Paper 12699, National Bureau of Economic Research, November 2006. <http://www.nber.org/papers/w12699>

Obstfeld, Maurice, and Kenneth Rogoff, "New Directions for Stochastic Open Economy Models," *Journal of International Economics* 50 (Feb. 2000): 117-53.

Obstfeld-Rogoff, chapter 10.

3. Portfolio Models

Blanchard, Olivier, Francesco Giavazzi, and Filipa Sa, "International Investors, the U.S. Current Account, and the Dollar," *Brookings Papers on Economic Activity* (1:2005): 1-65.

Engel, Charles, and Akito Matsumoto, "Home Bias in Equities under New Open Economy Macroeconomics," manuscript, University of Wisconsin and IMF, October 2004. <http://www.econ.ucdavis.edu/faculty/bergin/Econ260d/Engel1005.pdf>

Kouri, Pentti J. K., "Balance of Payments and the Foreign Exchange Market: A Dynamic Partial Equilibrium Model," in *Economic Interdependence and Flexible Exchange Rates*, edited by J. S. Bhandari and B. H. Putnam (MIT Press, 1983).

Obstfeld, Maurice, "International Risk Sharing and the Costs of Trade," May 2007. http://www.econ.berkeley.edu/~obstfeld/Ohlin_show.pdf

Stulz, Rene M., "The Demand for Foreign Bonds," *Journal of International Economics* 15 (November 1983): 225-38.

Van Wincoop, Eric, and Frank Warnock, "Is Home Bias in Assets Related to Home Bias in Goods?" Working Paper 12728, National Bureau of Economic Research, December 2006.

4. More on International Pricing

Atkeson, Andrew, and Ariel Burstein, "Trade Costs, Pricing to Market, and International Relative Prices," manuscript, UCLA, October 2005.

<http://www.econ.ucla.edu/arielb/ABPricingtoMarket.pdf>

Dornbusch, Rudiger, "Exchange Rates and Prices," *American Economic Review* 77 (March 1987): 93-106.

Goldberg, Linda, and Cedric Tille, "Vehicle Currency Use in International Trade," Working Paper 11127, National Bureau of Economic Research, February 2005.

Krugman, Paul. "Pricing to Market When the Exchange Rate Changes," in *Real-Financial Linkages among Open Economies*, edited by Sven W. Arndt and J. David Richardson (MIT Press, 1987).

5. International Macroeconomic Policy Coordination and Exchange Rates

Benigno, Gianluca, and Pierpaolo Benigno, "Price Stability in Open Economies," *Review of Economic Studies* 70 (October 2003): 743-64.

<http://ideas.repec.org/a/bla/restud/v70y2003i4p743-764.html>

Canzoneri, Matthew B., Robert E. Cumby, and Behzad T. Diba, "The Need for International Policy Coordination: What's Old, What's New, What's Yet to Come?" manuscript, Georgetown University, December 2001.

<http://www.georgetown.edu/faculty/cumbyr/papers/policycoordination.pdf>

Canzoneri, Matthew B., and Dale W. Henderson, *Monetary Policy in Interdependent Economies* (MIT Press, 1991).

Obstfeld-Rogoff, chapter 9.5.5.

6. Currency Crises

Angeletos, George-Marios, and Ivan Werning, "Crises and Prices: Information Aggregation, Multiplicity, and Volatility," *American Economic Review* 96 (December 2006): 1720-36.

Atkeson, Andrew, "Comment," in *NBER Macroeconomics Annual 2000*, edited by Ben Bernanke and Kenneth Rogoff (MIT Press, 2000).

Calvo, Guillermo A., "Capital Flows and Capital-Market Crises: The Simple Economics of Sudden Stops," *Journal of Applied Economics* 1 (November 1998): 35-54.

Chari, V. V., and Patrick J. Kehoe, "Hot Money," *Journal of Political Economy* 111 (December 2003): 1262-92.

Flood, Robert P., and Peter M. Garber, "Collapsing Exchange-Rate Regimes: Some Linear Examples," *Journal of International Economics* 17 (August 1984): 1-13.

Hellwig, Christian, Arijit Mukherji, and Aleh Tsyvinski, "Self-fulfilling Currency Crises: The Role of Interest Rates," *American Economic Review* 96 (December 2006): 1769-87.

Jeanne, Olivier D., *Currency Crises: A Perspective on Recent Theoretical Developments*, Princeton Special Papers in International Economics 20, 2000.

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

Mark, chapter 11.

Morris, Stephen, and Hyun Song Shin, "Unique Equilibrium in a Model of Self-Fulfilling Currency Attacks," *American Economic Review* 88 (June 1998): 587-97.

Obstfeld, Maurice, "Models of Currency Crisis with Self-Fulfilling Features," *European Economic Review* 40 (April 1996): 1037-47.

Obstfeld, Maurice, and Kenneth Rogoff, "The Mirage of Fixed Exchange Rates," *Journal of Economic Perspectives* 9 (Fall 1995): 73-96.

Obstfeld-Rogoff, chapters 8.4, 9.5.

7. Macroeconomic Problems of Developing Countries

Agenor, Pierre-Richard, *The Economics of Adjustment and Growth*, second edition (Harvard University Press, 2004).

Aghion, Philippe, Philippe Bacchetta, and Abhijit Banerjee, "A Corporate Balance Sheet Approach to Currency Crises," manuscript, November 2001.
<http://www.hec.unil.ch/deep/Textes/01.14.pdf>

Caballero, Ricardo J., and Arvind Krishnamurthy, "International and Domestic Collateral Constraints in a Model of Emerging Market Crises," *Journal of Monetary Economics* 48 (December 2001): 513-48.

Calvo, Guillermo A., *Emerging Capital Markets in Turmoil* (MIT Press, 2005).

Calvo, Guillermo A., and Carmen M. Reinhart, "Fear of Floating," *Quarterly Journal of Economics* 117 (May 2002): 379-408.

Calvo, Guillermo A., and Frederic S. Mishkin, "The Mirage of Exchange Rate Regimes for Emerging Market Countries," *Journal of Economic Perspectives* 17 (Fall 2003): 99-118.

Chang, Roberto, and Andres Velasco, "A Model of Financial Crises in Emerging Markets," *Quarterly Journal of Economics* 116 (May 2001): 489-517.

Diaz-Alejandro, Carlos. F., "Good-Bye Financial Repression, Hello Financial Crash," *Journal of Development Economics* 19 (September/October 1985): 1-24.

Dornbusch, Rudiger, "The Latin Triangle," in *Keys to Prosperity* (MIT Press, 2000).

Edwards, Sebastian, *The Order of Liberalization of the External Sector in Developing Countries*, Princeton Essays in International Finance 156, 1984.

Edwards, Sebastian, editor, *Capital Flows and Capital Controls in Emerging Economies* (University of Chicago Press, 2007). Chapters available at <http://www.nber.org/books/ICF/index.html>

Eichengreen, Barry, and Ricardo Hausmann, "Exchange Rates and Financial Fragility," in *New Challenges for Monetary Policy* (Federal Reserve Bank of Kansas City Symposium Proceedings, 1999). <http://www.kc.frb.org/publicat/sympos/1999/S99eich.pdf>

Fischer, Stanley, "Distinguished Lecture on Economics in Government-- Exchange Rate Regimes: Is the Bipolar View Correct?" *Journal of Economic Perspectives* 15 (Spring 2001): 3-24.

Krugman, Paul R. "Balance Sheets, the Transfer Problem, and Financial Crises," in *International Finance and Financial Crises: Essays in Honor of Robert P. Flood, Jr.*, edited by Peter Isard, Assaf Razin, and Andrew K. Rose (Kluwer Academic Publishers, 1999).

McKinnon, Ronald I., and Huw Pill, "Credible Liberalizations and International Capital Flows: The 'Overborrowing Syndrome'," in *Financial Deregulation and Integration in East Asia*, edited by Takatoshi Ito and Anne O. Krueger (University of Chicago Press, 1996).

Martin, Philippe, and Helene Rey, "Globalization and Emerging Markets: With or Without Crash?" *American Economic Review* 96 (December 2006): 1631-51.

Obstfeld, Maurice, Jay C. Shambaugh, and Alan M. Taylor, "Financial Stability, the Trilemma, and International Reserves," mimeo, UC-Berkeley, Dartmouth College, and UC-Davis, January 2008.

Velasco, Andres, "Financial Crises and Balance of Payments Crises: A Simple Model of the Southern Cone Experience," *Journal of Development Economics* 27 (October 1987): 263-83.

8. Exchange Rate Target Zones

Krugman, Paul R., "Target Zones and Exchange Rate Dynamics," *Quarterly Journal of Economics* 106 (August 1991): 669-82.

Mark, chapter 10.

Obstfeld-Rogoff, chapters 8.5-8.6.

Obstfeld, Maurice, Jay C. Shambaugh, and Alan M. Taylor, "The Trilemma in History: Tradeoffs among Exchange Rates, Monetary Policies, and Capital Mobility" *Review of Economics and Statistics* 87 (August 2005): 423-38.
<http://mitpress.mit.edu/catalog/item/default.asp?ttype=6&tid=18918>

9. New and Older Views on International Adjustment

Caballero, Ricardo J., Emmanuel Farhi, and Pierre-Olivier Gourinchas, "An Equilibrium Model of 'Global Imbalances' and Low Interest Rates," *American Economic Review*, forthcoming 2008.

Ferrero, Andrea, Mark Gertler, and Lars E. O. Svensson, "Current Account Dynamics and Monetary Policy," mimeo, FRBNY, NYU, and Sveriges Riksbank, September 2007. <http://www.princeton.edu/svensson/papers/FGS.pdf>

Freund, Caroline, and Frank Warnock, "Current Account Reversals in Industrial Countries: The Bigger They Are, the Harder They Fall?" in *G7 Current Account Imbalances*, edited by Richard Clarida (University of Chicago Press, 2007).

Gagnon, Joseph R., "Productive Capacity, Product Varieties, and the Elasticities Approach to the Trade Balance," International Finance Discussion Papers 781, Board of Governors of the Federal Reserve System, October 2004 (revised).
<http://www.federalreserve.gov/pubs/ifdp/2003/781/ifdp781r.pdf>

Gourinchas, Pierre-Olivier, and Helene Rey, "International Financial Adjustment," *Journal of Political Economy* 115 (August 2007): 665-703.

Krugman, Paul R. "Is the Strong Dollar Sustainable?" in *The U.S. Dollar: Prospects and Policy Options* (Federal Reserve Bank of Kansas City Symposium Proceedings, 1985).

Krugman, Paul R. "Differences in Income Elasticities and Trends in Real Exchange Rates," *European Economic Review* 33 (May 1989): 1031-54.

Krugman, Paul R., "Has the Adjustment Process Worked?" in *International Adjustment and Financing: The Lessons of 1985-1991*, edited by C. Fred Bergsten (Institute for International Economics, 1991).

Lane, Philip, and Gian Maria Milesi-Ferretti, "International Financial Integration," *IMF Staff Papers* 50 (Special Issue 2003): 83-113.

<http://www.imf.org/External/Pubs/FT/staffp/2002/00-00/pdf/lane.pdf>

Lane, Philip, and Gian Maria Milesi-Ferretti, "Financial Globalization and Exchange Rates," Discussion Paper 4745, Centre for Economic Policy Research, November 2004.

Mann, Catherine L., "Perspectives on the U.S. Current Account Deficit and Sustainability," *Journal of Economic Perspectives* 16 (Summer 2002): 131-152.

Obstfeld, Maurice, "External Adjustment," *Review of World Economics* (December 2004).

Obstfeld, Maurice, and Kenneth Rogoff, "The Unsustainable U.S. Current Account Position Revisited," in *G7 Current Account Imbalances*, edited by Richard Clarida (University of Chicago Press, 2007).

Ruhl, Kim, "Solving the Elasticity Puzzle in International Economics," manuscript, Federal Reserve Bank of Minneapolis, November 2003.

<http://www.eco.utexas.edu/~kjr296/files/fixd.pdf>

Tille, Cedric, "The Impact of Exchange Rate Movements on U.S. Foreign Debt," *Current Issues in Economics and Finance* 9 (January 2003), Federal Reserve Bank of New York. http://www.newyorkfed.org/research/current_issues/ci9-1.html

10. Financial Integration, Globalization, and World Income

Acemoglu, Daron, Simon Johnson, and James R. Robinson, "Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution," *Quarterly Journal of Economics* 117 (November 2002): 1231-94.

Acemoglu, Daron, and Jaume Ventura. "The World Income Distribution," *Quarterly Journal of Economics* 117 (May 2002): 659-94.

Alfaro, Laura, Sebnem Kalemli-Ozkan, and Vadym Volosovych, "Capital Flows in a Globalized World: The Role of Policies and Institutions," in *Capital Controls and Capital Flows in Emerging Economies*, edited by Sebastian Edwards (University of Chicago Press, 2007).

Diamond, Jared, *Guns, Germs, and Steel* (W. W. Norton: 1997).

Easterly, William, *The Elusive Quest for Growth* (MIT Press, 2001).

Eichengreen, Barry, *Globalizing Capital* (Princeton University Press, 1996).

Engerman, Stanley L., and Kenneth D. Sokoloff, "Factor Endowments, Institutions, and Differential Paths of Growth among New World Economies: A View from Economic Historians of the United States," in *How Latin America Fell Behind*, edited by Stephen Haber (Stanford University Press, 1997).

Fischer, Stanley, "Globalization and Its Challenges," *American Economic Review* 93 (May 2003): 1-30.

Frieden, Jeffry, *Will Global Capitalism Fall Again?* Bruegel Essay and Lecture Series, January 2007.

<http://www.bruegel.org/Files/media/PDF/Publications/Latest/GlobalCapFallAgainWebversion.pdf>

Glaeser, Edward L., Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer, "Do Institutions Cause Growth?" Working Paper 10568, National Bureau of Economic Research, June 2004.

Gourinchas, Pierre-Olivier, and Olivier D. Jeanne, "The Elusive Gains from International Financial Integration," *Review of Economic Studies* 73 (July 2006).

Henry, Peter Blair, "Capital Account Liberalization: Theory, Evidence, and Speculation," *Journal of Economic Literature* 45 (December 2007): 887-935.

Jones, Charles I., "On the Evolution of the World Income Distribution," *Journal of Economic Perspectives* 11 (Summer 1997): 19-36.

Kose, M. Ayhan, Eswar Prasad, Kenneth Rogoff, and Shang-Jin Wei, "Financial Globalization: A Reappraisal," Working Paper 12484, National Bureau of Economic Research, August 2006.

Lucas, Robert E., Jr., "Why Doesn't Capital Flow from Rich to Poor Countries?" *American Economic Review* 80 (May 1990): 92-6.

Matsuyama, Kiminori, "Financial Market Globalization, Symmetry-Breaking, and Endogenous Inequality of Nations," *Econometrica* 72 (May 2004): 853-84.

Nurkse, Ragnar, "International Investment Today in the Light of 19th-century Experience," *Economic Journal* 64 (December 1954): 744-58.

Obstfeld, Maurice, "International Capital Mobility in the 1990s," in *Understanding Interdependence: The Macroeconomics of the Open Economy*, edited by Peter B. Kenen (Princeton University Press, 1995).

Obstfeld-Rogoff, chapter 7.

Obstfeld, Maurice, and Alan M. Taylor, *Global Capital Markets: Integration, Crisis, and Growth* (Cambridge University Press, 2004).

Parente, Stephen L., and Edward C. Prescott, *Barriers to Riches* (MIT Press, 2000).

Prasad, Eswar, Kenneth Rogoff, Shang-Jin Wei, and M. Ayhan Kose, *Effects of Financial Globalization on Developing Countries: Some Empirical Evidence*, International Monetary Fund Occasional Paper 220, September 2003.
<http://www.imf.org/external/np/res/docs/2003/031703.htm> (See also Working Paper 10942, National Bureau of Economic Research, December 2004.)

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Rodrik, Dani, Arvind Subramanian, and Francesco Trebbi, "Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development," Working Paper 9305, National Bureau of Economic Research, November 2002.

Sachs, Jeffrey D., "Institutions Don't Rule: Direct Effects of Geography on Per Capita Income," Working Paper 9490, National Bureau of Economic Research, February 2003.