

National Taiwan University  
College of Management  
724 D6020  
**International Economics**  
**Very Preliminry**

陳思寬  
Room 815

Spring 2009  
3366-4986

Background Texts:

Dornbusch, R., *Open Economy Macroeconomics*, New York, Basic Books, 1980.

Grossman, G. M. and K. Rogoff (Eds.), *Handbook of International Economics* Vol. III, Amsterdam: North-Holland, 1995. (HBGR)

Jones, R.W. and P.B. Kenen (Eds.), *Handbook of International Economics* Vol. II., Amsterdam, North-Holland, 1985. (HBJK)

Krugman, P. and M. Obstfeld, *International Economics: Theory and Policy*, 8<sup>th</sup> edition, New York: HarperCollins College Publishers, 2009.

Mark, N. C., *International Macroeconomics and Finance: Theory and Econometric Methods*, Blackwell Publishers, 2001.

Obstfeld, M. and A. M. Taylor, *Global Capital Markets: Integration, Crisis, and Growth*, Cambridge University Press, 2004.

Course text:

Obstfeld, M. and K. Rogoff, *Foundations of International Macroeconomics*, Cambridge, Mass.: M. I. T. Press, 1996. (FIM)

1. The Intertemporal Models of the Current Account

1.1 Theoretical Framework

Obstfeld-Rogoff, (FIM), chapters 1—2 (Ch 1.1, 1.3; Ch 2.1, 2.2).

Obstfeld, M. and K. Rogoff, "The Intertemporal Approach to the Current Account," (HBGR), chapter 34.

Dornbusch, R. (1983), "Real Interest Rates, Home Goods, and Optimal External Borrowing," *Journal of Political Economy* **91**, 141—153.

Obstfeld, M. and K. Rogoff, "The Intertemporal Approach to the Current Account," (HBGR), chapter 34.

Kraay, A. and J. Ventura (2000), "Current Accounts in Debtor and Creditor Countries," *Quarterly Journal of Economics*, November.

Sachs, J. (1981), "The Current Account and Macroeconomic Adjustment in the 1970s," *Brookings Papers on Economic Activity* **1**, 201—282.

## 1.2 Empirical Issues

Bergin, P. R. and S. Sheffrin (2000), "Interest Rates, Exchange Rates and Present Value Models of the Current Account," *The Economic Journal* **110**, 535—558.

Ghosh, A. R. (1995), "International Capital Mobility Among the Major Industrialized Countries: Too Little or too Much?" *The Economic Journal* **105**, 107—128.

Gruber, J. W. (2004), "A Present Value Test of Habit and the Current Account," *Journal of Monetary Economics* **51**, 1497—1507.

Nason, J. M. and J. H. Roger (2006), "The Present Value Model of the Current Account Has Been Rejected: Round up the Usual Suspects?" *Journal of International Economic* **68**, 159—187.

Sheffrin, S. and W. T. Woo (1990), "Present Value Tests on an Intertemporal Model of the Current Account," *Journal of International Economics* **29**, 237—253.

Campa, J. M. and A. Gavilan (2006), "Current Accounts in the Euro Area: An Intertemporal Approach," working paper.

## 2. The Saving and Investment Puzzle

Feldstein, M. and C. Horioka (1980), "Domestic Savings and International Capital Flows," *Economic Journal* **90**, 314—329..

Tesar, L. (1991), "Savings, Investment and International Capital Flows," *Journal of International Economics* **31**, 55-78.

Baxter, M. and M. Crucini (1993), "Explaining Saving-Investment Correlations," *American Economic Review* **83**, 416—436.

Fionn, M. (1990), "On Savings and Investment Dynamics in a Small Open Economy," *Journal of International Economics* **29**, 1—21.

Glick, R. and K. Rogoff (1995), "Global Versus Country-Specific Productivity Shocks and the Current Account," *Journal of Monetary Economics* **35**, 159—192.

Nason, J. M. and J. H. Roger (2002), "Investment and the Current Account in the Short Run and the Long Run," *Journal of Money Credit and Banking* **34**, 967—986.

## 3. Risk Sharing and International Real Business Cycles

Obstfeld-Rogoff, (FIM), chapter 5.

French, K. R. and J. M. Poterba (1991), "Investor Diversification and International Equity Markets," *American Economic Review* **81**, 222—226.

Tesar, L. L. and I. M. Werner (1995), "Home Bias and High Turnover," *Journal of International Money and Finance* **14**, 467—492. Lews, K. K. (1999), "Trying to Explain

Home Bias in Equities and Consumption,” *Journal of Economic Literature* **37**, 571—608.

Baxter, M. and U. Jerman (1997), “The International Diversification Puzzle Is Worse Than You Think,” *American Economic Review* **87**, 170—180.

Cole, H. L. and M. Obstfeld (1991), “Commodity Trade and International Risk Sharing: How Much do Financial Markets Matter?” *Journal of Monetary Economics* **28**, 3—24.

Kollmann, R. (2006), “International Portfolio Equilibrium and the Current Account,” working paper.

Devereux, M. and A. Sutherland (2006), “Solving for Country Portfolios in Open Economy Macro Models,” working paper.

Van Wincoop, E. and C. Tille (2007), “International Capital Flows,” *NBER Working Paper* **12856**.

#### 4. International Real Business Cycles

Obstfeld-Rogoff, (FIM), chapter 7.4.

Mendoza, E. G. (1991), “Real Business Cycles in a Small Open Economy,” *American Economic Review* **81**, 797—818.

Backus, D. K., P. J. Kehoe and F. E. Kydland (1992), “International Real Business Cycles,” *Journal of Political Economy* **100**, 745—775.

Canova, F. and H. Dellas (1993), “Trade Interdependence and the International Business Cycle,” *Journal of International Economics* **34**, 23—47.

Stockman, A. C. and L. L. Tesar (1995), “Tastes and Technology in a Two-Country Model of the Business Cycle: Explaining International Comovements,” *American Economic Review* **85**, 168—185.

Baxter, M. and M. Crucini (1995), “Business Cycles and the Asset Structure of Foreign Trade,” *International Economic Review* **36**, 821—854.

Kollmann, R. (1996), “Incomplete Asset Markets and the Cross-Country Consumption Correlation Puzzle,” *Journal of Economic Dynamics and Control* **20**, 945—961.

Burstein, A., C. Kurz and L. Tesar (2005), “Trade, Production Sharing and the International Transmission of Business Cycles,” working paper.

#### 5. Nominal Exchange Rate Determination

Obstfeld-Rogoff, (FIM), chapter 8.1—8.3.

Taylor, A. M. and M. P. Taylor (2004), “The Purchasing Power Parity Debate,” *Journal of Economic Perspectives* **18**, 135—158.

Engel, C. and K. West (2005), “Exchange Rates and Fundamentals,” *Journal of Political Economy* **113**, 485—517.

MacDonald, R. (1995), “Long-Run Exchange Rate Modeling: A Survey of the Recent

Evidence,” *IMF Staff Paper*.

Dornbusch, R. (1976), “Expectations and Exchange Rate Dynamics,” *Journal of Political Economy*.

Frenkel, J. A., and C. A. Rodriguez (1982), “Exchange Rate Dynamics and the Overshooting Hypothesis,” *IMF Staff Papers*.

Rogoff, K. (2002), “Dornbusch’s Overshooting Model after 25 Years,” *IMF Staff Papers* **49** (Special Issue), 1—34.

Taylor, M. (1995), “The Economics of Exchange Rates,” *Journal of Economic Literature*.

Stockman, A. C. (1980), “A Theory of Exchange Rate Determination,” *Journal of Political Economy* **88**, 673—698.

Lucas, R. E. (1982), “Interest Rates and Currency Prices in a Two-Country World,” *Journal of Monetary Economics* **10**, 335—359.

Bacchetta, P. and E. van Wincoop, (2006), “Can Information Heterogeneity Explain the Exchange Rate Determination Puzzle?” *American Economic Review*.

Meese R. and K. Rogoff (1983), “Empirical Exchange Rate Models of the Seventies,” *Journal of International Economics* **14**, 3—24.

Mark, N. (1995), “Exchange Rates and Fundamentals: Evidence on Long-Horizon Predictability,” *American Economic Review* **85**, 201—218.

Cheung, Y-W, M. Chinn and A. Pascual, “Empirical Exchange Rate Models of the Nineties: Are Any Fit to Survive?” *Journal of International Money and Finance* **24**, 1150—1175.

## 6. Real Exchange Rates

Obstfeld-Rogoff, (FIM), chapter 4.

Imbs, J., H. Mumtaz, M. O. Ravn, and H. Rey, “PPP Strikes Back: Aggregation and the Real Exchange Rate,” *Quarterly Journal of Economics* **120**, 1—44.

Lothian, J. and M. Taylor (2006), “Real Exchange Rates over the Past Two Centuries: How Important is the Harrod-Balassa-Samuelson Effect?” working paper.

Lothian, J. and M. Taylor (1996), “Real Exchange Rate Behavior: The Recent Float from the Perspective of the Past Two Centuries,” *Journal of Political Economy* **104**, 488-509.

Burstein, A. M. Eichenbaum and S. Rebelo (2005), “Large Devaluations and the Real Exchange Rate,” *Journal of Political Economy* **113**, 742—784.

Baxter, M. (1994), “Real Exchange Rates and Real Interest Differentials,” *Journal of Monetary Economics*.

Dornbusch, R. (1988), “Real Exchange Rates and Macroeconomics: A Selective Survey,” *NBER Working Paper* 2775.

Edison, H.J., and B. D. Pauls (1993), “A Re-assessment of the Relationship between Real

Exchange Rates and Real Interest Rates: 1974-1990,” *Journal of Monetary Economics*.  
Engel, C. (1999), “Accounting for U.S. Real Exchange Rate Changes,” *Journal of Political Economy*.

#### 7. New Open Economy Macroeconomic Models

Lane, P., “The New Open Economy Macroeconomics: A Survey,” *Journal of International Economics*, 2001.

Obstfeld-Rogoff, (FIM), chapter 10.

Mark, chapter 9.

Bowman, D., and B. M. Doyle (2003), “New Keynesian, Open-Economy Models and Their Implications for Monetary Policy,” *International Finance Discussion Papers 762*, Board of Governors of the Federal Reserve System, March.

Chari, V. V., P. Kehoe, and E. McGrattan (2002), “Can Sticky Price Models Generate Volatile and Persistent Real Exchange Rates?” *Review of Economic Studies* **69**, 533--63.

Corsetti, G. and P. Pesenti, “The Simple Geometry of Transmission and Stabilization in Closed and Open Economy,” NBER Working Paper 11341.

Devereux, M. and C. Engel (2003), “Monetary Policy in the Open Economy Revisited: Price Setting and Exchange Rate Flexibility,” *Review of Economic Studies* **70**, 765--783.

Schmitt-Grohe, Stephanie and Martin Uribe (2003), “Closing small open economy models,” *Journal of International Economics* **61**, pp. 163-185

Obstfeld, Maurice and Kenneth Rogoff (2000), “New directions for stochastic open economy models,” *Journal of International Economics* **50**, pp. 117-153

Devereux, M. B., C. Engel, and P. E. Storgaard (2003), “Endogenous Exchange Rate Pass-Through When Nominal Prices are Set in Advance,” *NBER Working Paper 9543*.

Duarte, M., and M. Obstfeld, “Monetary Policy in the Open Economy Revisited: The Case for Exchange-Rate Flexibility Restored,” Manuscript, October 2004.

Obstfeld, M. and K. Rogoff, “Exchange Rate Dynamics Redux,” *Journal of Political Economy* **103**, pp. 624--660, 1995.

See also Brian Doyle’s New Open Economy Macroeconomics Homepage.

#### 8. The Microstructure Approach to Exchange Rates (If time permits)

Evans, M. and R. Lyons (2002), “Order Flow and Exchange Rate Dynamic,” *Journal of Political Economy* **110**, 110—180.

Evans, M. and R. Lyons (2004), “Exchange-Rate Fundamentals and Order Flow,” mimeo, U.C. Berkeley and Georgetown University.

Evans, M. and R. Lyons (2004), “A New Micro Model of Exchange Rates, *NBER Working Paper 10379*.

Evans, M. and R. Lyons (2005), “Meese-Rogoff Redux: Micro-Based Exchange-Rate

Forecasting,” *American Economic Review Papers and Proceedings* **95**, 405—414.

Evans, M. and R. Lyons (2005), “Understanding Order Flow, *NBER Working Paper* **11748**.

Lyons, R.(2001), *The Microstructure Approach to Exchange Rates*, MIT Press.