

SYLLABUS

Readings:

The 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 on sale at Copies on Campus in the basement of the Social Sciences Tower (students will be told when these are available).

Office Hours:

Wednesday 9:00 am - 12:00 noon (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 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 will be counted once, and the mark for the exam will be counted twice, providing a total of five 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.

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), 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. 10, *CLA Classroom, Grading & Examination Procedures. 1999-2000.*)

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 Review 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. Bergoeing and T. J. Kehoe, "Trade Theory and Trade Facts."

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.

4. Real Exchange Rates

C. M. Betts and T. J. Kehoe, "Tradability of Goods and Real Exchange Rate Fluctuations."

C. M. Betts and M. B. Devereux, "The Exchange Rate in a Model of Pricing to Market," *European Economic Review*, 40 (1996), 1007-1021.

V. V. Chari, P. J. Kehoe, and E. R. McGrattan, "Monetary Shocks and Real Exchange Rates in Sticky Price Models of International Business Cycles," Staff Report 223, Federal Reserve Bank of Minneapolis, December 1996.

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."

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," Federal Reserve Bank of Minneapolis Research Department Staff Report 211.

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.