

Economics 342: International Macroeconomics

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Perhaps more than ever before, an international perspective is required to address the fundamental questions of macroeconomics. What determines the level of economic activity in an economy? What determines the pace of economic growth? What are the effects of monetary and fiscal policy? An international perspective not only improves understanding of these familiar questions, but it also allows one to consider important new questions. For instance, why do some countries run trade deficits or surpluses? Should such imbalances concern policy makers? Why do some countries encounter financial crises? What is the proper response to these crises?

Further, countries differ a great deal in terms of their exposure to the international economy, their level of economic development, their size, and their institutions. These differences are important for understanding how their economies function as well as the likely effects of macroeconomic policies.

In this course, we will build a framework that allows us to address the many interesting questions of international macroeconomics. In this context, several important topics will be discussed, including the following.

- What role do monetary and fiscal policy have in open economies?
- Is there a need for new international financial institutions?
- What are the merits of European Monetary Union?
- What are the tradeoffs between fixed and flexible exchange rates?
- What can account for financial crises?

Reading: You should purchase Krugman and Obstfeld, 10th edition. Substantial additional material will come from other sources on reserve. When possible, materials are on e-reserve, but a few readings are only available as hard copies.

Office Hours: I will hold regular office hours on Wednesdays from 9:30 to 11 and on Fridays from 1:30 to 3. You can also reach me by email to schedule other times.

Requirements: Evaluation will be based on problem sets, a midterm exam, a final exam, a group presentation, and participation in discussion. Mark the following days in your calendar.

Midterm Exam:	October 17
Problem Sets Due:	September 19, October 3, November 7
Presentations:	November 14 and 26; December 5
Final Exam:	TBA (Do not book finals week travel before announcement.)

In fairness to other students, late assignments will be penalized at a rate of 5% per calendar day. Exceptions may be made in the event of unforeseen circumstances; these should be discussed with me at the earliest possible time.

Course Outline and Readings

Readings marked with an * are optional.

Introduction (September 3)

Rodrik, Dani. "How Far will International Economic Integration Go?" *Journal of Economic Perspectives*. 14 (1). Winter 2000. 177-186.

* Fischer, Stanley. "Globalization and Its Challenges." *American Economic Review*. May 2003. 1-30.

National Income Accounting and the Balance of Payments (September 5)

Krugman and Obstfeld, c.13

Intertemporal Trade and the Current Account (September 10)

Krugman and Obstfeld, p. 135-138 and p. 142-144.

Sachs and Larrain. *Macroeconomics in the Global Economy*. Chapter 21, "Tradable and Nontradeable Goods."

Current Account Imbalances (September 15)

Note special Sunday class in lieu of Thursday class.

Yang, Dennis Tao. "Aggregate Savings and External Imbalances in China." *Journal of Economic Perspectives*. 26(4). Fall 2012. 125-146.

Blanchard and Milesi-Ferretti. 2012. "(Why) Should Current Account Balances Be Reduced?" *IMF Economic Review*.

"More Spend, Less Thrift." *The Economist*. 3 September 2016.

["Germany's Current Account Surplus is a Problem."](#) *The Economist*. 11 February 2017.

Exchange Rates and Money (September 17, 19, and 24)

Krugman and Obstfeld, c. 14, 15

"Currencies: Money Changers at Bay." *The Economist*. 7 February 2015.

["Donald Trump and the Dollar Standard."](#) *The Economist*. 9 February 2017.

Eichengreen, Barry. "Does the Federal Reserve Care about the Rest of the World?" *Journal of Economic Perspectives*. Fall 2013. 27(4). 87-104.

Rogoff, Kenneth, "Perspectives on Exchange Rate Volatility," in *International Capital Flows*, Feldstein, Martin, ed.1999, 441-53.

* Maggiori, Matteo et al. 2019. "The Rise of the Dollar and the Fall of the Euro as International Currencies." *American Economic Review*. May. 521-526.

* Froot, Kenneth and Thaler, Richard. "Anomalies: Foreign Exchange". *Journal of Economic Perspectives*. Summer 1990. 179-192.

Prices and Exchange Rates in the Long Run (September 26)

Krugman and Obstfeld, c.16

“[Pick of the Menu](#): the Big Mac index shows currencies are very cheap against the dollar.” 2019. *The Economist*. 12 January.

See [interactive tool and data](#).

Davies, Gavyn. 2016. "Is There a New Plaza Accord?" *Financial Times*. April 24.

Allessandria, George and Joseph Kaboski. 2008. "Why are Goods So Cheap in Some Countries?" *Federal Reserve Bank of Philadelphia Business Review*. 2nd Quarter. 1-12.

* Taylor, Alan M. and Mark P. Taylor. 2004. "The Purchasing Power Parity Debate." *Journal of Economic Perspectives*. 18(4). 135-58.

Output and Exchange Rates in the Short Run (October 1, 3, and 8)

Krugman and Obstfeld, c.17

Romer, Christina D. and David H. Romer. "The Most Dangerous Idea in Federal Reserve History: Monetary Policy Doesn't Matter." *American Economic Review*. May 2013. 55-60.

“That Eighties Show.” *The Economist*. 19 November 2016.

* Krugman, Paul. "Exchange Rate Policy: the J-curve, the Fire Sale, the Hard Landing." *American Economic Review*. May 1989, 31-35.

Fixed Exchange Rates and Foreign Exchange Intervention (October 15 and 29)

Krugman and Obstfeld, c.18, pp 495-517

Midterm Exam: October 17

Fall Break: October 22 and 24

Currency and Financial Crises (October 31)

Krugman and Obstfeld, c.22, p.688-696.

Summers, Lawrence H. 2000. "International Financial Crises: Causes, Prevention, and Cures." *American Economic Review* 90. 1-16.

Krugman, Paul. "Crises: Nobel Lecture to the American Economic Association." January 2010.

* Romer, Christina. "Lessons from the Great Depression for Economic Recovery in 2009." March 2009.

* Gertler, Mark and Simon Gilchrist. 2018. "What Happened: Financial Factors in the Great Recession." *Journal of Economic Perspectives*. Summer. 3-30.

The International Monetary System in History (November 5)

Krugman and Obstfeld, c.18, p 518-526 and c. 19, p.538-567

Hume, David. "On the Balance of Trade." in Richard Cooper, ed. *International Finance*. Baltimore: Penguin Books, 1969.

J.M. Keynes. "The Economic Consequences of Mr. Churchill," in *Essays in Persuasion*. New York: W.W. Norton & Co. 1963.

* Temin, Peter. "Lecture 1." *Lessons from the Great Depression*. Cambridge: MIT Press, 1990.

* Cooper, Richard. "The Gold Standard: Historical Facts and Future Prospects." *Brookings Papers on Economic Activity*. 1982:1, 1-45.

Fixed v. Flexible (November 7 and 12)

Krugman and Obstfeld, c.19, p 568-587, p 594-596.

Krugman, Paul. *Exchange Rate Instability*. 1989. chapter 1: "The Case for Exchange Rate Flexibility."

Rose, Andrew. 2011. "Exchange Rate Regimes in the Modern Era: Fixed, Floating, and Flaky." *Journal of Economic Literature*. 49(3).

* Reinhart, Carmen. "The Mirage of Floating Exchange Rates." *American Economic Review*. 90 (2). May 2000. 65-70.

* Dornbusch, Rudi. "Fewer Monies, Better Monies." *American Economic Review*. 91(2). May 2001. 238-42.

* Calvo, Guillermo A. and Frederic S. Mishkin. 2003. "The Mirage of Exchange Rate Regimes for Emerging Market Countries." *Journal of Economic Perspectives*. 17(4). Fall. 99-118.

* Obstfeld, Maurice et al. 2018. "Global Financial Cycles and the Exchange Rate Regime: A Perspective from Emerging Markets." *American Economic Review*. May. 499-504.

Conference 1: Should An Emerging Economy Peg Its Currency? (November 14)

Krugman and Obstfeld, c.22, p.700-702.

"China's Currency: Squeezed to Life." *Economist*. 14 January 2017.

Eichengreen, Barry, and Andrew Rose. "27 Up: The Implications for China of Abandoning its Dollar Peg." June 2010.

McKinnon, Ronald and Gunther Schnabl. 2011. "China and its Dollar exchange rate: A worldwide stabilizing influence?" CESifo working paper No. 3449.

* Roubini, Nouriel. "Why China Should Abandon Its Dollar Peg." *International Finance*. 10:1, 2007: pp. 71-89.

* McKinnon, Ronald. "Why China Should Keep Its Dollar Peg." *International Finance*. 10:1, 2007: pp. 43-70.

* Eichengreen, Barry, and Mariko Hatase. "Can a Rapidly Growing Export-Oriented Economy Exit Smoothly from a Currency Peg? Lessons from Japan's High-Growth Era". *Explorations in Economic History*. 44(3). 2007. 501-521.

European Monetary Union (November 19 and 21)

Krugman and Obstfeld, c.21

Browse [EU web](#) site and within, [the Euro](#) site; also, the [European Central Bank](#) site.

O'Rourke, Kevin H. and Alan M. Taylor. "Cross of Euros" *Journal of Economic Perspectives*. Summer 2013. 27(3). 167-191.

Rose, Andrew, and Reuven Glick. 2016. "[Currency Unions and Trade: A post EMU Assessment](#)." March.

* "[Creaking at 60: The Future of the European Union](#)" *The Economist*. 23 May 2017.

* Alesina, Alberto et al. 2017. "Is Europe an Optimal Political Area?" *Brookings Papers on Economic Activity Conference Drafts*. March.

* Lane, Philip. 2012. "The European Sovereign Debt Crisis." *Journal of Economic Perspectives*. 26(3). 49-68.

* De Grauwe, Paul and Yuemei Ji. 2018. "[Core-Periphery Relations in the Eurozone](#)." *The Economists' Voice*. 15(1). December.

Conference 2: Should Greece Have Left the Euro? (November 26)

"[Another Round](#) in the Grexit Saga." *The Economist*. 18 February 2017.

"Tired of Syriza, Greece Embraces a Mainstream Party." *Economist*. 3 December 2016.

"How Greece Might avoid a Grexit". *Economist*. 5 January 2015.

"Greece and the Euro: Crisis Revisited." *Economist*. 14 December 2014.

"On the Edge." *Economist*. 21 September 2013.

"Is Grexit Good for the Euro?" *Economist*. 16 June 2012.

Soros, George. "The Tragedy of the European Union and How to Resolve It." *New York Review of Books*. 27 September 2012.

[Vox CEPR Policy Portel Debate on Austerity](#). 2012.

Weisbrot and Montecino. "More Pain, No Gain for Greece: Is the Euro Worth the Costs of Pro-Cyclical Fiscal Policy and Internal Devaluation?" CEPR. February 2012.

Malinen, Tuomas et al. 2018. "[How to Leave the Eurozone: The Case of Finland](#)." *The Economists' Voice*. 15(1). December.

*Stiglitz, Joseph. 2016. *The Euro*. Norton.

Proposals for International Reform (December 3)

Krugman and Obstfeld, c.22, p.696-700, p.703-708.

Eichengreen, Barry and Ngaire Woods. Winter 2016. "The IMF's Unmet Challenges." *Journal of Economic Perspectives*. 30(1). 29-52.

* Reinhart and Trebesch. Winter 2016. "The International Monetary Fund: 70 Years of Reinvention." *Journal of Economic Perspectives*. 30(1). 3-28.

* Chamley and Pinto. 2011. "Why Official Bailouts Tend Not to Work: An Example Motivated by Greece 2010." *The Economists' Voice*. February. 1-5.

Conference 3: Is Capital Too Mobile? (December 5)

Eichengreen, Barry. 2016. "Rethinking Capital Controls." Milken Institute Review. 15 July.

Williamson, John. 2005. "The Case for Capital Mobility." ch. 3 of *Curbing the Boom-Bust Cycle: Stabilizing Capital Flows to Emerging Markets*. Washington: IIE Press.

Stiglitz, Joseph. 2010. "Risk and Global Economic Architecture: Why Full Financial Integration May Be Undesirable." *American Economic Review*. 100(2). 388-392.

* "Special Report: World Economy." *The Economist*. 12 October 2013. See esp. p.3-12.

* DeLong, J.B. 2004. "Should We Support Untrammelled International Capital Mobility? Or are Capital Controls Less Evil than We Believed?" *Economists' Voice*. 1-7.

* Ghosh, Atish, Jonathan Ostry, and Mahvash Qureshi. 2016. "[When Do Capital Inflow Surges End in Tears?](#)" *American Economic Review*. May. 581-585.

* Tobin, James. "A Proposal of International Monetary Reform." *Eastern Economic Journal*. July/October 1978. 4(3-4) 153-9.

Developing Countries and Debt (December 10)

Krugman and Obstfeld, c.22, p.670-688.

"[Countries Rarely Default on Their Debts](#)". *The Economist*. 19 December 2017.

Arslanalp, S. and P. B. Henry. 2006. "Policy Watch: Debt Relief." *Journal of Economic Perspectives*. 20(1). 207-22.

Reinhart and Rogoff. 2010. "Growth in a Time of Debt." *American Economic Review*. 100(2). 573-578.