

## EC7035 International Macroeconomics - Syllabus

**Module Code: EC7035**

- **ECTS Credit:** 5
- **Mandatory/ Optional:** Optional
- **Module Lecturer:** Mr. Carl Friedrich Kreuser

Why do economies engage in trade and how does it affect the allocation of resources? What determines the real exchange rate and the current account balance? How does international exposure affect a country's business cycles? This module aims to provide students with a coherent framework in which to address majority of the fundamental problems in international macroeconomics. Students will become fluent in standard international macroeconomic models including standard small-open-economy real business cycle model, the MX and MXN open-economy models, and New-Open-Economy models with imperfect competition and money demand.

### Module Delivery

The module will be delivered through a combination of lectures (8 hours) and tutorials (3 hours). Tutorials will be delivered by a Teaching Assistant.

### Learning Outcomes

On completion of the course, students will be able to critically discuss and critically appraise:

1. The role of the current account, trade balance, and exchange rate in business cycles.
2. The sustainability of the current account in a given country.
3. The reasons for and performance of the standard SOE-RBC with respect to the data.
4. The role of exchange rates and terms of trade shocks in the real business cycle models with exportable, importable, and non-tradable goods as well as new-open economy models.
5. The process of parametrisation and calibration of macroeconomic models.

### Lectures:

1. Introduction to international aspects of national accounting, the intertemporal approach to the current account, small two-period economy models, and two region world economy models.
2. Business cycle facts, infinite horizon models with investment, SOE-RBC, sustainability of the current account, parameterisation and calibration, and performance of RBC models.
3. Introduction to terms of trade and real exchange rates, the MX and MXN models, as well as the Ballassa-Samuelson theorem.
4. Monetary models and exchange rates, new-open-economy macroeconomic models with imperfect competition.

### Tutorials:

1. Problem Set 1: Intertemporal Trade, the current account, and savings.
2. Problem Set 2: Endogenous capital, adjustment costs, and productivity shocks. Harberger-Laursen Metzler effect and Obstfeld-Svensson-Razin effect.
3. Problem Set 3: Balassa-Samuelson effect and terms of trade shocks.
4. Problem Set 4: New-open-economy models.

### Assessment

Assessment for the module is based on a final exam accounting for 60% of the grade. In addition, students will hand in weekly problem sets making up the remaining 40%.

## Reading List

This list is incomplete and will be updated, note that I will upload all the required readings to blackboard.

### Textbooks:

Uribe, M. and Schmitt-Grohé, S., 2017. *Open economy macroeconomics*. Princeton University Press. (USG hereafter).

Obstfeld, M., Rogoff, K.S. and Wren-Lewis, S., 1996. *Foundations of international macroeconomics*. Cambridge, MA: MIT press. (OR hereafter).

### Lecture 1.

OR Chapter 1.

Schmitt-Grohe, S. and Uribe, M. 2010. International Macroeconomics Draft. [Online] Available: <https://m.tau.ac.il/~razin/URIBEINTERNATIONALNOTES.pdf> [Accessed 31/01/2020].

Obstfeld, M. 2012. Does the current account still matter?. *American Economic Review*, 102(3):1-23.

International Monetary Fund. 2009. Balance of payments and international investment position manual 6<sup>th</sup> edition.

### Lecture 2.

USG chapters, 1, 3.1-3.4, 4.1, 4.3-4.5, and 4.7-4.8.

Clarida, R.H., 2006. G7 current account imbalances: sustainability and adjustment (No. w12194). National Bureau of Economic Research.

Obstfeld, M. and Rogoff, K., 2007. The unsustainable US current account position revisited. In G7 current account imbalances: Sustainability and adjustment (pp. 339-376). University of Chicago Press.

### Lecture 3.

OR chapters 4-4.2 and pages 227-228.

USG chapters 7.5-7.7, 7.8. 8.4., and 8.6.

Mendoza, E.G., 2005. *Real exchange rate volatility and the price of nontradables in sudden-stop-prone economies* (No. w11691). National Bureau of Economic Research.

### Lecture 4.

OR chapters 8.3 and 10.2.