Economics 792
Course Overview

This course studies open economy macroeconomics and international finance: theory and evidence. Students in this course must have completed the core theory sequence in Economics PhD program.

Class meeting time: Tuesday and Thursday, 2-3:30 PM, CAS 114-A. We will try to move to a room within the economics building.

Contact information:
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Office Hours: Thursday and Thursdays 11:30 and 1:30. My schedule on other days will vary weekly, depending mainly on the job market events.


Requirements and grading:
(1) First, and most important, is the requirement that you read the assigned papers in advance and arrive in class ready to discuss the readings. Each day at the beginning of class, you will hand in a 2-3 page summary of the paper(s) to be discussed, including (i) the goal of the paper; (ii) the method/theoretical background/techniques used; (iii) substantive findings of the paper; and (iv) two nontrivial questions that you would ask the author about the paper if the paper were being presented at BU at a workshop. You should arrive in class each day having read the paper(s) and being ready to discuss the paper. If you had problems with parts of the papers, it is fine to ask questions in class.

(2) You will each have responsibility for presenting and critiquing a specific topic, and then proposing future research on this topic. Students will work individually, and can choose a specific topic or sub-topic from the reading list, or propose an alternative topic. The student will then be responsible for the following: (i) prepare a reading list for the class, involving 2-4 papers on the topic; (ii) present the material to the class, taking 2 class periods; (iii) write a summary of the research area, including the papers assigned to the class plus at least 2 additional papers; (iv)
describe potential future research in this area, including at least 1 well-described possible papers that could be written on this topic.

(3) Referee Reports: You will write two referee reports on papers relevant to our class. Writing a referee report has many benefits. You will learn how to think critically and constructively about a piece of work. You cannot be shallow, lazy, aggressive, or destructive. You must show that you understand the paper and its place in the literature, and you must seriously evaluate the good and bad points of the paper. Your job is to help the journal’s editor to make a good decision on the paper. You must constantly remember that people’s careers are on the line. I will give you more detail and some examples of referee reports later on.

(4) Computational analysis of an open economy model: We will be learning how to set up and solve a modern open economy macroeconomic model, beginning with the simplest small-scale competitive models and working toward models with sticky prices and alternative price-setting strategies. We will be using Matlab. If you are an accomplished Gauss programmer, you can use Gauss. But it would be better to learn how to use Matlab.

(5) Homework: Homework is assigned as a means to help you learn the material in a way that is not possible by only reading, not “doing.” You are encouraged to work together. Therefore, the homework will not be graded. We will discuss the homework in class on the “due date”.

Requirements and Grading Summary:
- 15%: Daily paper summaries and class participation
- 25%: Presentation and analysis of chosen topic
- 30%: Referee reports
- 30%: Analysis of computational models

Academic Conduct: It is your responsibility to know and understand the provisions of the CAS Academic Conduct Code (copies are available in room CAS 105). Cases of suspected academic misconduct will be referred to the Dean's Office. Plagiarism, whether from a friend, a book, or a website, is a serious academic offense. Misconduct on an exam will result in a zero grade for the exam. You may not work in groups or discuss assigned work with classmates unless this is specifically allowed in the written instructions for the assignment or exam.
Topics and Readings

For each date, there are main readings, and also supplementary readings. You are expected to read the paper(s) assigned for each class in advance and to be able to discuss the paper. For most topics, there are additional, “supplementary” readings. These are optional, but are listed for students who are interested in pursuing particular topics in more depth. Supplementary papers that are required for the field exam are denoted by boldface type. I will sometimes discuss parts of these supplementary papers in class. Anything discussed in class may appear on the course and/or field exams, whether or not it is in the designated required readings.

Introduction: The “facts” about international finance and macroeconomics


Supplementary reading:


Homework: Applying the band-pass filters

Flexible-price equilibrium models of international business cycles


Supplementary reading:


King, R; C. Plosser and S. Rebelo. Technical Appendix.


**Homework:** Analysis of competitive models of open economies

**Empirical behavior of exchange rates and the forward premium puzzle**


Supplementary reading:


Homework: Long-horizon predictability

Equilibrium models of money, interest rates, and real activity


Supplementary reading:


“New Keynesian” Open Economy Monetary Models

Early Models

Obstfeld-Rogoff book, Chapter 10. (Same as JPE paper, “Exchange Rate Dynamics Redux,”)


**Modern models**

You will receive additional readings for this section.


Baxter, M. and A. Landry, “International Linkages in a New Keynesian Model with Capital,” in progress (draft to be provided.)


**Supplementary reading:**


Topics Available for Student Choice

You may choose one of these topics for your presentation. After all the students have chosen topics, I will choose topics that I will present to the class.

Government debt


Supplementary reading:


Purchasing power parity


*Supplementary reading:*


**Real Exchange Rates**


Crucini, Mario; Christopher Telmer, and Marios Zachariades (2002) “Understanding European Real Exchange Rates,” mimeo, Vanderbilt University.


*Supplementary reading:*


Speculative attacks and balance of payments crises--“Early” models


New models of speculative attack and contagion


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**International Risk-Sharing**


*Supplementary reading:*


**Financial architecture**


*Supplementary reading:*

International Portfolio Choice


Supplementary reading: