

SYLLABUS

This is the second half of the course whose first half has been taught by Fernando A. Broner.

Course Description:

We economists traditionally divide the general field of International Economics into two subfields: International Finance and International Trade. In this course we begin by ignoring this division. We will start by studying models from International Trade — the Ricardian model and the Heckscher-Ohlin model. By emphasizing dynamic general equilibrium versions of these models, we will develop tools compatible with modern, general equilibrium macroeconomics. We specifically focus on the question of whether trade liberalization leads to increased economic growth. We then turn to more traditional topics in international finance, investigating the causes of real exchange rate fluctuations and the causes of the sharp real output drop that occurred in Argentina during its recent financial crisis.

Readings:

Copies of most of the readings will be available on the course web site:
<http://www.econ.umn.edu/~tkehoe/classes/upf-05>.

Assignments:

There will be three problem sets. There will also be a final exam.

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 group project or of the exam, its weight will be halved, but it will not be completely dropped.

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.

Topics and Readings

1. Trade and Growth I: Specialization and Learning by Doing

R. Dornbusch, S. Fischer, and P. A. Samuelson, "Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods," *American Economic Review*, 67 (1977), 823-839.

C. A. Wilson, "On the General Structure of Ricardian Models with a Continuum of Goods: Applications to Growth, Tariff Theory, and Technical Change," *Econometrica*, 48 (1980), 1675-1702.

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

2. Trade and Growth II: Specialization and Capital Accumulation

C. Bajona and T. J. Kehoe, "On Dynamic Heckscher-Ohlin Models I: General Framework and Overlapping Generations," University of Minnesota, 2004.

C. Bajona and T. J. Kehoe, "On Dynamic Heckscher-Ohlin Models II: Infinitely-Lived Consumers," University of Minnesota, 2004.

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

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

3. Capital Flows and Real Exchange Rate Fluctuations

R. Bems and K. Jonsson, "Trade Deficits in the Baltic States: How Long Will the Party Last?" Stockholm School of Economics, 2005.

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.

C. M. Betts and T. J. Kehoe, "Real Exchange Rate Movements and the Relative Price of Nontraded Goods," University of Minnesota and University of Southern California, 2002.

C. M. Betts and T. J. Kehoe, "Tradability of Goods and Real Exchange Rate Fluctuations," University of Minnesota and University of Southern California, 2001.

C. M. Betts and T. J. Kehoe, "U.S. Real Exchange Rate Fluctuations and Relative Price Fluctuations," University of Minnesota and University of Southern California, 2003.

V. V. Chari, P. J. Kehoe, and E. R. McGrattan, "Can Sticky Price Models Generate Volatile and Persistent Real Exchange Rates?" *Review of Economic Studies*, 69 (2002), 533-563.

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.

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.

4. The Recent Crisis in Argentina

R. Bergoeing, P. J. Kehoe, T. J. Kehoe, and R. Soto, "A Decade Lost and Found: Mexico and Chile in the 1980s," *Review of Economic Dynamics*, 5 (2002), 166-205.

G. A. Calvo, A. Izquierdo, and E. Telvi, "Sudden Stops, the Real Exchange Rate, and Fiscal Sustainability: Argentina's Lessons," Inter-American Development Bank, 2002.

A. De la Torre, A., E. Levy Yeyati, and S. L. Schmukler, "Argentina's Financial Crisis: Floating Money, Sinking Banking," World Bank, 2002.

J. M. Da Rocha, E. L. Giménez, and F. X. Lores (2002), "Devaluation Beliefs and the Argentinian Debt Crisis," Universidade de Vigo, 2002.

T. J. Kehoe, "What Can We Learn from the Current Crisis in Argentina?" *Scottish Journal of Political Economy*, 50 (2003), 609-633.

Perry, G. and L. Servin, "The Anatomy of a Crisis: Why Was Argentina Special and What Can We Learn from It?" World Bank, 2002.