International Macroeconomics

Course Outline: This is a second-year graduate class. I will begin by reviewing a baseline 2-country frictionless DSGE model, and a series of papers that summarize the evidence of departures from the predictions of this baseline. Then I will turn to potential explanations for these departures, organized (mainly) under the headings of frictions in asset markets, and frictions in goods markets. The goal of the class is first, to give you an up-to-date overview of the literature, and second, to get you started on your own research.

Prerequisites: 202, 203, 204, 210, 211, 212

Textbook: I will not follow any textbook closely. However several assigned readings will be taken from the following textbooks:


A list of references for the topics covered in class is provided below. Starred items will be covered in detail. Apart from those taken from the two textbooks, all items on the list are available in electronic format.

Assessment: Starting in the second class, you are required to prepare a half-page summary of the required reading for each class, due at the beginning of class. In addition your grade will be based on five problem sets and a paper proposal, to be presented in the last class of the quarter. I will provide more details on what I want from this paper in class. I also recommend that you attend the Macro seminar on Mondays, 3.30-5.00 in Room 315, and the Trade seminar on Wednesdays, 1.30-3.00 in Conference Room B.

Course Organization: Except when announced otherwise, we will meet as announced. Office hours are by appointment. I hope to put lecture notes on Coursework after each class, though I apologize in advance for any delays.
Reference List

1 Standard frictionless model


2. OR Chapter 5.


1.1 Facts and puzzles


1.2 Multiple goods


1.3 Habit formation preferences


1.4 Home production

1.5 Exogenously non-traded goods


5. OR Chapter 4.


1.6 Trade costs


2 Frictions in asset markets

2.1 Are there frictions in asset markets?


### 2.2 Costs of asset market frictions


### 2.3 Asymmetric information


9. LS Chapter 19.


2.4 Exogenous incompleteness with commitment, partial equilibrium


2.5 Exogenous incompleteness with commitment, general equilibrium


8. LS, Chapters 16 and 17.


2.6 Limited commitment, partial equilibrium


7. LS Chapter 19

8. *OR Chapter 6


2.7 Limited commitment, complete markets, general equilibrium


12. OR Chapter 6.


### 2.8 Default in equilibrium


10. OR Chapter 6


### 2.9 Models with credit frictions


2.10 Transactions costs and limited participation


3 Frictions in goods markets

3.1 Surveys


3.2 Macro evidence for frictions in goods markets


3.3 Sticky prices


13. OR Chapters 9 and 10,

3.4 Distribution costs


3.5 Price discrimination and search


### 3.6 Costs of adjustment on quantities


4 Financial Puzzles


5 Currency crises and multiple equilibria


6 Information frictions and learning


7 Other stuff I might talk about


Schedule


5. Tuesday 9th October. Trade costs. **Reading:** Obstfeld and Rogoff (2000); Fitzgerald (2012).


7. Tuesday 16th October. Asymmetric information. **Reading:** OR Chapter 6; Gertler and Rogoff (1990).

8. Thursday 18th October. Exogenous incompleteness, full commitment, partial equilibrium. **Reading:** Mendoza (1991); Schmitt-Grohé and Uribe (2003); Aguiar and Gopinath (2007).

9. Tuesday 23rd October. Exogenous incompleteness, full commitment, general equilibrium. **Reading:** Aiyagari (1994); Mendoza, Quadrini and Rios-Rull (2009).

10. Thursday 25th October. Limited commitment, complete markets, partial equilibrium. **Reading:** OR Chapter 6; Eaton and Gersovitz (1981); Bulow and Rogoff (1989a).

11. Tuesday 30th October. Limited commitment, complete markets, general equilibrium. **Reading:** LS Chapter 20; Kehoe and Perri (2002)

12. Thursday 1st November. Limited commitment, incomplete markets, default. **Reading:** Aguiar and Gopinath (2006); Arellano (2006); Yue (2006).


17. Tuesday 27th November [TO BE RESCHEDULED]. Price discrimination. **Reading:** Atkeson and Burstein (2008); Drozd and Nosal (2011).

18. Thursday 29th November [TO BE RESCHEDULED]. Costs of adjustment on quantities. **Reading:** Alessandria and Choi (2005); Ghironi and Melitz (2005), Ruhl (2008); Fitzgerald and Haller (2012b).


**Assignments**

1. Problem set 1. Due Thursday 4th October

2. Problem set 2. Due Thursday 11th October

3. Problem set 3. Due Thursday 18th October

4. Problem set 4 (longer). Due Thursday 1st November

5. Problem set 5. (longer). Due Thursday 15th November