



Course: Topics in International Economics
(Part II: Open Economy Macroeconomics)

Faculty: Eugenia Vella

Term: Second

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Description:

The second part of the course will follow the notes of Martin Uribe and Stephanie Schmitt-Grohe, which can be accessed at: <http://www.columbia.edu/~mu2166/book/>.

Data files and codes are also provided on this website.

We will also explore some additional material on Open Economy DSGE models with sticky prices and labor market frictions, as well as the role of economic policy.

Main text:

The textbook for the course is *Open Economy Macroeconomics* by Martin Uribe and Stephanie Schmitt-Grohe, Princeton University Press March 2017. Hereafter USG. In addition, several specific readings will be indicated in class for each theme.

Outline:

L1: Business-Cycle Facts Around the World (USG, Chapter 1)

Further readings:

King, R. G., Plosser, C. I., & Rebelo, S. T. (1988). Production, growth and business cycles: II. New directions. *Journal of Monetary Economics*, 21(2-3), 309-341.

Mendoza, E. G. (1991). Real business cycles in a small open economy. *The American Economic Review*, 797-818.

Ravn, M. O., & Uhlig, H. (2002). On adjusting the Hodrick-Prescott filter for the frequency of observations. *Review of Economics and Statistics*, 84(2), 371-376.

L2: The Small-Open Economy Real-Business-Cycle Model (USG, Chapter 4)

Further readings:

USG, Chapter 2-3

Greenwood, J., Hercowitz, Z., & Huffman, G. W. (1988). Investment, capacity utilization, and the real business cycle. *The American Economic Review*, 402-417.

Mendoza, E. G. (1991). Real business cycles in a small open economy. *The American Economic Review*, 797-818.

Schmitt-Grohé, S., & Uribe, M. (2003). Closing small open economy models. *Journal of International Economics*, 61(1), 163-185.

Schmitt-Grohé, S., & Uribe, M. (2004). Solving dynamic general equilibrium models using a second-order approximation to the policy function. *Journal of Economic Dynamics and Control*, 28(4), 755-775.

L3: Importable Goods, Exportable Goods and the Terms of Trade (USG, Chapter 7)

Further readings:

USG, Chapter 5-6

Armington, P. S. (1969). A theory of demand for products distinguished by place of production. *IMF Staff Papers*, 16(1), 159-178.

Harberger, A. (1950). Currency Depreciation, Income and the Balance of Trade. *Journal of Political Economy*, 58, 47-60.

Kose, M. A. (2002). Explaining business cycles in small open economies: 'How much do world prices matter?'. *Journal of International Economics*, 56(2), 299-327.

Laursen, S. and L. Metzler, (1950). Flexible Exchange Rate and the Theory of Employment. *Review of Economics and Statistics*, 32, 281-99.

Mendoza, E. G. (1995). The terms of trade, the real exchange rate, and economic fluctuations. *International Economic Review*, 101-137.

Obstfeld, M., (1982). Aggregate spending and the terms of trade: is there a Laursen-Metzler effect? *Quarterly Journal of Economics*, 97, 251-270.

Svensson, L.E.O., Razin, A., (1983). The terms of trade and the current account: the Harberger-Laursen-Metzler effect. *Journal of Political Economy*, 91, 97-125.

L4: Nontradable Goods and the Real Exchange Rate (USG, Chapter 8)

Further readings:

Chen, Y. C., Rogoff, K. S., & Rossi, B. (2010). Can exchange rates forecast commodity prices?. *The Quarterly Journal of Economics*, 125(3), 1145-1194.

Fernández, A., Schmitt-Grohé, S., & Uribe, M. (2017). World shocks, world prices, and business cycles: An empirical investigation. *Journal of International Economics*, 108, S2-S14.

Fernández, A., González, A., & Rodríguez, D. (2018). Sharing a ride on the commodities roller coaster: Common factors in business cycles of emerging economies. *Journal of International Economics*, 111, 99-121.

Schmitt-Grohé, S., & Uribe, M. (2018). How Important are Terms-Of-Trade Shocks?. *International Economic Review*, 59(1), 85-111.

Schmitt-Grohé, S., & Uribe, M. (2012). What's news in business cycles. *Econometrica*, 80(6), 2733-2764.

Zeev, N. B., Pappa, E., & Vicondoa, A. (2017). Emerging economies business cycles: The role of commodity terms of trade news. *Journal of International Economics*, 108, 368-376.

L5-L6: Nominal Rigidity, Exchange Rates, and Unemployment (USG, Chapter 9)

Further readings:

Barattieri, A., Basu, S., & Gottschalk, P. (2014). Some evidence on the importance of sticky wages. *American Economic Journal: Macroeconomics*, 6(1), 70-101.

Calvo, G. A. (1983). Staggered prices in a utility-maximizing framework. *Journal of Monetary Economics*, 12(3), 383-398.

Eichengreen, B., Hausmann, R., & Panizza, U. (2005). The pain of original sin. *Other people's money: Debt denomination and financial instability in emerging market economies*, 13-47.

Fehr, E., & Goette, L. (2005). Robustness and real consequences of nominal wage rigidity. *Journal of Monetary Economics*, 52(4), 779-804.

Gottschalk, P. (2005). Downward nominal-wage flexibility: real or measurement error?. *Review of Economics and Statistics*, 87(3), 556-568.

Jo, Yoon J. (2019), Downward nominal wage rigidity in the United States. JMP, Columbia University.

Schmitt-Grohé, S., & Uribe, M. (2016). Downward nominal wage rigidity, currency pegs, and involuntary unemployment. *Journal of Political Economy*, 124(5), 1466-1514.

Woodford, M. (2011). *Interest and prices: Foundations of a theory of monetary policy*. Princeton University press.

Yun, T. (1996). Nominal price rigidity, money supply endogeneity, and business cycles. *Journal of Monetary Economics*, 37(2), 345-370.

L7-L8: Fiscal Consolidation in an Open Economy

Readings:

Alesina, A., Favero, C., & Giavazzi, F. (2015). The output effect of fiscal consolidation plans. *Journal of International Economics*, 96, S19-S42.

Bandeira, G., Pappa, E., Sajedi, R., & Vella, E. (2018). Fiscal consolidation in a low inflation environment: Pay cuts versus lost jobs. *International Journal of Central Banking*, 14(3), 7-53.

Erceg, C. and Linde, J. (2012). Fiscal consolidation in an open economy. *The American Economic Review*, 102, 186-191.

Erceg, C. and Linde, J. (2013). Fiscal consolidation in a currency union: Spending cuts vs. tax hikes. *Journal of Economic Dynamics and Control*, 37(2), 422-445.

Fatás, A., & Summers, L. H. (2018). The permanent effects of fiscal consolidations. *Journal of International Economics*, 112, 238-250.

Gourinchas, P.-O., Philippon, T. and Vayanos, D. (2016). The analytics of the Greek crisis. NBER Macroeconomics Annual 31, 1-81. See also:

<https://www.livemediacom/video/262082> <https://voxeu.org/article/greek-crisis-autopsy>

House, C. L., Proebsting, C. and Tesar, L. L. (2017). Austerity in the aftermath of the Great Recession, National Bureau of Economic Research WP No 23147.

Philippopoulos, A., Varthalitis, P. and Vassilatos, V. (2017). Fiscal consolidation in an open economy with sovereign premia and without monetary policy independence. *International Journal of Central Banking*, 13, 259-306.

L9: Migration and Business Cycles

Further readings:

Bandeira, G., Caballé, J., & Vella, E. (2019). Fiscal austerity and migration: A missing link. Working Papers 1075, Barcelona Graduate School of Economics.

Battisti, M., Felbermayr, G., Peri, G. and Poutvaara, P. (2018). Immigration, search frictions and redistribution: A quantitative welfare analysis, *Journal of the European Economic Association*, 16, 1137-1188.

Bentolila, S., Dolado, J. J. and Jimeno, J. F. (2008). Does immigration affect the Phillips curve? Some evidence for Spain, *European Economic Review*, 52, 1398-1423.

Canova, F. and Ravn, M. O. (2000). The macroeconomic effects of German unification: Real adjustments and the welfare state, *Review of Economic Dynamics*, 3, 423-460.

Chassamboulli, A. and Palivos, T. (2014). A search-equilibrium approach to the effects of immigration on labor market outcomes, *International Economic Review* 55, 111-129.

Chassamboulli, A. and Peri, G. (2015). The labor market effects of reducing the number of illegal immigrants, *Review of Economic Dynamics*, 18, 792-821.

d'Albis, H., Boubtane, E. and Coulibaly, D. (2019). Immigration and fiscal balance: Evidence from Western European countries, *Journal of Economic Dynamics and Control*, 99, 116-151.

Furnaletto, F. and Ørjan R. (2019). Immigration and the macroeconomy: Some new Empirical Evidence. *Review of Economic Dynamics*, forthcoming.

Hauser, D. and Seneca, M. (2019). Labor mobility in a monetary union. Bank of Canada WP 2019-15.

Hauser, D. (2017). Technology shocks, labor mobility and business-cycle fluctuations, mimeo.

House, C. L., Proebsting, C. and Tesar, L. L. (2018). Quantifying the benefits of labor mobility in a currency union, *National Bureau of Economic Research WP No 25347*.

Iftikhar, Z. and Zaharieva, A. (2018). General equilibrium effects of immigration in Germany: Search and matching approach. *Review of Economic Dynamics*, 31, 245-276.

Liu, X. (2010). On the macroeconomic and welfare effects of illegal immigration, *Journal of Economic Dynamics and Control*, 34, 2547-2567.

Liu, X., Palivos, T. and Zhang, X. (2017). Immigration, skill heterogeneity, and qualification mismatch, *Economic Inquiry*, 55, 1231-1264

Ortega, J. (2000). Pareto-improving immigration in an economy with equilibrium unemployment, *The Economic Journal*, 110, 92-112.

Storesletten, K. (2000). Sustaining fiscal policy through immigration, *Journal of Political Economy*, 108, 300-323.

Grading:

Referee report / Presentation (20%), Final exam (80%).

The referee report is about developing a critical review of one recent, still unpublished, working paper. The report should briefly summarize the analysis conducted in the paper and the main insights. Then it should describe the methodology adopted, the main findings and the mechanisms behind the results, the relation with the existing literature and the contribution of the paper with respect to the latter. The final part should highlight the weakness of the paper and suggest possible extensions. Overall, the report should not exceed 5 pages. A good critical review can be delivered in 3 pages. Once you have an initial draft of your critical review, you should review it and see if you can make the same points with fewer words, which will lead to an improved final version. You should also make sure it is written at the appropriate level of English.

Alternatively, you may give a short presentation in class (using slides) about one of the papers suggested in the first lecture. A third possibility is to present a research idea of yours that is related to the course. Both the content of the proposal and the delivery of the presentation will be evaluated.

Further details will be discussed during the first lecture.