

International Macroeconomics

SYLLABUS

Course 2016-17

Part A

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This course is an introduction to some of the main topics in international macroeconomics. The syllabus is ambitious for a two-day course. We will therefore avoid too much formalization or modeling. Chances are we will drop on or two topics from the reading list anyway, but we will certainly cover the last two topics as an application of the course's material.

Textbook:

- Krugman, Obstfeld und Melitz (2012): *Internationale Wirtschaft*, 9. Auflage, Pearson. **(KOM)**

(With a few exceptions, most topics are covered in all editions of this book in almost identical ways, but the numbering of chapters may differ between editions. Previous editions of KOM are authored by Krugman and Obsfeld only.)

Readings:

I. Introduction

- KOM: Chapter 1

II. Asset trade: international borrowing and lending, and international portfolio diversification

- KOM: Chapters 6 and 21

III. Asset markets and the exchange rate

- KOM: Chapters 14 and 15

IV. Prices and exchange rates in the long run

- KOM: Chapter 16.

V. Output and the exchange rate in the short run

- KOM: Chapter 17

VI. Exchange rate regimes and currency crises

- KOM: Chapters 18-20, including appendix to chapter 18
- Barry Eichengreen (2001): "Managing Financial Crises," manuscript, UC Berkeley.
- Paolo Pesenti and Cédric Tille (2000): "The Economics of Currency Crises and Contagion: An Introduction," Federal Reserve Bank of New York Economic Policy Review, September.

VII. The Sub-prime crisis

- Markus Brunnermeier (2009): "Deciphering the Liquidity and Credit Crunch 2007-2008," Journal of Economic Perspectives, Vol. 23(1).
- John Geanakoplos (2014): "Leverage, Default, and Forgiveness: Lessons from the American and European Crises," Journal of Macroeconomics, Vol. 39, pp. 313-333-
- Joseph E. Stiglitz (2009): "The Financial Crisis of 2007/2008 and its Macroeconomic Consequences," Initiative for Policy Dialogue Working Paper Series, April.

VIII. The Euro-area crisis

- Jesús Fernández-Villaverde, Luis Garicano and Tano Santos (2013): "Political Credit Cycles: The Case of the Euro Zone," NBER Working Paper 18899.
- Daniel Gros (2011): "External versus Domestic Debt in the Euro Crisis," CEPS Policy Brief No. 243, May.
- Daniel Gros (2011): "Speculative Attacks within or outside a Monetary Union: Default versus Inflation (what to do today)," CEPS Policy Brief No. 257, November.
- Paul R. Krugman (2011): "Can Europe Be Saved?" The New York Times Magazine, January 12th 2011.
- Maurice Obstfeld (2013): "Finance at Center Stage: Some Lessons of the Euro Crisis," manuscript, UC Berkeley.
- Jean Pisani-Ferry (2012): "The Euro Crisis and the New Impossible Trinity," Bruegel Policy Contribution.
- Jay C. Shambaugh (2012): "The Euro's Three Crises," Brookings Papers on Economic Activity, Spring, pp 157-211.

Part B

Topic 1B. Ricardian equivalence

- 1.1. The Government Budget Constraint.
- 1.2 . Ricardian Equivalence.
- 1.3 Non-infinite life households.
- 1.4 The importance of the credit market.
- 1.4 Uncertainty and precautionary savings.

Topic 2B. Fiscal multipliers

- 2.1. Ricardian equivalence and fiscal multipliers.
- 2.2 Fiscal policy at the zero lower bound.
- 2.3 Desinflation and aggregate supply shocks at the zero lower bound.

- 2.4 Fiscal policy and the labour market.
- 2.5. Empirical evidence.

Topic 3B. Debt crisis

- 3.1. Optimal deficits.
- 3.2. Excessive deficits.
- 3.3 Empirical evidence.
- 3.4 The cost of deficits.
- 3.5 Fiscal limit
- 3.6 A model of debt crisis.

Topic 4B. Deleveraging and fiscal policy

- 4.1. Debt in an endowment economy
- 4.2 The effect of a deleveraging shock
- 4.4 The simplified General Equilibrium model
- 4.5 Some paradoxical implications
- 4.6 Monetary Policy
- 4.7 Fiscal Policy

Topic 5B. A model of household debt

- 5.1. Empirical Evidence
- 5.2. The Model
- 5.3. Calibration
- 5.4 Government spending shock: results.
- 5.5. Fiscal policy and household leverage.
- 5.6. Indebted households versus Rule of Thumb consumers.
- 5.7. Household leverage and other fiscal strategies.
- 5.8. Fiscal policy and differences in net worth composition.

References:

- ✓ Blanchard and Perotti (2002, QJE).
- ✓ Cogan, Cwik, Taylor and Wieland (2010, JECD&C).
- ✓ Galí, Vallés and López-Salido (2007. JEEA).
- ✓ Ramey (2011, JEL).
- ✓ Uhlig (2010, AER P&P).
- ✓ Barro (1979, JPE).
- ✓ Buchanan and Wagner (1977). Democracy in Debt: The Political Legacy of Lord Keynes.
- ✓ Hagen and Wolfrum (2004, Bundesbank).
- ✓ Hsieh (2000, EER).
- ✓ Romer: Advanced Macroeconomics 4th Ed. Chapter 12.
- ✓ Roubini and Sachs (1989, EER).
- ✓ Eggertsson and Krugman (2012, QJE).
- ✓ Andrés, Boscá, and Ferri (2015, Economica).

GRADING

Global grading is the sum of partial marks in the following tasks:

- Presentation of one research paper from the reference list (10% of the total mark)
- Two tutorials implying some matlab programming (20% of the total mark)
- A final exam (70% of the total mark)