This course will focus on the main area of research in international macroeconomics and international finance: the determination of the exchange rate and the determination of the current account. The exchange rate will be studied in both regular modes and crisis modes under fixed, floating and currency band models. The current account will be studied in both regular as well as crisis modes, incorporating both determinants of levels as well as sustainability issues. The course will begin with a 2-period and then an infinite horizon real-side model of current account determination. Current account determination will then be revisited in the presence of uncertainty. Uncertainty leaves open the possibility of default (Obstfeld-Rogoff, Chapters 1, 2, and 5). The course will then continue with models of sovereign default (Bulow-Rogoff, 1989). Recent theoretical as well as empirical work will be considered. Then, the course will turn from quantities to prices and from the real side to the nominal side of the economy, looking at exchange rate determination. The first topic on exchange rate determination will be PPP models. We will discuss empirical work on whether or not there is convergence to PPP in the long and short run. Then, we will look at Dornbusch’s sticky-price model of exchange rate determination (Dornbusch, 1976). We will explore heterogeneous information models of flexible exchange rate determination. Krugman’s currency band model (Krugman, 1991) will also be considered. The course will then consider more recent new open economy macroeconomic models of exchange rate determination, starting with Obsteld-Rogoff (1994). Included in the new open economy macro discussion will be recent work on the impact of net asset holdings in exchange rate and current account determination.

The last topic will be models of currency crisis. Starting with Krugman’s first generation model, we will consider second generation models (Obstfeld, 1996), third generation models (Aghion, Bacchetta, and Banerjee, 2001), and imperfect common knowledge models of exchange rate determination (Morris and Shin, 1998). The course requirements will be 3 bi-weekly problems sets and one 15-20 page final research paper with 45% weighting on the homework and 40% on the paper. Also, there will be one extra session where each student presents (half an hour) one recent paper from international macroeconomics drawn from the literature (followed by lunch or dinner) on a date yet to be decided. The paper should be chosen by the student but approved by me.

Note: Starred readings will be covered in class; readings with two stars will be covered in detail; other readings are suggested for those interested in international macroeconomics and international finance.
Reading List

Textbooks:


Section I: Real Side Models of the Current Account:
** Obstfeld-Rogoff, Chapters 1, 2 and 5

Section II: Current Account Sustainability:
Obstfeld-Rogoff, pp. 349-379.
Amador, Manuel, "A Political Economy Model of Sovereign Debt Repayment, mimeo, Stanford University.

Section III: Exchange Rate Determination
* Bacchetta, Philippe and Eric Van Wincoop, “Can Information Heterogeneity Explain the Exchange Rate Determination Puzzle?”, forthcoming, American Economic Review


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


Mark, chapter 10.

Section IV: Exchange Rate Determination and New Open Economy Macroeconomics


* Obstfeld-Rogoff, chapter 10.


**Section V: Currency Crises**


**Section VI: Current Topics**

Cyclicality of Business Cycle Fluctuations:

**Obstfeld, Maurice (2007), “International Risk Sharing and the Costs of Trade” (the Ohlin Lectures) [http://elsa.berkeley.edu/~obstfeld/Ohlin_show.pdf](http://elsa.berkeley.edu/~obstfeld/Ohlin_show.pdf)**