

Syllabus: Global Shocks and Local Economies

GSEFM, 2nd year elective course

Winter term 2024/24

Lecture: Prof. Dr. Philip Sauré

Location: TBA

Time: TBA

Grading: In-class presentation (50%) term paper (50%)

Field: Macroeconomics, Development and International Economics

Course Description

Globalization generates cross-border dependencies: as goods- and asset-markets integrate, countries become increasingly exposed to foreign shocks. The course is sub-divided into two broader parts, which study cross-border transmission of different types of shock. The first, somewhat larger part, focusses on exchange rate shocks, with special attention on the measurement of the exchange rate pass-through (ERPT), i.e., the elasticity of local prices to exchange rate changes. The ERPT yields information about market structure, the distribution of gains from trade, and the design of optimal trade policy. A related topic deals with the outcomes on local labor markets. The second part of the course focusses on the international transmission of sovereign default risk. We review various transmission channels, e.g., trade linkages, exposure of national banking systems, and common lenders.

Both parts of the course review relevant theoretical models and evaluate them in light of empirical findings. Beyond the narrow goal of becoming familiar with the recent literature, students will learn how to use modelling techniques to address specific research questions and how to test these theories with modern econometric methods based on rich datasets.

Students will hold an in-class presentation towards the end of the term and write a term-paper, which summarize and discuss one specific research paper that is related to the course's topics. Final grades will be based on the presentations and the written assignment in equal parts.

All course material will be uploaded on OLAT.

Course Structure

Part I - Exchange Rates Pass-Through

a) Basics

Keywords: ERPT, Price Rigidities, Nominal and Real Exchange Rate, Invoicing currency – Constant vs. variable markups,

Readings

Campa, Jose Manuel, and Linda S. Goldberg (2005). "Exchange rate pass-through into import prices." *Review of Economics and Statistics* 87.4: 679-690.

Burstein, A., and Gopinath, G. (2014). International prices and exchange rates. (In GHR)

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*, 92(2): 392–407.

b) Variable Markups

Keywords: Market structure, market power, optimal pricing, retail sector, quality

Readings

Krugman, P. (1980). Scale economies, product differentiation, and the pattern of trade. *The American Economic Review*, 70(5): 950-959.

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

Hummels, D., and Lugovskyy, V. (2009). International pricing in a generalized model of ideal variety. *Journal of Money, Credit and Banking*, 41(s1): 3-33.

Atkeson, A., and Burstein, A. (2008). Pricing-to-market, trade costs, and international relative prices. *American Economic Review*, 98(5): 1998–2031.

Nakamura, E., Steinsson, J., (2012). Lost in transit: product replacement bias and pricing to market. *American Economic Review*, 102 (7): 3277–3316.

Auer, R. A., and Schoenle, R. S. (2016). Market structure and exchange rate pass-through. *Journal of International Economics*, 64(2): 129–154.

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

Alviarez, V., Fioretti, M., Kikkawa, K., and Morlacco, M. (2021). Two-Sided Market Power in Firm-to-Firm Trade. *Mimeo Sciences Po*

Shaked, Avner, and John Sutton (1983). "Natural oligopolies." *Econometrica*, 51(5): 1469-1483.

Auer, Raphael A. and Philip Sauré (2017). "Dynamic entry in vertically differentiated markets." *Journal of Economic Theory*, 167(C): 177-205.

Auer, Raphael A., Thomas Chaney, and Philip Sauré (2018). "Quality pricing-to-market." *Journal of International Economics*, 110: 87-102.

Bonadio, B., Fischer, A. M., and Sauré, P. U. (2020). The speed of exchange rate pass-through. *Journal of the European Economic Association*

Forbes, Kristin, Ida Hjortsoe, and Tsvetelina Nenova (2018). "The shocks matter: improving our estimates of exchange rate pass-through." *Journal of International Economics*, 114: 255-275.

Auer, R. A., Levchenko, A. A., and Sauré, P. (2019). International inflation spillovers through input linkages. *Review of Economics and Statistics*, 101(3): 507-521.

c) Endogenous Currency Choice

Keywords: Currency Choice, Natural Hedging, multiple equilibria

Goldberg, L. S., and Tille, C. (2008). Vehicle currency use in international trade. *Journal of international Economics*, 76(2): 177-192.

Gopinath, G., Itskhoki, O., and Rigobon, R. (2010). Currency choice and exchange rate pass-through. *American Economic Review*, 100(1): 304-336.

Amiti, M., Itskhoki, O., and Konings, J. (2014). Importers, exporters, and exchange rate disconnect. *American Economic Review*, 104(7): 1942-1978.

Devereux, M. B., Dong, W., and Tomlin, B. (2017). Importers and exporters in exchange rate pass-through and currency invoicing. *Journal of International Economics*, 105(C): pages 187-204.

Amiti, M., Itskhoki, O., and Konings, J. (2018). Dominant currencies How firms choose currency invoicing and why it matters, NBB WP No. 353

d) Exchange Rates and the Domestic Economy

Keywords: Labor markets, distribution, non-homotheticity, input-output network

Hummels, D., Jørgensen, R., Munch, J., and Xiang, C. (2014). The wage effects of offshoring: Evidence from Danish matched worker-firm data. *American Economic Review*, 104(6), 1597-1629.

Cravino, J., and Levchenko, A. A. (2017). The distributional consequences of large devaluations. *American Economic Review*, 107(11), 3477-3509.

Costa, R., Dhingra, S., and Machin, S. (2022). New dawn fades: trade, labour and the Brexit exchange rate depreciation, mimeo

Freitag, A. and Lein, S., (2023): Endogenous Product Adjustment and Exchange Rate Pass-Through, *Journal of International Economics*, 140, 103706

Auer, R. Burstein, A., Lein, S., and Vogel, J. (forthcoming): "Unequal Expenditure Switching: Evidence from Switzerland" *Review of Economic Studies*

Arni, P., Egger, P., Erhardt, K., Gubler, M. and Sauré P. (2023): Winners and losers of the 2015 Swiss exchange rate shock: Unveiling heterogeneous worker responses mimeo

Aghion, P., Bénabou, R., Martin, R., and Roulet, A. (2023). Environmental preferences and technological choices: Is market competition clean or dirty?. *American Economic Review: Insights*, 5(1), 1-19.

Part II – Transmission of Sovereign Risk

Keywords: Sovereign debt crisis, banking crisis, contagion, transmission, trade-, financial- and portfolio-channel, bank exposure

Readings

Aguiar, Mark, and Manuel Amador (2014). "Sovereign debt." Handbook of International Economics. Vol. 4. Elsevier. 647-687.

Kaminsky, G. L., and Reinhart, C. M. (2000). On crises, contagion, and confusion. Journal of international Economics, 51(1): 145-168.

Forbes, Kristin J., and Menzie D. Chinn (2004). "A decomposition of global linkages in financial markets over time." Review of economics and statistics 86(3): 705-722.

Caporin, M., Pelizzon, L., Ravazzolo, F., & Rigobon, R. (2018). Measuring sovereign contagion in Europe. Journal of Financial Stability, 34, 150-181.

Longstaff, F. A., Pan, J., Pedersen, L. H., and Singleton, K. J. (2011). How sovereign is sovereign credit risk?. American Economic Journal: Macroeconomics, 3(2): 75-103.

Acharya, Viral, Itamar Drechsler, and Philipp Schnabl (2014). "A pyrrhic victory? Bank bailouts and sovereign credit risk." The Journal of Finance, 69(6): 2689-2739.

Brutti, Filippo, and Philip Sauré (2015). "Transmission of sovereign risk in the euro crisis." Journal of International Economics, 97(2): 231-248.

Mertens, K., and Ravn, M. O. (2013). The dynamic effects of personal and corporate income tax changes in the United States. American Economic Review, 103(4): 1212-1247.

Broner, Fernando A., R. Gaston Gelos, and Carmen M. Reinhart (2006). "When in peril, retrench: Testing the portfolio channel of contagion." Journal of International Economics, 69(1): 203-230.

Bahaj, S. (2019). Sovereign spreads in the Euro area: Cross border transmission and macroeconomic implications. Journal of Monetary Economics.

Augustin, P., Subrahmanyam, M. G., Tang, D. Y., and Wang, S. Q. (2016). Credit default swaps: Past, present, and future. Annual Review of Financial Economics, 8: 175-196.

Gennaioli, N., Martin, A., and Rossi, S. (2018). Banks, government bonds, and default: What do the data say? Journal of Monetary Economics, 98: 98-113.