

UNIVERSIDAD DE MURCIA
DEPARTAMENTO: FUNDAMENTOS DEL ANÁLISIS ECONÓMICO
ACADEMIC YEAR: 2007/2008

Course (Optional): **INTERNATIONAL MACROECONOMICS**

Degrees: Economics and Business Administration

Professor: José García Solanes

1. CONTENT AND ORGANISATION

In this course we examine the most appropriate open-macroeconomics models for a good understanding of the current crucial issues of international economics and finance.

The main textbook is Krugman and Obstfeld (2001), which is accompanied by additional articles and book chapters indicated at the end of each theme of this programme. The students are required to carry out empirical works and to present programmed readings that will be taken into account in the final individual assessments.

Part of the lectures will be devoted to the application of concepts and theoretical models to the current international macroeconomic issues, with especial emphasis on the economic relationships between the euro zone and the rest of the world.

The final exam will consist of answering and commenting essay questions and short articles of economic newspapers. The final mark will be obtained combining the result of this exam with the evaluation of practices and presentations during the course.

For a good understanding of the course, students need a minimum macroeconomic background similar to Macroeconomics I of the General Studies Plan of this Faculty.

The professor in charge of this course is Dr. José García Solanes. The timetable for visitors will be attached on the door of his office.

2. PROGRAMME

Theme 1. Exchange rates and the foreign exchange market: an asset approach.

- 1.1 Exchange rates and international transactions.
- 1.2 The foreign exchange market
- 1.3 The demand for foreign currency assets. The main determinants
- 1.4 Equilibrium in the foreign exchange market: interest rate parity and the equilibrium exchange rate.
- 1.5 Determination of the nominal exchange rate. The monetary model and the portfolio general equilibrium model

Readings: (K-O), cap. 13 and 14; García Solanes (1983), García Solanes and Sancho (1999)

Theme 2. Determination of the real exchange rate

- 2.1 A long-run exchange rate model based on PPP
- 2.2 Empirical evidence on PPP and the law of one price
- 2.3 The real interest rate parity
- 2.4 Beyond PPP: factor productivities and the Balassa and Samuelson model. Demand side determinants
- 2.5 Simultaneous determination of the real exchange rate and the real interest rate: the Branson (1988) model.

- 2.6 Simultaneous consideration of the internal and external equilibrium: the natural real exchange rate (NATREX)
- 2.7 Misalignment and overvaluation of the exchange rate.
- 2.8 Case study: the New Member Countries of the EU.

Readings: (K-O), cap 16, Branson (1988), García Solanes, Sancho and Torrejón (2007)

Theme 3. The monetary policy and the New Open Economy Macroeconomics

- 3.1 New Keynesian, Open-Economy Models and their implications for monetary policy
- 3-2 Transmission of monetary impulses. Real effects
- 3-3 Price setting and exchange rate flexibility

Bibliografía: Browan and Doyle (2003), Duarte and Obstfeld (2004)

Theme 4. Fixed Exchange rates and balance of payments crises

- 4.1 How the Central bank fixes the exchange rate
- 4.2 Stabilisation policies with a fixed exchange rate
- 4.3 Theories of the balance of payments crises. The role of the financial system
- 4.4 Some recent experiences: Spain 1992, Mexico 1994, Argentina 2001-2002.

Readings: (KO), cap. 17, Calvo (2001), Obstfeld (1996)

Theme 5. The optimal Exchange rate system in emerging market economies

- 5-1 Traditional approaches: Mundell (1961) and Poole (1970)
- 5-2 Shortcomings of the traditional approaches: price indexation and endogeneity of shocks
- 5-3 The case of developing countries: external factors and internal constraints. The exchange rate pass-through
- 5-4 Fear of floating and its implications in the internal economy.
- 5-5 Dolarisation: positive and negative effects
- 5-6 Inflation targeting with flexible exchange rates: advantages and costs

Bibliografía: Calvo (2001), García Solanes and Torrejón (2007), Ca'Zorzi, Hann and Sánchez (2007), Obstfeld and Shambaugh (2004), Notas de clase.

Theme 6. World financial integration and external adjustment

- 6.1 The intertemporal restraint of an open economy
- 6.2 Saving, investment and the current account: accounting identities and analytical relationships
- 6.3 The determinants of the current account
- 6.4 The ways of external adjustment: trade flows and the valuation effect. Exchange-rate adjustment.
- 6.5 The sustainability of current account deficits. Implications of external adjustment for the internal economy
- 6.6 Case study: current account deficits of USA and Spain

Readings: Beyaert, García Solanes y Pérez Quirós (1994), García Solanes, Rodríguez López and Torres (2007), Obstfeld and Rogoff (2000), Blanchard, Giavazzi and Sa (2005), Edwards (2005), Hausmann and Sturzenegger (2006), Mann (2002), Obstfeld (2004), Obstfeld and Rogoff (2005).

Theme 7. Financial integration, economic growth, and international income distribution

- 7-1 The gains from international financial integration
- 7-2 World income distribution

7-3 International finance and growth in developing countries

7-4 The role of Institutions and Geography in the economic integration and growth.

Readings: Acemoglu and Ventura (2002), Fischer (2003), Gourinchas and Jeanne (2003), Obstfeld (2007), Prasad et al. (2003), Rodrik, Subramanian, and Trebbi (2003), Sachs (2003).

4. PRACTICAL EXERCISES

The programme of applied exercises includes: a) resolution of numerical exercises and informatics applications, b) discussion and comments of economic news.

5. BIBLIOGRAPHY

TEXT BOOKS

(K-O): Krugman, P. R. y Obstfeld, M. (2001): *Economía internacional. Teoría y política*. Mc Graw-Hill, Madrid.

(D): De Grauwe, P. (2005): *Economics of Monetary Union*. Oxford Economic Press.

(O-R): Obstfeld, M. y Rogoff, K. (1996): *Foundations of International Macroeconomics*, The M.I.T. Press.

(I) Isard, Peter (2005), *Globalization and the International Financial System*, Cambridge University Press.

ARTICLES

Acemoglu, Daron, and Jaume Ventura (2002): "The World Income Distribution", *Quarterly Journal of Economics* 117, May: 659-694.

Beyaert, A., García Solanes, J. y Pérez Quirós, G. (1994): "Consumo intertemporal y balanza por cuenta corriente en la economía española", *Revista Española de Economía*, Vol. 11, nº 1, pp. 27-48.

Blanchard, Olivier, Francesco Giavazzi, and Filipa Sa, (2005): "The US Current Account and the Dollar", Working Paper 11137, National Bureau of Economic Research, February.

Branson, W. (1977): « Asset markets and relative prices in exchange-rate determination », *Social Wissenschaftliche Annalen*, nº 1, pp: 67-80; translated in en *Cuadernos económicos de ICE*, nº 17.

Branson, W. (1988): « Sources of misalignment in the 1980s », en Marston, R. C. (ed.): *Misalignment and exchange rate effects on trade and industry*, National Bureau of Economic Research.

Browan, David, and Brian M. Doyle (2003): "New Keynesian, Open-Economy Models and Their implications for Monetary Policy", International Finance Discussion Papers 762, Board of Governors of the Federal Reserve System, March.

Calvo, G. (2001): « Política económica en mercados emergentes. Vulnerabilidad financiera, contagio y miedo a flotar », *Moneda y Crédito*, nº 212, pp. 11-38.

Ca'Zorzi, Michele, Ele Hahn and Marcelo Sánchez (2007): "Exchange rate pass-through in emerging markets", Working Paper Series Nº 739, European Central Bank, March.

Duarte, Margarida, and Maurice Obstfeld (2004): "Monetary Policy in the Open Economy Revisited: The Case for Exchange-Rate Flexibility Restored", manuscript, October.

- Edwards, Sebastian (2005): "Is the US Current Account Deficit Sustainable? And if not, How costly is adjustment Likely to be?", Manuscript, University of California, 2005, Los Angeles.
- Fischer, Stanley (2003): "Globalization and Its Challenges", *American Economic Review*, 93, May, 1-30.
- García Solanes, J. (1983): "El enfoque monetario de la determinación de los tipos de cambio", *Cuadernos de Economía*, abril.
- García-Solanes, José, Jesús Rodríguez-López, and José L. Torres, "Demand shocks and trade balance dynamics", FEDEA Working Paper, 2007.
- García Solanes, J. y Sancho, I. (1999): Movilidad internacional de capitales e integración financiera de la economía española », *Revista de Economía Aplicada*, nº 21, Vol. VII, 29-60.
- García Solanes, J., Sancho-Portero, I. and Torrejón, F. (2007): "Beyond the Balassa-Samuelson effect in some New Member status of the EU" CESifo Working Paper, November 2007, forthcoming in *Economic Systems*, 2008.
- García- Solanes, José and Fernando Torrejón (2007): "The Macroeconomic Effects of Inflation Targeting in a Group of Latin American Countries", Manuscript, Universidad de Murcia, August 2007.
- Gourinchas, Pierre-Olivier, and Olivier D. Jeanne (2003): "The Elusive Gains from Internacional Financial Integration", Working Paper 9684, National Bureau of Economic Research, May.
- Hausmann, Ricardo, and Federrico Sturzenegger (2006): "Commentary: Why the US Current Account Deficit is Sustainable?", *Journal Compilation*, Blackwell Publishing.
- Mann, Catherine L (2002): "Perspectives on the US Current Account Deficit and Sustainability", *Journal of Economic Perspectives* 16, Summer: 131-152.
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- Obstfeld, Maurice (2007): "International Finance and Growth in Developing countries: What Have We Learned?", Manuscript, University of California, Berkeley, March 2007.
- Obstfeld, M. and Rogoff, K. (2000): "Perspectives on OECD Economic Integration: Implications for U.S. Current Account Adjustment", en Federal Reserve Bank of Kansas City: *Global Economic Integration: Opportunities and Challenges*", March 2000, 169-208.
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- Obstfeld, Maurice, Jay C. Shambaugh, and Alan M. Taylor (2004): "Monetary Sovereignty, Exchange Rates, and Capital Controls: The Trilemma in the Interwar Period", *IMF Staff Papers* 51 (Special Issue): 75-108.
- Prasad, Eswar, Kenneth Rogoff, Shang-Jin Wei, and M. Ayhan Kose (2003): *Effects of Financial Globalization on Developing Countries: Some Empirical Evidence*, International Monetary Fund Occasional Paper 220, September.
- Rodrik, Dani, Arvind Subramanian, and Francesco Trebbi (2002): "Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development", Working Paper 9305, National Bureau of Economic Research, November.
- Sachs, Jeffrey D. (2003), "Institutions Don't Rule: Direct Effects of Geography on Per Capita Income", working Paper 9490, National Bureau of Economic Research, February.

6. STATISTICAL SOURCES AND INTERNET INFORMATION

- INE Statistics
- New Cronos, Eurostat
- Articles from the economic daily press.

The practical exercises and readings will be available from SUMA.