Course Objectives: This is a one-semester course in international macroeconomic theory for MA and Ph.D. students in economics. This means that the course will begin with a careful study of the core models of international macroeconomics. From there, however, we will proceed to explore topics that are on the research frontier.

Prerequisites: Normally, students in this class have already taken the first semester graduate courses in macroeconomics (ECON 7320/8320) and mathematical economics (ECON 7120/8120). However, it is possible to tackle the class without them provided that you know some math (you need to be fluent in differential calculus, at the very least) and work very hard. I will assume that most of you have had little exposure to international macroeconomics per se.

Class Meetings: Wednesday, 7:10-10:10 in BB 264

Office Hours: Monday, 2:30 PM in BB 411, or by appointment. I try to maintain an open door policy, so feel free to drop by. Be aware, however, that I am often called away for meetings.

Office Phone: 678-3675

E-mail: wtsmith@memphis.edu

Grading: There are two grading schemes, Plan A and Plan B:

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<tr>
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<th>Plan A</th>
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<tr>
<td>Midterm</td>
<td>30 percent</td>
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<td>Homework</td>
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<td>Presentation</td>
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Homework will be assigned roughly every week. PhD students must follow Plan A; MA and MBA students may chose either Plan A or Plan B (lease let me know which by before the midterm).

If you follow plan A, you must give a presentation to the class on a topic in international macroeconomics that is currently the subject of research in the profession. The topic could be a general area of research (such as those at the end of the syllabus), or a recent paper on international macroeconomics (either a working paper or a paper recently published in a major journal such as the Journal of International Economics or the Journal of Monetary Economics). Try to select a topic fairly early in the semester; be sure to get my approval before you start to research the topic.

Prerequisite: Advanced Macroeconomics (ECON 7320/8320). I will also assume that you have mastered the material in Advanced Microeconomics (ECON 7310/8310) and Advanced quantitative Methods in Economics (ECON 7120//8120).

Texts: The required text is

I strongly recommend that you also acquire


O&R is an encyclopedic treatise on modern international macroeconomic theory. Mark’s new book is empirically oriented, but provides a lucid, stripped down exposition of the theory.

If you don’t have much background in international economics, you might profit from a good undergraduate text. I recommend


In addition to these books, there will be reading assignments from a variety of journals and books, listed below. Most of the readings are available on-line though the library.

**Reading Assignments**

I. Building Blocks
   
   A. Foreign Exchange Markets
      
      Mark, relevant parts of section 1 of chapter 1
   
   B. The Balance of Payments
      
      Krugman & Obstfeld, chapter 12 or any other undergraduate text
   
      Mark, section 2 of chapter 2

   B. Interest Parity, Efficiency, and Risk Premia
      
      Mark, relevant parts of section 1 of Chapter 1 Chapter 6, sections 2, 4, 5, and maybe 6.
      
      O&R, Chapter 8, Section 7.5
      
      
      
      
C. Purchasing Power Parity

Mark, section 1 of chapter 3 and chapter 7


II. Mundell/Fleming and its variants

Krugman & Obstfeld, chapters 13, 14, 16, and 17

Mark, section 1 of chapter 8


III. Exchange Rate Determination

A. Flexible Price (“Monetary”) Models

Mark, Chapter 3

O&R, sections 1 and 2 of chapter 8


B. Sticky-Price Models

Mark, section 2 of chapter 8

O&R, section 4.2 of chapter 8


K. Rogoff, 2002, “Dornbusch’s Overshooting Model after 25 Years,” *IMF Staff Papers* 49 (Special Issue), 1-34.

C. More Recent Models


D. Empirical Tests and the Forecasting Puzzle


IV. Speculative Attacks on Fixed Exchange Rate Regimes

Mark, chapter 11

O&R, section 4.2 of Chapter 8


M. Obstfeld, 1994, “The Logic of Currency Crises,” *Cahiers Economiques et Monetaires* 43, 189-213. This is available at Obstfeld’s website, elsa.berkeley.edu/users/Obstfeld/

V. Target Zones

Mark, chapter 10
O&R, section 4.2 of chapter 8


VI. “Equilibrium” Models of the Exchange Rate

Mark, chapter 4
O&R, section 3 of chapter 8


VII. International Real Business Cycle Models

Mark, Chapter 5


VIII. The New International Macroeconomics

Mark, Chapter 9
O&R, chapter 10


IX. New Keynesian International DSGE Models (an introduction)


X. The Modern Theory of the Current Account

O&R, Chapters 1 & 2

XI. Puzzles

A. The Feldstein-Horioka Puzzle


B. The Consumption Correlation Puzzle

O&R, Chapter 5


C. The Home Bias Puzzle


XII. Transaction Costs
