

# Syllabus for lecture: Financial Economics II

Winter term 2018/19 – subject to slight changes

Lecture: Prof. Dr. Philip Sauré  
Room: 00 171 P4  
Time: Wednesday 2:15 pm

Tutorial 1: Leandro Navarro  
Room: 00 151 P3  
Time: Tuesday 8:30 am

Tutorial 2: Leandro Navarro  
Room: 00 221 HS II  
Time: Tuesday 4:15 pm

## Main Course Material

Gopinath, Gita, Elhanan Helpman, and Kenneth Rogoff, eds. Handbook of international economics. Vol. 4. Elsevier, 2014.

Harms, Philipp (2016): International Macroeconomics, 2nd edition, Tübingen (Mohr Siebeck).

## Course Chapters

### I. International borrowing and lending – basic concepts and stylized facts

*Keywords:* Balance of Payments (BOP), Current Account (CA), International Investment Position (IIP)

#### *Readings*

Harms, Chapter 2

#### *Optional readings*

Bracke, Thierry, Bussière, Matthieu, Fidora, Michael and Roland Straub. A Framework for Assessing Global Imbalances. *The World Economy* 33.9 (2010): 1140-1174.

Burstein, A., and Gopinath, G. 2014. International prices and exchange rates. In *Handbook of International Economics*

Chinn, M.D., Prasad, E.S., 2003. Medium-term determinants of current accounts in industrial and developing countries: an empirical exploration. *Journal of International Economics* 59 (1), 47–76.

Curcuro, Stephanie E., Dvorak, Thomas, and Francis E. Warnock. Cross-Border Returns Differentials. *The Quarterly Journal of Economics* 123.4 (2008): 1495-1530.

Gourinchas, P. O., & Rey, H. 2014. External adjustment, global imbalances, valuation effects, Chapter 10. In *Handbook of International Economics*

International Monetary Fund. Balance of Payments and International Investment Position Manual. Sixth Edition (2009).

Lane, Philip R., and Gian Maria Milesi-Ferretti. External adjustment and the global crisis. *Journal of International Economics* 88.2 (2012): 252-265.

## **II. Determinants of Global Imbalances**

*Keywords:* intertemporal optimization, consumption smoothing, distortions, sudden stops, speculative attacks

*Readings:*

Harms, Chapter X

Gourinchas, P. O., & Rey, H. 2014. External adjustment, global imbalances, valuation effects, Chapter 10. In *Handbook of International Economics*

Krugman, P. (1979) "A model of balance-of-payments crises." *Journal of money, credit and banking* 11.3 (1979): 311-325.

Calvo, G. 1998: *Capital Flows and Capital-Market Crises: The Simple Economics of Sudden Stops*, *Journal of Applied Economics*

*Optional readings*

Blanchard, O. and G. Milesi-Feretti 2012: (Why) Should Current Account Balances Be Reduced? *IMF Economic Review*

Bernanke, Ben. 2005. The global saving glut and the US current account deficit. No. 77. Board of Governors of the Federal Reserve System (US)

Broner, Fernando A. . Discrete devaluations and multiple equilibria in a first generation model of currency crises. *Journal of Monetary Economics* 55 (2008): 592– 605.

Caselli, Francesco and James Feyrer. The Marginal Product of Capital. *The Quarterly Journal of Economics* 122.2 (2007): 535-568.

Forbes, Kristin J. and Francis E. Warnock. Capital flow waves: Surges, stops, flight, and retrenchment. *Journal of International Economics* 88 (2012): 235–251.

Gourinchas, P.O., Rey, H., 2007. From world banker to world venture capitalist: US external adjustment and the exorbitant privilege G7 Current Account Imbalances: Sustainability and Adjustment. University of Chicago Press, 11–66.

Karabarbounis, Loukas and Brent Neiman. The Global Decline of the Labor Share. *Quarterly Journal of Economics* 129.1 (2013): 61-103.

Obstfeld, Maurice. "Assessing Global Imbalances: The Nuts and Bolts," *IMF Blog*, June 26, 2017.

Obstfeld, Maurice. Twenty Five Years of Global Imbalances. *CEPR Discussion Papers* 13066 (2018).

Rothenberg, A. D., and F. E. Warnock. 2011. "Sudden flight and true sudden stops." *Review of International Economics*

## **III. Measurement Issues**

*Keywords:* measurement, rate of return, exorbitant privilege, dark matter, inflation, retained earnings, tax evasion

*Readings:*

Gourinchas, P. O., & Rey, H. 2014. External adjustment, global imbalances, valuation effects, Chapter 10. In *Handbook of International Economics*

*Optional readings*

Curcuru, Stephanie E., Dvorak, Thomas, and Francis E. Warnock. Cross-Border Returns Differentials. *The Quarterly Journal of Economics* 123.4 (2008): 1495-1530.

Hausmann, R., & Sturzenegger, F. 2007. The missing dark matter in the wealth of nations and its implications for global imbalances. *Economic policy*

International Monetary Fund. *Balance of Payments and International Investment Position Manual*. Sixth Edition (2009).

Fischer, A., Groeger, H., Sauré, P., and Yesin, P. 2018. Current account adjustment and retained earnings. *Journal of International Money and Finance*

Mian, Olga and Philip Sauré. Cross-Country Inflation Differentials as a Source of Switzerland's Current Account Surplus. Working Paper (2018).

Zucman, Gabriel. 2013 "The missing wealth of nations. 2013: Are Europe and the US net debtors or net creditors?" *Quarterly Journal of Economics*

#### **IV. External Adjustment – Empirics**

*Keywords:* channels of adjustment, trade balance, nominal exchange rate, real exchange rate, panel estimations, IMF external sector report

*Readings:*

Lane, Philip R., and Gian Maria Milesi-Ferretti. "External adjustment and the global crisis." *Journal of International Economics* 88.2 (2012): 252-265.

*Optional readings*

Chinn, M. D., & Wei, S. J. 2013. A faith-based initiative meets the evidence: does a flexible exchange rate regime really facilitate current account adjustment?. *Review of Economics and Statistics*

Gourinchas, P.-O. and H. Rey 2007. "International financial adjustment." *Journal of Political Economy*

International Monetary Fund. Germany 2018 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for Germany. (2018)

Lee, Mr Jaewoo, et al. 2008 *Exchange rate assessments: CGER methodologies*. No. 261. International Monetary Fund

Phillips, Steven, et al. 2013 "The external balance assessment (EBA) methodology."

#### **V. External Adjustment – Theory**

*Keywords:* wage, real wage, real exchange rate, varieties, Home Market Effect, transfer effect and secondary burden.

*Readings:*

Dekle, Robert, Jonathan Eaton, and Samuel Kortum. 2007 "Unbalanced trade." *American Economic Review* 97.2: 351-355.

Corsetti, Giancarlo, Philippe Martin, and Paolo Pesenti. "Varieties and the transfer problem." *Journal of International Economics* 89.1 (2013): 1-12.

#### *Optional readings*

Dekle, Robert, Jonathan Eaton, and Samuel Kortum. 2008 "Global rebalancing with gravity: measuring the burden of adjustment." *IMF Staff Papers* 55.3: 511-540.

Krugman, Paul. Scale Economies, Product Differentiation, and the Pattern of Trade. *American Economic Review* 70.5 (1980): 950-959.

Lane, Philip R., and Gian Maria Milesi-Ferretti. "Global Imbalances and External Adjustment after the Crisis." IMF Working Paper (2014): 1-44.

Obstfeld, M., Rogoff, K., 2005. Global current account imbalances and exchange rate adjustments. *Brookings Papers on Economic Activity* 1, 67–123.

Trionfetti, Federico. (2016). The Transfer Problem. mimeo

## **VI. Exchange Rates Pass-Through**

*Keywords:* J-Curve, ERPT, Nominal Exchange Rate, Price Rigidities, Invoicing currency

#### *Readings*

Burstein, A., and Gopinath, G. 2014. International prices and exchange rates. In *Handbook of International Economics*

#### *Optional readings*

Álvarez, Luis J. , Dhyne, Emmanuel, Hoeberichts, Marco, Kwapil, Claudia, Le Bihan, Hervé , Lünemann, Patrick , Martins, Fernando , Sabbatini, Roberto, Stahl, Harald, Vermeulen, Philip and Juoko Vilminen. "Sticky prices in the euro area: a summary of new micro-evidence" *Journal of the European Economic Association* 4 2/3 (2006): 575-584.

Amiti, M., Itskhoki, O., and Konings, J. 2014. Importers, exporters, and exchange rate disconnect. *American Economic Review*

Atkeson, A., & Burstein, A. 2008. Pricing-to-market, trade costs, and international relative prices. *American Economic Review*

Auer, Raphael A. and Philip Sauré 2017. "Dynamic entry in vertically differentiated markets." *Journal of Economic Theory*

Auer, R. A., and Schoenle, R. S. 2016. Market structure and exchange rate pass-through. *Journal of International Economics*

Auer, Raphael A., Chaney, Thomas and Philip Sauré. "Quality Pricing to Market" *Journal of International Economics* 110 (2018): 87-102. Bonadio, B., Fischer, A. M., & Sauré, P. U. 2016. The speed of exchange rate pass-through. *Journal of the European Economic Association*, forthcoming

Burstein, Ariel and Nir Jaimovich. "Understanding Movements in Aggregate and Product-Level Real Exchange Rates." Working Paper (2008)

Corsetti, G., Martin, P., and Pesenti, P. 2013. Varieties and the transfer problem. *Journal of International Economics*

Chen, Natalie and Luciana Juvenal. "Quality, trade, and exchange rate pass-through" *Journal of International Economics* 100 (2016): 61-80.

Corsetti, G., and Dedola, L. 2005. A macroeconomic model of international price discrimination. *Journal of International Economics*, 67(1), 129-155.

Devereux, M. B., Dong, W., and Tomlin, B. 2017. Importers and exporters in exchange rate pass-through and currency invoicing. *Journal of International Economics*

Goldberg, L. S., and Campa, J. M. (2010). The sensitivity of the CPI to exchange rates: Distribution margins, imported inputs, and trade exposure. *The Review of Economics and Statistics*

Gopinath, G., Itskhoki, O., and Rigobon, R. 2010. Currency choice and exchange rate pass-through. *American Economic Review*

Gopinath, Gita and Roberto Rigobon. "Sticky Borders" *The Quarterly Journal of Economics* 123.2 (2008): 531-575.

Kaufmann, Daniel. "Price-Setting Behaviour in Switzerland: Evidence from CPI Micro Data" *Swiss Journal of Economics and Statistics* 145.3 (2009): 293-349.

Wanyu Chung. "Imported inputs and invoicing currency choice: Theory and evidence from UK transaction data." *Journal of International Economics* 99 (2016): 237–250.

#### **Additional Readings:**

di Giovanni, J., Levchenko, A., 2012. Country size, international trade, and aggregate fluctuations in granular economies. *Journal of Political Economy* 120 (6), 1083–1132.

Blanchard, O. J., Milesi-Ferretti, G. M., 2009. Global imbalances: in midstream? No. 2009-2029, International Monetary Fund.

Caballero, R.J., Farhi, E., Gourinchas, P.-O., 2008. Financial Crash, Commodity Prices, and Global Imbalances. *Brookings Papers on Economic Activity*, Fall, 1–55.