

SYLLABUS

Readings:

The (optional) textbook for this course is:

M. Obstfeld and K. Rogoff, *Foundations of International Macroeconomics*. MIT Press, 1996.

Copies of some of the other readings will be available on my web site:
<http://www.econ.umn.edu/~tkehoe>

Office Hours:

Wednesday, 9:00 am - 11:00 am (There is a sign-up sheet on my door.)

Walter W. Heller Hall 1168 625-1589 (Please do not call me at home; send me e-mail at tkehoe@atlas.socsci.umn.edu.)

Assignments:

There will be three problem sets, a group project, and a final exam. All assignments must be completed in order to receive a final grade for the course.

Grading:

The mark for each problem set and for the group project will be counted once and the mark for the exam will be counted twice, providing a total of seven marks. The lowest of these marks will be dropped and the remaining marks averaged. Notice that this means that, if the lowest grade is that of the exam, its weight will be halved, but it will not be completely dropped.

Group Project:

On Monday, 17 September, students will form groups to work on projects. Each group will consist of two, three, or four students. Topics for projects will be related to empirical issues in international economics, such as empirical tests of the Heckscher-Ohlin model, or to issues of current policy relevance, such as the costs and benefits of

dollarization. Each group will make a one hour presentation of its research at the end of the course.

Late Policy:

Any late assignment will be penalized 10 (out of 100) points for each class period it is late, up to a maximum of 40 points.

Cooperation on Assignments:

Students are permitted (and encouraged) to discuss the answers to problem sets together. Copying from another student's answers is not allowed.

CLA Guidelines for Defining Scholastic Dishonesty:

"Scholastic dishonesty is any act that violates the rights of another student with respect to academic work or that involves misrepresentation of a student's own work. Scholastic dishonesty includes (but is not limited to) cheating on assignments or examinations, plagiarizing (misrepresenting as one's own anything done by another), inventing or falsifying research or other findings with an intent to deceive, submitting the same or substantially similar papers for more than one course without consent of all instructors concerned, depriving another of necessary course materials, sabotaging another's work." (p. 12, *CLA Classroom, Grading & Examination Procedures, 2001-2002.*)

List of Topics:

1. Increasing Returns and Imperfect Competition

E. Helpman, "Increasing Returns, Imperfect Markets, and Trade Theory," in R.W. Jones and J. P. Neary, editors, *Handbook of International Economics*, vol. 1. Amsterdam: North-Holland, 1984, 325-365.

E. Helpman and P. R. Krugman, *Market Structure and Foreign Trade: Increasing Returns, Imperfect Competition, and the International Economy*. MIT Press, 1985.

J. Markusen, "Explaining the Volume of Trade: An Eclectic Approach," *American Economic Review*, 76 (1986), 1002-1011.

2. Dynamic Trade

G. M. Grossman and E. Helpman, *Innovation and Growth in the Global Economy*. MIT Press, 1991.

Obstfeld and Rogoff, Chapters 4 and 5.

H. Uzawa, "Optimal Growth in a Two-Sector Model of Capital Accumulation," *Review of Economic Studies*, 31 (1964), 1-24.

J. Ventura, "Growth and Interdependence," *Quarterly Journal of Economics*, 112 (1997), 57-84.

A. Young, "Learning by Doing and the Dynamic Effect of International Trade," *Quarterly Journal of Economics*, 106 (1991), 369-406.

3. Empirical Evidence

D. K. Backus, P. J. Kehoe and T. J. Kehoe, "In Search of Scale Effects in Trade and Growth," *Journal of Economic Theory*, 58 (1992), 377-409.

R. Bergoening and T. J. Kehoe, "Trade Theory and Trade Facts," Federal Reserve Bank of Minneapolis, Staff Report 284, 2001.

A. V. Deardorff, "Testing Trade Theories and Predicting Trade Flows," in R. W. Jones and P. B. Kenen, editors, *Handbook of International Economics*, vol.1, North-Holland, 1984, 467-517.

D. Hummels and J. Levinsohn, "Monopolistic Competition and International Trade: Reconsidering the Evidence," *Quarterly Journal of Economics*, 110 (1995), 799-836.

K.-M. Yi, "Can Vertical Specialization Explain the Growth of World Trade?" Federal Reserve Bank of New York, Staff Report 96, 1999.

4. Real Exchange Rates

G. Alessandria, "International Relative Price Volatility and Intranational Price Dispersion," Ohio State University, unpublished manuscript, 2001.

C. M. Betts and T. J. Kehoe, "Tradability of Goods and Real Exchange Rate Fluctuations," Federal Reserve Bank of Minneapolis, unpublished manuscript, 2001.

C. M. Betts and M. B. Devereux, "Exchange Rate Dynamics in a Model of Pricing-to-Market," *Journal of International Economics*, 50 (2000), 215-244.

V. V. Chari, P. J. Kehoe, and E. R. McGrattan, "Can Sticky Price Models Generate Volatile and Persistent Real Exchange Rates?" Federal Reserve Bank of Minneapolis, Staff Report 277, 2001.

M. Crucini, C. Telmer, and M. Zachariadis "Understanding European Real Exchange Rates," Vanderbilt University, unpublished manuscript, 2001.

C. Engel, "Accounting for U.S. Real Exchange Rate Changes," *Journal of Political Economy*, 107 (1999), 507-538.

G. Fernandez de Cordoba and T. J. Kehoe, "Capital Flows and Real Exchange Rate Fluctuations Following Spain's Entry into the European Community," *Journal of International Economics*, 51 (2000), 49-78.

Obstfeld and Rogoff, Chapters 8, 9, 10.

S. Rebelo and C.A. Vegh, "Real Effects of Exchange Rate-Based Stabilization: An Analysis of Competing Theories," in B. S. Bernanke and J. J. Rotemberg, editors, *NBER Macroeconomics Annual 1995*. The MIT Press, 1995, 125-174.

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

5. Capital Flows and Crises

H. L. Cole and T. J. Kehoe, "A Self-Fulfilling Model of Mexico's 1994-95 Debt Crisis," *Journal of International Economics*, 41 (1996), 309-330.

H. L. Cole and T. J. Kehoe, "Self-Fulfilling Debt Crises," *Review of Economic Studies*, 67 (2000), 91-116.

P. R. Krugman, "Are Currency Crises Self-Fulfilling?" in B. S. Bernanke and J. J. Rotemberg, editors, *NBER Macroeconomics Annual 1996*. The MIT Press, 1996, 345-378.

M. Obstfeld, "Models of Currency Crises with Self-Fulfilling Features," *European Economic Review*, 40 (1996), 1037-1048.

Obstfeld and Rogoff, Chapters 5, 6, 7.