

ECON 712: TOPICS IN MACROECONOMIC THEORY AND INTERNATIONAL FINANCE

SPRING 2017

UNIVERSITY OF PENNSYLVANIA

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Time of Class: Fridays 2:00PM - 5:00PM

Room: McNeil Building 167-8

Office Hours: after class and by appointment.

Course description This class will cover topics at the intersection between macroeconomics and international finance. Applications will include: endogenously incomplete markets and the optimality (or not) of government interventions, positive and normative model of government debt determination, exchange rates and theory of optimal currency areas, monetary policy and risk premia. On the methodological side, we will study how to use tools from dynamic game theory and mechanism design to analyze optimal policy when the government lacks commitment and optimal markets arrangements with lack of commitment and private information.

Expectations I will regularly assign you problem sets and there would be a take home exam at the end of the class. Some of you will be asked to present the solutions of the problem set to the class. I expect you to actively participate in class.

Topics I will cover the following topics:

- Endogenously incomplete markets and constrained efficiency
 - lack of commitment: kocherlakota, kehoe-levine, alvarez-jermann
 - * inefficiency: lorenzoni
 - * multiplicity of equilibria: wright et al. jpe
 - * bulow-rogoft, hellwig-lorenzoni
 - private information: atkeson-lucas, thomas-worrall, veracierto

- efficiency with private information: prescott-townsend, golosov-tzivinski, farhi-golosov-tzivinski
- lack of commitment and private information: atkeson, dovis
- applications and implementation: dovis, kirpalani, atkeson-cole, ditella, ai-bhandari
- lack of commitment: golosov-iovino, bester-strausz, shimer-werning
- Optimal policy
 - Positive and normative model of government debt determination
 - * ramsey taxation with commitment: lucas-stokey, amss, werning, angeletos, buera-nicolini, bandhari-evans-golosov-sargent
 - * sophisticated policies: atkeson-chari-kehoe, bassetto
 - * taxing capital income, bad idea? chari-nicolini-teles, straub-werning, kocherlakota-golosov-tzivinski
 - * ramsey problem without commitment: markov + best sustainable equilibrium
 - * government debt and liquidity: woodford, angeletos et al., krishnamurthy-vissing-jorgensen
 - * sovereign default
 - * political economy model: battaglini-coate, alesina-tabellini, song-storesletten-zilibotti
 - Optimal choice of policy instrument without commitment
 - * atkeson-chari-kehoe
 - delegation problem and fiscal rules: amador-werning-angeletos, athey-atkeson-kehoe, halac-yared
- Monetary policy and risk premia
 - canzoneri et al
 - alvarez-atkeson-kehoe
 - more to come
- Capital flows, exchange rates and US monetary policy
 - facts
 - exchange rates and capital flows

- international spillovers
- Exchange rates in open economies and theory of optimal currency areas
 - Farhi-Werning macroprudential
 - adao-correia-teles, farhi-gopinath-itskhoki
 - chari-dovis-kehoe
 - devereaux-engel
- Exchange rates determination and UIP-CIP
 - itskhoki-mukhin and lustig-verdelhan