

Open economy macroeconomics

takes place during summer terms

Lecture: V. Hahn, Tutorial: t.b.a.

overall grades are based on a tutorial assignment, a short presentation, and the final exam

Objectives

Students have an overview over fundamental relationships related to the balance of payments and exchange rates. They know different approaches to exchange-rate determination and their relative merits. They are able to discuss issues concerning exchange-rate policies, exchange-rate regimes (in particular, monetary unions), global imbalances and financial crises. Students are in a position to form their own, well-founded views on these topics. They can develop simple microfounded models to address issues in International Macroeconomics.

Prerequisites

good understanding of basic Microeconomics (normal goods, homothetic preferences, solving utility maximization problems and profit maximization problems mathematically, competitive equilibria), knowledge of fundamental concepts in Macroeconomics helpful but not strictly necessary (GDP, current account balance, inflation, ...)

Syllabus

1. the balance of payments: definitions and accounting identities
2. current account determination in endowment economies
3. current account determination in economies with production
4. welfare implications of capital mobility
5. case studies: reasons for observed current account imbalances; potential remedies; twin deficits
6. exchange rates and interest rates: PPP and violations thereof, the Balassa-Samuelson effect, measures of the degree of capital mobility, the Feldstein-Horioka puzzle, the term structure of interest rates

7. TNT model: the determination of real exchange rates in a model with tradable goods and non-tradable goods; the relationship between real interest rates, the trade balance and real exchange rates
8. The monetary approach to exchange rate determination
9. Dornbusch overshooting
10. Exchange Rate Regimes
11. Currency Crises: first-generation, second-generation, and third-generation models
12. Monetary unions

Literature

- Main reference: "International Macroeconomics," lecture notes, Stephanie Schmitt-Grohe, Martin Uribe, Michael Woodford <http://www.columbia.edu/~mu2166/UIM/index.html>.
- Charles Van Marrewijk, Daniel Ottens, Stephan Schueller, "International Economics: Theory, Application, and Policy," Oxford University Press.
- Paul R. Krugman, Maurice Obstfeld, Marc Melitz, International Economics: Theory and Policy, Prentice Hall.

Further information on literature that is useful for some topics will be given in the lecture.