

ECON 741, Advanced International Economics I, Fall 2022  
TuTh 9.30-10.45 AM, Tydings 3100

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**Instructor:** Pierre De Leo, Tydings 4118D, [deleop@umd.edu](mailto:deleop@umd.edu)

**Office hours:** Sign up at [sites.google.com/site/pierredeleo/](https://sites.google.com/site/pierredeleo/)

**Course objectives:** This is the first of a two-part second year, field course sequence for Ph.D. students on International Macroeconomics and Finance. The course discusses the classic puzzles and the seminal questions in the literature, and explore some of the areas of research that are currently most active. The goal is two-fold. First, introduce you to the modern models, tools and topics of International Macroeconomics and Finance. Second, give you the necessary background on the literature to help you navigate amongst possible dissertation topics.

**Reading List:** The reading list below provides an extensive set of references, and we will cover a subset of these papers.

**Discussions:** Throughout the course, you will give at least one 30-minute discussion of a relevant paper. You can discuss any papers in the reading list, or a relevant paper that you find outside of the reading list. I may encourage you to discuss specific papers.

You must spend approximately 20 minutes explaining the findings and contribution of the paper and 10 minutes on your comments, focusing on the issues of substance.

**Problem Sets:** There will be 2 or 3 problem sets; each will roughly correspond to one of our main topics.

**Independent Research Project:** Students are expected to work on an independent research project during the semester. The topic of the research project should be broadly in line with those covered in the class. The research projects could be joint with other students in or outside the class, but not with faculty members. Similarly, the project might be a continuation (substantial advancement) of an ongoing research project. Proposals for the project are due in writing by end of November. The objective is for students to be familiar with independent research and focus on what questions they will research in their 3rd year of the PhD.

**Grading:** Problem sets (25%), Discussions (25%), Independent research project (25%), Participation (25%).

**Course-related policies:** UMD's policies on graduate courses and graduate student rights and responsibilities can be found [here](#).

## Reading List

# 1 International Real Business Cycles

## 1.1 Introduction

- ★ Kose, M. A., Otrok, C., and Whiteman, C. H. (2003). International Business Cycles: World, Region, and Country-Specific Factors. *American Economic Review*, 93(4):1216–1239

## 1.2 The Benchmark Two-country RBC Model

- ★ Backus, D. K., Kehoe, P. J., and Kydland, F. E. (1992). International Real Business Cycles. *Journal of Political Economy*, 100(4):745–775

Ambler, S., Cardia, E., and Zimmermann, C. (2004). International business cycles: What are the facts? *Journal of Monetary Economics*, 51(2):257–276

Feldstein, M. and Horioka, C. (1980). Domestic Saving and International Capital Flows. *Economic Journal*, 90(358):314–329

Backus, D. K. and Kehoe, P. J. (1992). International Evidence of the Historical Properties of Business Cycles. *American Economic Review*, 82(4):864–888

Mendoza, E. G. (1991). Real Business Cycles in a Small Open Economy. *American Economic Review*, 81(4):797–818

Rabanal, P., Rubio-Ramirez, J. F., and Tuesta, V. (2011). Cointegrated tfp processes and international business cycles. *Journal of Monetary Economics*, 58(2):156–171

Colacito, R., Croce, M., Ho, S., and Howard, P. (2018). Bkk the ez way: International long-run growth news and capital flows. *American Economic Review*, 108(11):3416–49

## 1.3 Asset Markets and the International Transmission of Shocks

- ★ Baxter, M. and Crucini, M. J. (1995). Business Cycles and the Asset Structure of Foreign Trade. *International Economic Review*, 36(4):821–854

Cole, H. L. and Obstfeld, M. (1991). Commodity trade and international risk sharing : How much do financial markets matter? *Journal of Monetary Economics*, 28(1):3–24

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

Neumeyer, P. A. and Perri, F. (2005). Business cycles in emerging economies: the role of interest rates. *Journal of Monetary Economics*, 52(2):345–380

Kehoe, P. J. and Perri, F. (2002). International business cycles with endogenous incomplete markets. *Econometrica*, 70(3):907–928

## 1.4 Trade Balance and Terms of Trade

- ★ Backus, D. K., Kehoe, P. J., and Kydland, F. E. (1994). Dynamics of the Trade Balance and the Terms of Trade: The J-Curve? *American Economic Review*, 84(1):84–103
- ★ Stockman, A. C. and Tesar, L. L. (1995). Tastes and Technology in a Two-Country Model of the Business Cycle: Explaining International Comovements. *American Economic Review*, 85(1):168–185

Raffo, A. (2008). Net exports, consumption volatility and international business cycle models. *Journal of International Economics*, 75(1):14–29

Alessandria, G. and Choi, H. (2021). The dynamics of the US trade balance and real exchange rate: The J curve and trade costs? *Journal of International Economics*, 132:103511

Berka, M., Devereux, M. B., and Engel, C. (2018). Real exchange rates and sectoral productivity in the eurozone. *American Economic Review*, 108(6):1543–81

## 1.5 The Backus-Smith Puzzle

Backus, D. K. and Smith, G. W. (1993). Consumption and real exchange rates in dynamic economies with non-traded goods. *Journal of International Economics*, 35(3-4):297–316

- ★ Corsetti, G., Dedola, L., and Leduc, S. (2008). International Risk Sharing and the Transmission of Productivity Shocks. *Review of Economic Studies*, 75(2):443–473

Engel, C. (1999). Accounting for U.S. Real Exchange Rate Changes. *Journal of Political Economy*, 107(3):507–538

Brandt, M. W., Cochrane, J. H., and Santa-Clara, P. (2006). International risk sharing is better than you think, or exchange rates are too smooth. *Journal of Monetary Economics*, 53(4):671–698

Burnside, A. C. and Graveline, J. J. (2019). On the Asset Market View of Exchange Rates. *The Review of Financial Studies*, 33(1):239–260

Lustig, H. and Verdelhan, A. (2019). Does incomplete spanning in international financial markets help to explain exchange rates? *American Economic Review*, 109(6):2208–44

Boehm, C., Levchenko, A., Pandalai-Nayar, N. (2020) The Long and Short (Run) of Trade Elasticities, *Working paper*

## 1.6 International Comovement

- ★ Corsetti, G., Dedola, L., and Leduc, S. (2014). The international dimension of productivity and demand shocks in the us economy. *Journal of the European Economic Association*, 12(1):153–176

Huo, Z., Levchenko, A. A., and Pandalai-Nayar, N. (2020). Utilization-Adjusted TFP Across Countries: Measurement and Implications for International Comovement. Technical report, National Bureau of Economic Research

di Giovanni, J., Levchenko, A. A., and Mejean, I. (2018). The micro origins of international business-cycle comovement. *American Economic Review*, 108(1):82–108

Cravino, J. and Levchenko, A. A. (2016). Multinational Firms and International Business Cycle Transmission. *The Quarterly Journal of Economics*, 132(2):921–962

Cesa-Bianchi, A., Imbs, J., and Saleheen, J. (2019). Finance and synchronization. *Journal of International Economics*, 116:74–87

Levchenko, A. A. and Pandalai-Nayar, N. (2020). Tfp, News, and “Sentiments”: the International Transmission of Business Cycles. *Journal of the European Economic Association*, 18(1):302–341

Kose, M. A., Otrok, C., and Whiteman, C. H. (2003). International Business Cycles: World, Region, and Country-Specific Factors. *American Economic Review*, 93(4):1216–1239

Kalemli-Ozcan, S., Papaioannou, E., and Peydró, J.-L. (2013). Financial regulation, financial globalization, and the synchronization of economic activity. *The Journal of Finance*, 68(3):1179–1228

## 1.7 Emerging Market Business Cycles

Aguiar, M. and Gopinath, G. (2007). Emerging Market Business Cycles: The Cycle Is the Trend. *Journal of Political Economy*, 115:69–102

Garcia-Cicco, J., Pancrazi, R., and Uribe, M. (2010). Real Business Cycles in Emerging Countries? *American Economic Review*, 100(5):2510–2531

## 2 Exchange Rate Dynamics

### 2.1 Exchange Rate Determination Puzzle

- ★ Meese, R. A. and Rogoff, K. (1983). Empirical exchange rate models of the seventies : Do they fit out of sample? *Journal of International Economics*, 14(1-2):3–24
- ★ Engel, C. and West, K. D. (2005). Exchange Rates and Fundamentals. *Journal of Political Economy*, 113(3):485–517
- ★ Mark, N. C. (1995). Exchange Rates and Fundamentals: Evidence on Long-Horizon Predictability. *American Economic Review*, 85(1):201–218

Engel, C., Mark, N. C., and West, K. D. (2008). Exchange Rate Models Are Not As Bad As You Think. In *NBER Macroeconomics Annual 2007, Volume 22*, NBER Chapters, pages 381–441. National Bureau of Economic Research, Inc

Frenkel, J. A. (1976). A monetary approach to the exchange rate: Doctrinal aspects and empirical evidence. *The Scandinavian Journal of Economics*, 78(2):200–224

Frankel, J. A. (1979). On the Mark: A Theory of Floating Exchange Rates Based on Real Interest Differentials. *American Economic Review*, 69(4):610–622

- Kilian, L. (1999). Exchange rates and monetary fundamentals: What do we learn from long-horizon regressions? *Journal of Applied Econometrics*, 14(5):491–510
- Faust, J., Rogers, J. H., and H. Wright, J. (2003). Exchange rate forecasting: the errors we've really made. *Journal of International Economics*, 60(1):35–59
- Berkowitz, J. and Giorgianni, L. (2001). Long-Horizon Exchange Rate Predictability? *The Review of Economics and Statistics*, 83(1):81–91
- Gourinchas, P.-O. and Rey, H. (2007b). International Financial Adjustment. *Journal of Political Economy*, 115(4):665–703
- Bacchetta, P. and Wincoop, E. V. (2004). A Scapegoat Model of Exchange-Rate Fluctuations. *American Economic Review*, 94(2):114–118
- Bacchetta, P. and van Wincoop, E. (2013a). On the unstable relationship between exchange rates and macroeconomic fundamentals. *Journal of International Economics*, 91(1):18–26
- ★ Rossi, B. (2013). Exchange Rate Predictability. *Journal of Economic Literature*, 51(4):1063–1119
- Rogoff, K., Stavrageva, V (2008). The Continuing Puzzle of Short Horizon Exchange Rate Forecasting, *Working Paper*
- Bacchetta, P. and van Wincoop, E. (2013b). On the unstable relationship between exchange rates and macroeconomic fundamentals. *Journal of International Economics*, 91(1):18–26
- Meese, R. A. and Rose, A. K. (1991). An Empirical Assessment of Non-Linearities in Models of Exchange Rate Determination. *Review of Economic Studies*, 58(3):603–619
- Frankel, J. and Froot, K. (1987). Using survey data to test standard propositions regarding exchange rate expectations. *American Economic Review*, 77(1):133–53
- ★ Bacchetta, P. and Wincoop, E. V. (2006). Can Information Heterogeneity Explain the Exchange Rate Determination Puzzle? *American Economic Review*, 96(3):552–576
- Lilley, A., Maggiori, M., Neiman, B., and Schreger, J. (2020). Exchange Rate Reconnect. *The Review of Economics and Statistics*, pages 1–28
- Chahrour, R., Cormun, V., De Leo, P., Guerron Quintana, P., Valchev, R. (2021). Exchange Rate Disconnect Revisited. *Working Paper*
- Stavrageva, and Tang (2021). A Fundamental Connection: Survey-based Exchange Rate Decomposition. *Mimeo*
- Bartram, S. and Djuranovik, L. and Garratt (2018) Currency Anomalies. Available at SSRN: <https://ssrn.com/abstract=3194107>

## 2.2 Uncovered Interest Parity (UIP) Puzzle

### 2.2.1 Facts

★ Fama, E. F. (1984). Forward and spot exchange rates. *Journal of Monetary Economics*, 14(3):319–338

★ Froot, K. A. and Frankel, J. A. (1989). Forward Discount Bias: Is it an Exchange Risk Premium? *The Quarterly Journal of Economics*, 104(1):139–161

McCallum, B. T. (1994). A reconsideration of the uncovered interest parity relationship. *Journal of Monetary Economics*, 33(1):105–132

Bansal, R. and Dahlquist, M. (2000). The forward premium puzzle: different tales from developed and emerging economies. *Journal of International Economics*, 51(1):115–144

Chinn, M. D. (2006). The (partial) rehabilitation of interest rate parity in the floating rate era: Longer horizons, alternative expectations, and emerging markets. *Journal of International Money and Finance*, 25(1):7–21

★ Burnside, C., Eichenbaum, M., and Rebelo, S. (2008). Carry Trade: The Gains of Diversification. *Journal of the European Economic Association*, 6(2-3):581–588

Engel, C. (2014). Exchange Rates and Interest Parity. *Handbook of International Economics*, 4:453–522

★ Engel, C. (2016). Exchange Rates, Interest Rates, and the Risk Premium. *American Economic Review*, 106(2):436–474

Lustig, H., Stathopoulos, A., and Verdelhan, A. (2019). The term structure of currency carry trade risk premia. *American Economic Review*, 109(12):4142–77

★ Hassan, T. A. and Mano, R. C. (2019). Forward and Spot Exchange Rates in a Multi-Currency World. *The Quarterly Journal of Economics*, 134(1):397–450

Kalemli-Ozcan, S., Varela, L. (2020). Exchange Rate and Interest Rate Disconnect: The Role of Capital Flows and Risk Premia, *Mimeo*

Di Giovanni, J., Kalemli-Ozcan, S., Ulu, M. F., and Baskaya, Y. S. (2020). International spillovers and local credit cycles. *Working Paper*

Cormun, V. and De Leo, P. (2020). Shocks and Exchange Rates in Small Open Economies. *Working Paper*

### 2.2.2 Explanations

#### Based on Risk

Alvarez, F., Atkeson, A., and Kehoe, P. J. (2009). Time-varying risk, interest rates, and exchange rates in general equilibrium. *The Review of Economic Studies*, 76(3):851–878

★ Verdelhan, A. (2010). A Habit-Based Explanation of the Exchange Rate Risk Premium. *Journal of Finance*, 65(1):123–146

- ★ Bansal, R. and Shaliastovich, I. (2013). A Long-Run Risks Explanation of Predictability Puzzles in Bond and Currency Markets. *The Review of Financial Studies*, 26(1):1–33

Colacito, R. and Croce, M. M. (2013). International asset pricing with recursive preferences. *The Journal of Finance*, 68(6):2651–2686

Farhi, E. and Gabaix, X. (2016). Rare disasters and exchange rates. *The Quarterly Journal of Economics*, 131(1):1–52

Backus, Gavazzoni, Telmer, Zin (2020). Monetary Policy and the Uncovered Interest Parity Puzzle. *Working Paper*

### **Based on Convenience Yields**

Valchev, R. (Forthcoming) Bond Convenience Yields and Exchange Rate Dynamics, *AEJ: Macro*

### **Based on Imperfect Financial Markets**

- ★ Gabaix, X. and Maggiori, M. (2015). International Liquidity and Exchange Rate Dynamics. *The Quarterly Journal of Economics*, 130(3):1369–1420

Hau, H., Massa, M., and Peress, J. (2010). Do demand curves for currencies slope down? evidence from the msci global index change. *The Review of Financial Studies*, 23(4):1681–1717

Pandolfi, L. and Williams, T. (2019). Capital flows and sovereign debt markets: Evidence from index rebalancings. *Journal of Financial Economics*, 132(2):384–403

### **Based on Peso Problems**

- ★ Burnside, C., Eichenbaum, M., Kleshchelski, I., and Rebelo, S. (2011a). Do Peso Problems Explain the Returns to the Carry Trade? *Review of Financial Studies*, 24(3):853–891

### **Based on Deviations from FIRE**

- ★ Candian, G. and De Leo, P. (2022). Imperfect Exchange Rate Expectations. *Working Paper*

Gourinchas, P.-O. and Tornell, A. (2004). Exchange rate puzzles and distorted beliefs. *Journal of International Economics*, 64(2):303–333

Burnside, C., Han, B., Hirshleifer, D., and Wang, T. Y. (2011b). Investor Overconfidence and the Forward Premium Puzzle. *Review of Economic Studies*, 78(2):523–558

### **Based on Infrequent Portfolio Decisions**

Bacchetta, P. and van Wincoop, E. (2010). Infrequent Portfolio Decisions: A Solution to the Forward Discount Puzzle. *American Economic Review*, 100(3):870–904

## 2.3 Covered Interest Parity (CIP) Deviations

Du, W., Tepper, A., and Verdelhan, A. (2018). Deviations from covered interest rate parity. *The Journal of Finance*, 73(3):915–957

Du, W. (2019). Financial Intermediation Channel in the Global Dollar Cycle. *Jackson Hole Symposium*

Avdjiev, S., Du, W., Koch, C., and Shin, H. S. (2019). The dollar, bank leverage, and deviations from covered interest parity. *American Economic Review: Insights*, 1(2):193–208

## 3 Product Prices, Exchange Rates, and Monetary Policy

### 3.1 Exchange Rates and Product Prices

★ Burstein, A. and Gopinath, G. (2014). International Prices and Exchange Rates. *Handbook of International Economics*, 4:391–451

Mussa, M. (1986). Nominal exchange rate regimes and the behavior of real exchange rates: Evidence and implications. *Carnegie-Rochester Conference Series on Public Policy*, 25(1):117–214

Baxter, M. and Stockman, A. C. (1989). Business cycles and the exchange-rate regime : Some international evidence. *Journal of Monetary Economics*, 23(3):377–400

Gopinath, G., Itskhoki, O., and Rigobon, R. (2010). Currency Choice and Exchange Rate Pass-Through. *American Economic Review*, 100(1):304–336

Gopinath, G. (2015). The International Price System. *Jackson Hole Symposium*, Vol. 27.

Cravino, J. and Levchenko, A. A. (2017). The Distributional Consequences of Large Devaluations. *American Economic Review*, 107(11):3477–3509

Blanco, A., Cravino, J. (Forthcoming). Price Rigidities and Relative PPP, *Journal of Monetary Economics*

Engel, C. (2006). Equivalence Results for Optimal Pass-Through, Optimal Indexing to Exchange Rates, and Optimal Choice of Currency for Export Pricing. *Journal of the European Economic Association*, 4(6):1249–1260

Drozd, L., Nosal, J. (2012). Pricing-to-Market in Business Cycle Models. *Working Paper*

### 3.2 Real exchange rates and purchasing power parity

★ Rogoff, K. (1996). The Purchasing Power Parity Puzzle. *Journal of Economic Literature*, 34(2):647–668



### 3.3 Sticky-price, open-economy models

- ★ Corsetti, G., Dedola, L., and Leduc, S. (2010). Optimal Monetary Policy in Open Economies. *Handbook of Monetary Economics*, 3:861–933
- Gopinath, G., Boz, E., Casas, C., Díez, F. J., Gourinchas, P.-O., and Plagborg-Møller, M. (2020). Dominant Currency Paradigm. *American Economic Review*, 110(3):677–719
- Chari, V. V., Kehoe, P. J., and McGrattan, E. R. (2002). Can Sticky Price Models Generate Volatile and Persistent Real Exchange Rates? *Review of Economic Studies*, 69(3):533–563

### 3.4 Exchange Rate Disconnect in General Equilibrium

- ★ Itskhoki, O., Mukhin, D. (2019a). Exchange Rate Disconnect in General Equilibrium. *Working Paper*
- Itskhoki, O., Mukhin, D. (2019b). Mussa Puzzle Redux. *Working Paper*
- Eichenbaum, M, Johannsen, B., Rebelo, S. (Forthcoming) Monetary Policy and the Predictability of Nominal Exchange Rates, *Review of Economic Studies*
- Chahrour, R., Cormun, V., De Leo, P., Guerron Quintana, P., Valchev, R. (2020). Exchange Rate Disconnect Revisited. *Working Paper*

### 3.5 Monetary Policy and Exchange Rates

#### 3.5.1 Evidence on the Exchange Rate Effects of Monetary Policy

- ★ Eichenbaum, M. and Evans, C. L. (1995). Some Empirical Evidence on the Effects of Shocks to Monetary Policy on Exchange Rates. *The Quarterly Journal of Economics*, 110(4):975–1009
- Faust, J. and Rogers, J. H. (2003). Monetary policy's role in exchange rate behavior. *Journal of Monetary Economics*, 50(7):1403–1424
- Cushman, D. O. and Zha, T. (1997). Identifying monetary policy in a small open economy under flexible exchange rates. *Journal of Monetary Economics*, 39(3):433–448
- Hnatkovska, V., Lahiri, A., and Vegh, C. A. (2016). The Exchange Rate Response to Monetary Policy Innovations. *American Economic Journal: Macroeconomics*, 8(2):137–181
- Cormun, V. and De Leo, P. (2020). Revisiting the Exchange Rate Response to Monetary Policy Innovations. *Working Paper*

#### 3.5.2 Monetary and Exchange Rate Policy in Open Economies: Positive Analysis

- ★ Calvo, G. A. and Reinhart, C. M. (2002). Fear of Floating. *The Quarterly Journal of Economics*, 117(2):379–408
- Kaminsky, G. L., Reinhart, C. M., and Végh, C. A. (2005). When It Rains, It Pours: Procyclical Capital Flows and Macroeconomic Policies. *NBER Macroeconomics Annual*, pages 11–82

Jeanne, O. and Rose, A. K. (2002). Noise Trading and Exchange Rate Regimes. *The Quarterly Journal of Economics*, 117(2):537–569

De Leo, P., Gopinath, G., and Kalemli-Ozcan, S. (2020). Monetary Policy Cyclicalities in Emerging Market Economies, *Working Paper*

Bhattarai, S., Chatterjee, A., and Park, W. Y. (2019). Global spillover effects of us uncertainty. *Journal of Monetary Economics*

### 3.5.3 Monetary and Exchange Rate Policy in Open Economies: Normative Analysis

★ Galí, J. and Monacelli, T. (2005). Monetary Policy and Exchange Rate Volatility in a Small Open Economy. *Review of Economic Studies*, 72(3):707–734

Benigno, G. and Benigno, P. (2003). Price Stability in Open Economies. *Review of Economic Studies*, 70(4):743–764

Devereux, M. B. and Engel, C. (2003). Monetary Policy in the Open Economy Revisited: Price Setting and Exchange-Rate Flexibility. *Review of Economic Studies*, 70(4):765–783

Duarte, M. and Obstfeld, M. (2008). Monetary policy in the open economy revisited: The case for exchange-rate flexibility restored. *Journal of International Money and Finance*, 27(6):949–957

★ Engel, C. (2011). Currency Misalignments and Optimal Monetary Policy: A Reexamination. *American Economic Review*, 101(6):2796–2822

Farhi, E., Gopinath, G., and Itskhoki, O. (2014). Fiscal Devaluations. *Review of Economic Studies*, 81(2):725–760

Hassan, T. A., Mertens, T. M., and Zhang, T. (2022). A Risk-based Theory of Exchange Rate Stabilization. *The Review of Economic Studies*

### 3.5.4 Foreign Exchange Intervention

Fratzcher, M., Gloede, O., Menkhoff, L., Sarno, L., and Stöhr, T. (2019). When Is Foreign Exchange Intervention Effective? Evidence from 33 Countries. *American Economic Journal: Macroeconomics*, 11(1):132–156

Cavallino, P. (2019). Capital Flows and Foreign Exchange Intervention. *American Economic Journal: Macroeconomics*, 11(2):127–170

Fanelli, S. and Straub, L. (2021). A Theory of Foreign Exchange Interventions. *Review of Economic Studies*, 88(6):2857–2885

Itskhoki & Mukhin (2022). Optimal Exchange Rate Policy, *Working Paper*

### 3.6 Structural Estimation of Open-Economy Models (Optional)

- ★ Justiniano, A. and Preston, B. (2010). Can structural small open-economy models account for the influence of foreign disturbances? *Journal of International Economics*, 81(1):61–74
- Beraja, M. (2022). A Semi-structural Methodology for Policy Counterfactuals, *Working Paper*

## 4 International Portfolio Choice and Capital Flows

Gourinchas, P.-O., Rey, H., and Sauzet, M. (2019). The international monetary and financial system. *Annual Review of Economics*, 11:859–893

### 4.1 International Capital Allocation

- ★ French, K. R. and Poterba, J. M. (1991). Investor Diversification and International Equity Markets. *American Economic Review*, 81(2):222–226
- Coeurdacier, N. and Rey, H. (2013). Home Bias in Open Economy Financial Macroeconomics. *Journal of Economic Literature*, 51(1):63–115
- Heathcote, J. and Perri, F. (2013). The International Diversification Puzzle Is Not as Bad as You Think. *Journal of Political Economy*, 121(6):1108–1159
- Maggiore, M., Neiman, B., and Schreger, J. (2020). International currencies and capital allocation. *Journal of Political Economy*, 128(6):000–000
- Bruno, V. and Shin, H. S. (2017). Global dollar credit and carry trades: a firm-level analysis. *The Review of Financial Studies*, 30(3):703–749

### 4.2 Global Imbalances

Gourinchas, P.-O. and Rey, H. (2007a). From World Banker to World Venture Capitalist: U.S. External Adjustment and the Exorbitant Privilege. *G7 Current Account Imbalances: Sustainability and Adjustment, NBER Chapters*, pages 11–66

Caballero, R. J., Farhi, E., and Gourinchas, P.-O. (2008). An Equilibrium Model of Global Imbalances and Low Interest Rates. *American Economic Review*, 98(1):358–393

Mendoza, E. G., Quadrini, V., and Rios-Rull, J.-V. (2009). Financial Integration, Financial Development, and Global Imbalances. *Journal of Political Economy*, 117(3):371–416

### 4.3 Valuation effects

- ★ Gourinchas, P.-O. and Rey, H. (2007b). International Financial Adjustment. *Journal of Political Economy*, 115(4):665–703
- Curcuru, S. E., Dvorak, T., and Warnock, F. E. (2008). Cross-Border Returns Differentials. *The Quarterly Journal of Economics*, 123(4):1495–1530

Lane, P. R. and Shambaugh, J. C. (2010). Financial Exchange Rates and International Currency Exposures. *American Economic Review*, 100(1):518–540

Gourinchas, P.-O., Rey, H., and Truempler, K. (2012). The financial crisis and the geography of wealth transfers. *Journal of International Economics*, 88(2):266–283

Bénétrix, A. S., Lane, P. R., and Shambaugh, J. C. (2015). International currency exposures, valuation effects and the global financial crisis. *Journal of International Economics*, 96(S1):98–109

Maggiore, M. (2017). Financial Intermediation, International Risk Sharing, and Reserve Currencies. *American Economic Review*, 107(10):3038–3071

Gourinchas, P.-O., Rey, H., and Govillot, N. (2010). Exorbitant Privilege and Exorbitant Duty. IMES Discussion Paper Series 10-E-20, Institute for Monetary and Economic Studies, Bank of Japan

## 4.4 Global Financial Cycle

★ Miranda Agrippino, S., Rey, H. (Forthcoming). U.S. Monetary Policy and the Global Financial Cycle. *Review of Economic Studies*

Rey, H. (2013). Dilemma not Trilemma: The Global Financial Cycle and Monetary Policy Independence, *Jackson Hole Symposium*

Cerutti, E., Claessens, S., and Rose, A. K. (2019). How Important is the Global Financial Cycle? Evidence from Capital Flows. *IMF Economic Review*, 67(1):24–60

Obstfeld, M., Ostry, J. D., and Qureshi, M. S. (2018). Global Financial Cycles and the Exchange Rate Regime: A Perspective from Emerging Markets. *AEA Papers and Proceedings*, 108:499–504

### 4.4.1 The Transmission of Global Shocks in Emerging Economies

Kalemli-Ozcan, S. (2019). U.S. Monetary Policy and International Risk Spillovers, *Jackson Hole Symposium*

Benguria, F., Saffie, F. E., Urzua, S. (2020). The Transmission of Commodity Price Super-Cycles, *Working Paper*

Benigno, G., Converse, N., and Fornaro, L. (2015). Large capital inflows, sectoral allocation, and economic performance. *Journal of International Money and Finance*, 55(C):60–87

Akinci, O., Queralto, A. (2020). Exchange Rate Dynamics and Monetary Spillovers with Imperfect Financial Markets, *Working Paper*

## 4.5 The International Monetary System (Optional)

Farhi, E. and Maggiori, M. (2018). A Model of the International Monetary System. *The Quarterly Journal of Economics*, 133(1):295–355

Gopinath, G., Stein, J. (2020). Banking, Trade, and the Making of a Dominant Currency, *Working Paper*

Chahrour, R., Valchev, R. (2020). The International Medium of Exchange, *Working Paper*

## 5 Recent JMPs in International Macroeconomics and Finance

Maggiori, M. (2017). Financial Intermediation, International Risk Sharing, and Reserve Currencies. *American Economic Review*, 107(10):3038–3071

Barbiero, O. (2020). The Valuation Effects of Trade, *Working Paper*

Akinci, O. (2013). Global financial conditions, country spreads and macroeconomic fluctuations in emerging countries. *Journal of International Economics*, 91(2):358–371

Boehm, C. E., Flaaen, A., and Pandalai-Nayar, N. (2019). Input linkages and the transmission of shocks: firm-level evidence from the 2011 tōhoku earthquake. *Review of Economics and Statistics*, 101(1):60–75

Bocola, L. (2016). The pass-through of sovereign risk. *Journal of Political Economy*, 124(4):879–926

Valchev, R. (2020) Bond Convenience Yields and Exchange Rate Dynamics, *AEJ:Macro*

Candian, G. (2019). Information frictions and real exchange rate dynamics. *Journal of International Economics*, 116(C):189–205

Castillo Martinez, L. (2020) Sudden Stops, Productivity, and the Exchange Rate, *Working Paper*

Cavallino, P. (2019). Capital Flows and Foreign Exchange Intervention. *American Economic Journal: Macroeconomics*, 11(2):127–170

Coppola, A. (2020) In Safe Hands: The Financial and Real Impact of Investor Composition Over the Credit Cycle, *Working Paper*

Cormun, V. and De Leo, P. (2020). Shocks and Exchange Rates in Small Open Economies. *Working Paper*

Cravino, J. (2020), Exchange Rates, Aggregate Productivity and the Currency of Invoicing of International Trade, *Working Paper*

Dmitriev, M. and Hoddenbagh, J. (2019). Optimal fiscal transfers in a monetary union. *Journal of International Economics*, 117(C):91–108

Du, W. and Schreger, J. (2016). Local currency sovereign risk. *The Journal of Finance*, 71(3):1027–1070

Saffie, F. E., Ates, S. T. (Forthcoming) Fewer but Better: Sudden Stops, Firm Entry, and Financial Selection, *AEJ: Macro*

Varela, L. (2018). Reallocation, Competition, and Productivity: Evidence from a Financial Liberalization Episode. *Review of Economic Studies*, 85(2):1279–1313

Keller, L. (2020). Capital Controls and Risk Misallocation: Evidence From a Natural Experiment, *Working Paper*

Fornaro, L. (2015). Financial crises and exchange rate policy. *Journal of International Economics*, 95(2):202–215

Drenik, A. (2016). Labor Market Dynamics after Nominal Devaluations, *Working Paper*

Liao, G. (Forthcoming). Credit Migration and Covered Interest Rate Parity, *Journal of Financial Economics*

Mukhin, D. (2020). An Equilibrium Model of the International Price System, *Working Paper*

Fanelli, S. (2020). Monetary Policy, Capital Controls, and International Portfolios, *Working Paper*

Zhang, T. (2020). Monetary Policy Spillovers through Invoicing Currencies, *Working Paper*

To be continued

## 6 Miscellaneous

[What Have Economists Learned About the International Economy? \(Gita Gopinath at PIIE, October 2017\)](#)

[Stanford Big-Data Initiative in International Macro-Finance](#)

## 7 Useful Textbooks

Evans, M. D. D. (2011). Exchange-Rate Dynamics. *Princeton*

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

Mark, N. (2001). International Macroeconomics and Finance. *Blackwell*

Schmitt-Grohé, S. and Uribe, M. (2017). Open Economy Macroeconomics. *Princeton*

## 8 Seminars and Conferences

[4th Washington Area International Finance Symposium](#) on September 23, 2022 @ IADB

↔ Have to register before September 20, 2022

Jacques Polak Annual Research Conference @ IMF (date TBD)

[OIFM Seminars](#) on Mondays @ 12.30 PM

↔ *Discontinued* but you can view the videos of past talks

UMD Macro/IF Seminars on Wednesdays @ 3.30 PM

↔ Must attend!

ECON 709 Workshop on Tuesdays @ 12.30 PM

↔ Must attend!

## Meetings and Deadlines

Aug 30	Syllabus Overview	
Sep 1	International Comovement	Kose-Otrok-Whiteman 03
Sep 6	International RBC	Backus-Kehoe-Kydland 92
Sep 8	Trade Balance & Terms of Trade Non-traded goods	Backus-Kehoe-Kydland 94 Stockman-Tesar 95
Sep 13	International Asset Markets	Baxter-Crucini 95
Sep 15	Backus-Smith Puzzle International risk sharing International conditional comovement	Corsetti-Dedola-Leduc 08 Burnside-Graveline 19 Corsetti-Dedola-Leduc 14
Sep 20-22	Emerging Market Business Cycles Emerging Market Business Cycles	Aguiar-Gopinath 07 Garcia Cicco-Pancrazi-Urbe 10
<i>Sep 29: Submit Problem Set 1 at <a href="mailto:deleop@umd.edu">deleop@umd.edu</a></i>		
Sep 27-29	ER Determination Puzzle ER Determination Puzzle ER Determination Puzzle	Meese-Rogoff 83 Engel-West 05 Bacchetta-Van Wincoop 06
Oct 4-6	UIP Puzzle UIP Puzzle UIP Puzzle	Fama 84; Burnside-Eichenbaum-Rebelo 08 Engel 16 Hassan-Mano 15
	UIP Puzzle (Peso Problem)	Burnside-Eichenbaum-Kleshchelski-Rebelo 11
Oct 11 -13	UIP Puzzle (Risk-premium) UIP Puzzle (Risk-premium)	Verdelhan 10 Bansal-Shaliastovic 13
Oct 18 - 20	UIP Puzzle (Deviations from FIRE) ER (Deviations from FIRE)	Candian-De Leo 21 Bartram-Djuranovik-Garratt 22
Oct 25 - 27	ER in Imperfect Financial Markets Empirical tests of Gabaix-Maggiore 15 ER & Valuation Effects	Gabaix-Maggiore 15 Gourinchas-Rey 07
Nov 1-3	Foreign Exchange Intervention Foreign Exchange Intervention	
Nov 8-10	ER Disconnect in GE ER Disconnect Revisited	Itskhoki-Mukhin 21 Chahrour-Cormun-De Leo-Guerron-Valchev 22
<i>Nov 15-17: Paper discussions</i>		
<i>Nov 17: Submit Problem Set 2 at <a href="mailto:deleop@umd.edu">deleop@umd.edu</a></i>		
Nov 22 -24	Currency Pricing	Gopinath-Boz-Casas-Diez-Gourinchas-Plagborg Moller 20
Nov 29	Currency Bias	Maggiore-Neiman-Schreger 20
Dec 1	Global Financial Cycle	Miranda Agrippino-Rey 20

*Dec 6: Paper discussions*

*Dec 8: Project proposal presentation*