

Economics 252: International Finance

Fall 2020, University of Pennsylvania

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Office Hours: Fridays from 9:00am to 10:00am and by appointment

Teaching Assistant: The TA for the course is TBD. His e-mail address is xxx@sas.upenn.edu. He will have office hours on TBD from X to X on zoom.

Course Website: Course information is available in Canvas. Canvas is the official channel I will use to make announcements, post slides, problem sets, exercises, and relevant papers for you to read.

Course Description: This is a one-semester course in international finance and open economy macroeconomics. The course's objective is to build the analytical foundation for understanding key macro issues in the world economy such as current account deficits, the global financial cycle, financial and sovereign debt crises.

To this end, we will develop a set of theoretical tools to model an economy open to trade in goods and assets. Broadly speaking, we are going to cover the following topics:

1. Current Account Determination: Data and Theory
2. Asset Prices, Risk Sharing, Nominal Exchange Rates and Interest Rate Parities
3. External Debt, Debt Crises, and Sovereign Default
4. Monetary Policy and Sustainability of Government Debt

Class structure. The class will have a mix of asynchronous and synchronous activities:

- **Asynchronous activities:**
 - **Recorded lectures:** I will post on Canvas the videos of my lectures. In these videos (30-45 minutes each) I will go over the slides, filling missing steps and explaining in more detail the main concepts and ideas.
- **Synchronous activities:**
 - **Discussion sessions:** We will have zoom meetings to discuss the content of the lectures, connect the theory to historical and current events, and solve practice questions. The zoom meetings will take place during the scheduled class time, Tuesdays and Thursdays, 10:30am to noon. These zoom meetings will be recorded and posted on canvas so in case you cannot attend you will have the opportunity to follow.
 - **TA office hour:** The TA will set up office hours on zoom (twice a week). The goal of these office hours is to discuss practice questions and problem sets.
 - **Office hour:** I will also hold office hour.

Pre-requisites:

- Econ 101 and Econ 102. Intermediate Micro and Intermediate Macro.
- Math 104. Calculus 1
- Math 114 or Math 115. Calculus 2

Grading: Your grade will be based on:

- 4 problem sets (equally weighted, 50% of total grade)
- 3 take-home exams (equally weighted, 50% of total grade)

If the student has a valid excuse and cannot complete a take-home exam, the missed event may be made up in one of two ways that are to be decided by the instructor:

- The student will take a make-up version for the take-home exam; or

- The student will be excused from the missed event, and the weight of that event in the overall course grade will be reassigned to the average of the other take-home exams.

(Tentative) schedule for take-home exams:

- Take-home exam 1: September 29 — 30
- Take-home exam 2: October 27—28
- Take-home exam 3: December. 17—18

(I will give you 48 hours to complete the take-home exams to allow for time-zones issues and conflicts with other classes but it will take you no more than 2 hours to complete them.)

Working on the problem sets will be essential preparation for the exams. You can work in groups on the home works, but you must write up your own solutions.

We will make every effort to have the midterms and problem sets graded and handed back in one week. If you have any concern with the grade, you have one week to return your test with a written explanation of why you think the grade is incorrect. After that week grades cannot be modified.

Course Policies: The Department of Economics maintains a common set of policies that apply to all classes. By taking this class you agree to abide by these policies. You are encouraged to read these policies carefully. Full details can be found here: <http://economics.sas.upenn.edu/undergraduate-program/course-information/guidelines/policies>

Reading List

There is no textbook for the course. The main references are the lecture notes from Stephanie Schmitt-Grohe, Martin Uribe, and Michael Woodford (referred to as SGUW below) available on the course webpage and at <http://www.columbia.edu/~mu2166/UIM/index.html>

During the class, I will make connections to current advances in the research in international finance and to policy issues. The following readings are complementary to my lectures. I will indicate during the course of the class which are required (and I will likely add more). I will also post articles from Financial Times, The Economics, The Wall Street Journal related to the topics we are covering.

1. Current Account Determination: Data and Theory

- SGUW Chapters 1 - 5, 7
- McGrattan, Ellen R., and Edward C. Prescott. "Technology Capital and the US Current Account." *The American Economic Review* 100, no. 4 (2010): 1493.
- Gourinchas, Pierre-Olivier, and Olivier Jeanne. "The elusive gains from international financial integration." *The Review of Economic Studies* 73, no. 3 (2006): 715-741.
- Gourinchas, Pierre-Olivier, and Olivier Jeanne. "Capital flows to developing countries: The allocation puzzle." *Review of Economic Studies* 80, no. 4 (2013): 1484-1515.
- Gourinchas, Pierre-Olivier, and Helene Rey. "From world banker to world venture capitalist: US external adjustment and the exorbitant privilege." In *G7 Current Account Imbalances: Sustainability and Adjustment*, pp. 11-66. University of Chicago Press, 2007.

2. Asset Prices, Risk Sharing, Nominal Exchange Rates and Interest Rate Parities

- SGUW Chapter 6, 10
- Gourinchas, Pierre-Olivier, Hélène Rey, and Nicolas Govillot. *Exorbitant privilege and exorbitant duty*. No. 10-E-20. Institute for Monetary and Economic Studies, Bank of Japan, 2010.

3. External Debt, Debt Crises, and Sovereign Default

- SGUW Chapter 15
- Reinhart, Carmen, and Kenneth Rogoff. 2014. "This Time Is Different: A Panoramic View of Eight Centuries of Financial Crises." *Annals of Economics and Finance* 15 (2). Cambridge: Harvard University: 1065-1188.
- Reinhart, Carmen M, and Kenneth Rogoff. 2011. "From Financial Crash to Debt Crisis." *American Economic Review* 101: 1676-1706.
- Eaton, Jonathan, and Mark Gersovitz. "Debt with potential repudiation: Theoretical and empirical analysis." *The Review of Economic Studies* (1981): 289-309.
- Cole, Harold L., and Timothy J. Kehoe. "A self-fulfilling model of Mexico's 1994–1995 debt crisis." *Journal of international Economics* 41.3 (1996): 309-330.
- Brunnermeier, M, L Garicano, P Lane, M Pagano, R Reis, T Santos, D Thesmar, S Van Nieuwerburgh, and D Vayanos (2016a), "The sovereign-bank diabolic loop and ESBies", *American Economic Review Papers and Proceedings*, 106 (5), 508-512.
- Chari, V. V., Alessandro Dovis, and Patrick J. Kehoe. "On the optimality of financial repression." *Journal of Political Economy* 128, no. 2 (2020): 710-739.
- Reinhart, Carmen M., and M. Belen Sbrancia. *The liquidation of government debt*. No. w16893. National Bureau of Economic Research, 2011.
- Dovis, Alessandro, and Rishabh Kirpalani. "Reputation, bailouts, and interest rate spread dynamics." (2018).
- Chari, Varadarajan V., and Patrick J. Kehoe. *Asking the Right Questions about the IMF*. Federal Reserve Bank of Minneapolis, 1999.
- Chari, V. V., Alessandro Dovis, and Patrick J. Kehoe. "A journey down the slippery slope to the European crisis: a theorist's guide." (2017).
- Bulow Jeremy, and Kenneth Rogoff. 2015. *The modern Greek tragedy*. Vox-EU. <http://voxeu.org/article/modern-greek-tragedy>
- Fernández-Villaverde, Jesús, Luis Garicano, and Tano Santos. 2013. "Political Credit Cycles: The Case of the Eurozone." *Journal of Economic Perspectives*, 27(3): 145-66.

4. Monetary Policy and Sustainability of Government Debt

- SGUW Chapter 12
- Kehoe, Timothy J., Juan Pablo Nicolini, and Thomas J. Sargent. A Framework for Studying the Monetary and Fiscal History of Latin America, 1960–2017. No. 607. Federal Reserve Bank of Minneapolis, 2020.
- “Monetary and Fiscal History of Latin America” project at the Becker-Friedman Institute: <https://mafholo.uchicago.edu/>
- Aguiar, Mark, Manuel Amador, Emmanuel Farhi, and Gita Gopinath. Crisis and commitment: Inflation credibility and the vulnerability to sovereign debt crises. No. w19516. National Bureau of Economic Research, 2013.
- Aguiar, Mark, Manuel Amador, Emmanuel Farhi, and Gita Gopinath. "Sovereign debt booms in monetary unions." *American Economic Review* 104, no. 5 (2014): 101-06.