

6203: TOPICS IN INTERNATIONAL FINANCE AND ECONOMICS

Semester: Spring 2018

Faculty: Ashima Goyal

Office Hours: Monday and Tuesday 1-2 pm.

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The course will cover basic principles and concepts in international finance. The focus will be on substantive issues, especially for emerging markets (EMs), but analytical and empirical tools will be covered, depending on interest. The basic texts followed will be Krugman, Obstfeld and Melitz (2014) (KO) and Goyal (2016) (AG). Starred readings are compulsory, but optional references are necessary to develop a mature understanding. The outline below is tentative and topics or readings can be changed according to class interests, new developments, and time available. Additional readings may be given from time to time. Reference books are listed at the end. Students are also expected to read national and international business papers and magazines to practice applying concepts learnt to current issues.

Grading will be through a term paper, a final exam and class assignments. Topics for the term paper will be selected in January. The weights assigned to the different requirements are:

Term Paper and presentation:	50 per cent
Final Exam (3 hours):	40 per cent
Class assignments and quizzes:	10 per cent

1. National Income Accounting and the Balance of Payments

Introduction. Stylised facts and the development of the subject. Major current issues. Basic accounts, the Current Account and Intertemporal Approach to the Balance of Payments.

*KO ch.13, AG chs 1-2

OR, ch. 1

AM chs. 2.1, 15

Baxter, M., 1995, 'International Trade and Business Cycles', Chapter 35 in *Handbook of International Economics, Vol.III*, ed. G.M. Grossman and K. Rogoff, Amsterdam: North-Holland.

Kenen, Peter B., 1985, 'Macroeconomic Theory and Policy: How the Closed Economy was Opened', in *Handbook of International Economics, Vol. II*, ed. R.W. Jones and P.B. Kenen, Amsterdam: North-Holland.

Obstfeld, M., and K. Rogoff, 1995, 'The Intertemporal Approach to the Current Account', Chapter 34 in *Handbook of International Economics, Vol. III*, ed. G.M. Grossman and K. Rogoff, Amsterdam: North-Holland.

Obstfeld, M. and K. Rogoff. 'The Six Major Puzzles in International Macroeconomics', In *NBER Macroeconomics Annual 2000*.

2. Foreign Exchange Markets: The Asset Approach

Market efficiency, UIP, CIP, Market Microstructure, Arbitrage and Noise Trading, Hedging, Derivatives and Options.

*KO, ch. 14, AG ch 3-4

ST chs. 2, 9

De Long, B. J., A. Shleifer, L. H. Summers, and R. J. Waldman, 1990, 'Noise Trade Risk in Financial Markets', *Journal of Political Economy*, 98 (4), 703-738.

Goyal, A., 2006, 'Exchange Rate Regimes: Middling Through', *Global Economic Review*, 35 (2), June. Available at <http://ssrn.com/abstract=836204>.

Jeanne, O., and A.K. Rose, 2002, 'Noise Trading and Exchange Rate Regimes', *The Quarterly Journal of Economics*, CXVII (469), 537-570.

K. Lewis, 1995, 'Puzzles in International Financial Markets', Chapter 37 in *Handbook of International Economics, Vol. III*, ed. G.M. Grossman and K. Rogoff, Amsterdam: North-Holland.

Lyons, R.K., 2001, *The Microstructure Approach to Exchange Rates*, Cambridge, MA: MIT Press.

3. Exchange Rate Theories, Monetary and Fiscal Policy, Output, Inflation and Interest Rates.

3.1 Keynesian theories meet rational expectations. The short-run: Mundell-Fleming, Overshooting and Monetary theories from the modern perspective. The long-run the real exchange rate and purchasing power parity. The real exchange rate in an EM—the Balassa-Samuelson theory.

*KO chs. 15-18, AG chs 5-8

OR ch. 4, 4.2.3*

ST chs. 3, 4

Lyons, R.K., 2001, *The Microstructure Approach to Exchange Rates*, Cambridge, MA: MIT Press, ch 6.

Rogoff, R., 1996, 'The Purchasing Power Parity Puzzle', *Journal of Economic Literature*, 34, 647-68.

Goyal, A., 2014, 'Purchasing Power Parity, Wages and Inflation in Emerging Markets', *Foreign Trade Review*, 49(4).

3.2 Fixed exchange rates and central bank intervention

*KO ch. 18, ch.9

ST ch. 7

*Blinder, A. S., Ehrmann, M., Fratzscher, M., Haan, J. D., and Jansen, D.-J., 2008, 'Central Bank Communication and Monetary Policy: A Survey of Theory and Evidence', *Journal of Economic Literature*, 46(4), pp. 910-945.

http://www.nber.org/papers/w13932.pdf?new_window=1

Dominguez, K.M., and J.A. Frankel, 1993, *Does Foreign Exchange Intervention Work*, Washington D.C.: Institute for International Economics.

4. Forward-looking consumers, monopolistic competition, the open economy and monetary policy

The canonical small open economy DSGE model; monetary policy in a small open economy and in a small open emerging market.

BF ch 2.4

*ST ch. 5, AG chs 10-11.

*OR ch. 10.1

Galí, Jordi, 2008, *Chapter 1, 2, and 7 in *Monetary Policy, Inflation and the Business Cycle: An Introduction to the New Keynesian Framework*, Princeton University Press.

Vines, D. and S. Wills. 2018. 'The rebuilding macroeconomic theory project: an analytical assessment'. *Oxford Review of Economic Policy*, 34(1-2): 1-42, *Appendix II.

*Romer, D., 2000, 'Keynesian Macroeconomics without the LM Curve', *Journal of Economic Perspectives*, 14(2), 149-169.

Blanchard, O.J. 2018. 'On the future of macroeconomic models'. *Oxford Review of Economic Policy*, 34(1-2): 43-54.

Goyal, A., 2002, 'Coordinating Monetary and Fiscal Policies: a role for rules?' chapter 11 in the *India Development Report*, Kirit S. Parikh and R. Radhakrishna (ed.), IGIDR and Oxford University Press.

Goyal, A., 2011, 'A General Equilibrium Open Economy Model for Emerging Markets: Monetary policy with a dualistic labor market', *Economic Modelling*, 28 (2), 1392-1404.

Clarida, R., Gali, J., and Gertler, M., 2001, 'Optimal Monetary Policy in Closed versus Open Economies: An Integrated Approach', *American Economic Review*, 91 (2), 248-252, May.

Clarida, R., Gali, J., and Gertler, M., 1999, 'The Science of Monetary Policy: A New Keynesian perspective', *Journal of Economic Literature*, 37 (4), 1661-707.

Corsetti, G. et. al., 2011, 'Optimal Monetary Policy in Open Economies' Ch. 15, FW Vol. 3B, pp. 861-930.

Gali, J. and T. Monacelli, 2005, 'Monetary Policy and Exchange Rate Volatility in a Small Open Economy.' *Review of Economic Studies*, 72(3): 707-734.

Smets, F. and R. Wouters. 2007. 'Shocks and Frictions in US Business Cycles: A Bayesian DSGE Approach.' *American Economic Review*, 97(3): 586-606.

Svensson, L.E.O, 2000, 'Open-Economy Inflation Targeting', *Journal of International Economics*, 50, 155-183.

5. Liberalization, Structural Adjustment and Policy Choices in EMs; Political Economy and Policy Credibility; Exchange Rate Regimes

The structure of an EM; analytical framework; country experiences; the Swan-Salter model; the importance of domestic relative costs, the labour market and efficiency wages. Internal and external balance. Administered prices. Degrees of freedom for policy.

*KO, chs. 11, 22, AG ch. 12

AM chs. 1.2*, 2.2*, 7,10

Goyal, A., 2009 “Swan Diagram” Ramkishen S. Rajan, Kenneth A. Reinert (eds.) *Princeton Encyclopedia of the World Economy*, Princeton University Press. [\\192.9.13.155\e-library\coursemat\961.pdf](http://192.9.13.155/e-library/coursemat/961.pdf)

Aguiar, M. and G. Gopinath, 2007, ‘Emerging Market Business Cycles: The Cycle is the Trend’ *Journal of Political Economy*, 115 (1), pp. 69-102.

Calvo, G.A. and C. A. Vegh, 1999, ‘Inflation Stabilisation and BOP Crises in Developing Countries’, in Taylor, John B. and Michael Woodford (Editors), 1999, *Handbook of Macroeconomics*, Vol.1 Elsevier: North Holland (TW).

Corbo, V. and S. Fischer, 1995, ‘Structural Adjustment, Stabilisation and Policy Reform: Domestic and International Finance’, ch.44 in *Handbook of Development Economics*, Vol. III, (eds.) J. Behreman and T.N. Srinivasan.

Corden, W.M., 2002, *Too Sensational: On the Choice of Exchange Rate Regimes*, Cambridge MA: MIT Press. Chs. 6*, 7*-9.

Goyal, A., 2011, ‘Exchange Rate Regimes and Macroeconomic Performance in South Asia’, *Routledge Handbook on South Asian Economies*, Chapter 10 in Raghendra Jha (ed.), pp. 143-155, Oxon and NY: Routledge.

Frankel, Jeffrey. 2011. ‘Monetary Policy in Emerging Markets’, chapter. 25, FW Vol. 3B, pp. 1439-1499.

GC, Introduction and Introduction to Part V, chs. 8, 9, 15

6. Crises and Crises Models, Policy Responses, New International Financial Architecture.

*KO, ch.18, AG chs 13

KO chs. 20, 22

ST ch. 8, AM chs. 12, 16,

Obstfeld, M., 1996, "Models of Currency Crises with Self-fulfilling Features", *European Economic Review*, 40, 1037-1047, section 1 and 2.

*Adrian, Tobias and Hyun Song Shin. 2009. ‘Money, Liquidity, and Monetary Policy’, *American Economic Review*. 99 (2), pp. 600–605, May. Available at <http://www.aeaweb.org/articles.php?doi=10.1257/aer.99.2.600>

*Chang, R. and A. Velasco, 2000, "Liquidity Crises in Emerging Markets: Theory and Policy," in *NBER Macroeconomics Annual 1999* (Ben Bernanke and Julio Rotemberg, eds.), The MIT Press, Cambridge, also NBER Working Paper No. 7272, July 1999.

Goyal, A., 2002, 'Reform Proposals from Developing Asia: Finding a Win-win Strategy', chapter 7 in *Debating the Global Financial Architecture*, Edited by Leslie Elliott Armijo, SUNY Press Global Politics series, under the general editorship of James Rosenau, SUNY Press, New York.

Goyal, A., 2009, 'Financial Crises: Reducing Procyclicality', *Macroeconomics and Finance in Emerging Market Economies*, 2 (1), pp: 213-223. March.

*Krishnamurthy, A., 2010, 'How Debt Markets have malfunctioned in the Crisis', *Journal of Economic Perspectives*, 24(1), pp: 3-28.

*Shleifer, A. & R. W. Vishny, 2010, 'Unstable Banking', *Journal of Financial Economics*, Elsevier, 97(3), pp. 306-318, September.

Gourinchas, P.O. and M. Obstfeld. (2012). Stories of the twentieth century for the twenty-first. *American Economic Journal: Macroeconomics*, 4(1): 226-265.

Bernanke, Ben S., 'Some Reflections on the Crisis and the Policy Response', Russell Sage Foundation and The Century Foundation Conference on "*Rethinking Finance*," New York, April 13, 2012, <http://www.federalreserve.gov/newsevents/speech/bernanke20120413a.htm>

Caballero, Ricardo and Arvind Krishnamurthy (2004). "Smoothing sudden stops." *Journal of Economic Theory*. 2001 working paper version <http://www.nber.org/papers/w8427>

Calvo, G., 2005, 'Crises in Emerging Market Economies: A global perspective' <http://www.nber.org/papers/w11305.pdf>

Eichengreen, B., 2003, *Capital Flows and Crises*, Cambridge MA: MIT Press.

Goyal, A., 2013, 'Assessing Changes in the Global Financial Architecture from an Emerging Market Perspective', *Foreign Trade Review*, 48 (4).

Goyal, A. and A. Agarwal, 2005, 'Risk and Asian Exchange Rates', *Global Economic Review*, 34 (3), pp: 321-329, September.

Hanson, Samuel G., Anil K. Kashyap, and Jeremy C. Stein. 2011. "A macroprudential approach to financial regulation." *Journal of Economic Perspectives*, 25(1): 3–28.

DOI:10.1257/jep.25.1.3

Liabson, D. and Mollerstrom, J. 2010. Capital Flows, Consumption Booms and Asset Bubbles: A Behavioural Alternative to the Savings Glut Hypothesis. *The Economic Journal*, 120(544), pp. 354-374

Shleifer, Andrei, and Robert Vishny. 2011. "Fire sales in finance and macroeconomics." *Journal of Economic Perspectives*, 25(1): 29–48. DOI:10.1257/jep.25.1.29

Tirole, Jean, 2002, *Financial Crises, Liquidity and the International Monetary System*, New Jersey: Princeton University Press.

World Bank. 2008. The Growth Report: Strategies for Sustained Growth and Inclusive Development, Commission on Growth and Development. Washington, DC: World Bank. Available at <https://openknowledge.worldbank.org/handle/10986/6507>

7. International Monetary System

Reserve Currency. International Coordination. Global Capital Markets. Reserve Imbalances. Currency Wars.

*KO, ch. 18, AG ch. 14

KO chs. 19, 222

*Blanchard, O. J., 2016, 'Currency wars, coordination and capital controls', <http://www.nber.org/papers/w22388>

Goyal, A., 2005, 'Asian Reserves and the Dollar: Is Gradual Adjustment Possible?' *Global Economy Journal*, 5 (3), Article 3, <http://www.bepress.com/gej/vol5/iss3/3>.

*Blanchard, O. J., G. M. Milesi-Ferretti, 2009, 'Global Imbalances: In Midstream?' *IMF Staff Position Note* SPN/09/29; December 22. <http://www.imf.org/external/pubs/ft/spn/2009/spn0929.pdf>.

*Blanchard, O. and Milesi-Ferretti, G.M. 2012. '(Why) Should Current Account Balances Be Reduced?' *IMF Economic Review* 60, 139-150. April. doi:10.1057/imfer.2012.2

Gourinchas, P. O. and H. Rey, 2013, 'External Adjustment, Global Imbalances and Valuation Effects', Chapter in GHR.

Caballero, R., J. and A. Krishnamurthy, 2009, 'Global Imbalances and Financial Fragility', Papers and Proceedings. *American Economic Review*, 99 (2), pp. 584-588, May. <http://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.99.2.584>

8. Case study: Indian Macroeconomic Policy, Exchange Rates, and Financial Stability

*Goyal A. 2014. *History of Monetary Policy in India Since Independence*. Springer Briefs in Economics. India: Springer. 2014. Chs. 1.3, 2.

*Goyal, A., 2015, 'External shocks', in S. Mahendra Dev (ed.), *India Development Report 2015*, New Delhi: IGIDR and Oxford University Press. Earlier version available as IGIDR working paper at <http://www.igidr.ac.in/pdf/publication/WP-2014-046.pdf>

*Goyal, A., 2013, 'Evaluating India's Exchange Rate Evolution', *Gitam Review of International Business*, 5(2), pp. 39-58.

*Goyal, A., 2010, 'Inflationary Pressures in South Asia', *Asia-Pacific Development Journal*, 17 (2), pp. 1-42, December. http://www.unescap.org/pdd/publications/apdj_17_2/1_Goyal.pdf

Henry, P. B., 2003. 'Capital-Account Liberalization, the Cost of Capital, and Economic Growth', Papers and Proceedings. *The American Economic Review*. 93 (2), pp. 91-96, May.

Kohli, R., 2014, 'Financial Globalization in India: Opportunity and Volatility. Chapter 8 in *Handbook of Indian Economy in the 21st Century: Understanding the Inherent Dynamism*. Goyal A. (ed.). Oxford University Press. pp: 183-208.

Text-Book

Krugman, P. R., M. Obstfeld and M. Melitz, 2014, *International Economics: Theory and Policy*, 10th edition, India: Pearson Education. (KO)

Goyal, Ashima. *Macroeconomics and Markets in Developing and Emerging Economies*, Routledge: UK. 2016. (AG)

Other Reference Books

Agenor P. R. and P. J. Monteil, *Development Macroeconomics*, New Jersey: Princeton University Press. (AM). 2nd edition, 1999.

Blanchard O. J. and Fischer S. 1989, *Macroeconomics*, Cambridge, Massachusetts, USA: MIT Press. (BF)

Calvo, G., 1996, *Money, Exchange Rates and Output*, MIT Press: Cambridge, Mass.(GC)

Friedman, B. and M. Woodford (Editors), 2011, *Handbook of Monetary Economics* Vol. 3 A, B, North Holland, Amsterdam: Elsevier. (FW)

Gopinath, G., H. Helpman and K. Rogoff (eds.). 2014. *Handbook of International Economics*, Vol. 4, 1st Edition, North Holland, Amsterdam: Elsevier. (GHR)

Goyal A. 2014. *History of Monetary Policy in India Since Independence*. Springer Briefs in Economics. India: Springer.

Goyal A. 2014. *Handbook of Indian Economy in the 21st Century: Understanding the Inherent Dynamism*. India: OUP.

Obstfeld, M. and K. Rogoff, 1996, *Foundations of International Macroeconomics*, Cambridge, Massachusetts: MIT Press. (OR)

Sarno, L., and M. P. Taylor, 2002, *The Economics of Exchange Rates*, UK: Cambridge University Press. (ST)

Taylor, John B. and Michael Woodford (Editors), 1999, *Handbook of Macroeconomics*, Vol.1 A, B and C, North Holland, Amsterdam: Elsevier. (TW)

Végh, C. A. 2013. *Open Economy Macroeconomics in Developing Countries*. MIT Press.