

**International Finance**  
(Economics 280B)

Reading List

**Note: This list obviously encompasses far more material than can be covered in a single semester. So we will be selective. A broader reading list may be helpful, however, to those proceeding to the International field exam.**

Main text (required):

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

Supplementary text:

J. Frenkel and A. Razin, *Fiscal Policies in the World Economy*, 3d edition, MIT Press, 1996.

I. Traditional Open-Economy Models

Frenkel-Razin, chaps. 2-4.

Obstfeld-Rogoff, chap. 9.

R. Dornbusch, "Expectations and Exchange Rate Dynamics," *Journal of Political Economy*, December 1976.

J. Meade, *The Balance of Payments*. London: Oxford University Press, 1952 (chapters 1-3).

R. Mundell, *International Economics*, Macmillan, 1968.

M. Mussa, "The Exchange Rate, the Balance of Payments, and Monetary and Fiscal Policy under a Regime of Controlled Floating," *Scandinavian Journal of Economics*, June 1976.

K. Rogoff, "Dornbusch's Overshooting Model after Twenty-Five Years," IMF working paper, February 2002, posted at: <http://www.imf.org/external/pubs/ft/wp/2002/wp0239.pdf>.

II. The Basic Intertemporal Approach to Balance-of-Payments Analysis

Obstfeld-Rogoff, chaps. 1-3.

M. Obstfeld and K. Rogoff, "The Intertemporal Approach to the Current Account," in G. Grossman and K. Rogoff, eds., *Handbook of International Economics*, vol. 3. Amsterdam: North-Holland, 1995.

T. Persson, "Deficits and Intergenerational Welfare in Open Economies," *Journal of International Economics*, August 1985.

J. Sachs, "The Current Account in the Macroeconomic Adjustment Process," *Scandinavian Journal of Economics*, 1982.

### III. International Relative Prices

Obstfeld-Rogoff, chap. 4.

R. Dornbusch, "Exchange Rates and Prices," *American Economic Review*, March 1987.

C. Engel, "Accounting for U.S. Real Exchange Rate Changes," *Journal of Political Economy*, June 1999.

P. Goldberg and M. Knetter, "Goods Prices and Exchange Rates: What Have We Learned?" *Journal of Economic Literature*, September 1997.

P. Krugman, "Pricing to Market when the Exchange Rate Changes," in S. Arndt and J. Richardson, eds., *Real-Financial Linkages among Open Economies*. Cambridge: MIT Press, 1987.

R. Marston, "Real Exchange Rates and Productivity Growth in the United States and Japan," in S. Arndt and J. Richardson, eds., *Real-Financial Linkages among Open Economies*. Cambridge: MIT Press, 1987.

M. Obstfeld, "Intertemporal Price Speculation and the Optimal Current-Account Deficit," *Journal of International Money and Finance*, August 1983. ["Reply and Clarification," *JIMF*, February 1996.]

K. Rogoff, "The Purchasing Power Parity Puzzle," *Journal of Economic Literature*, June 1996.

A. Stockman, "The Equilibrium Approach to Exchange Rates," *Federal Reserve Bank of Richmond Economic Review*, March/April 1987.

L. Svensson and A. Razin, "The Terms of Trade and the Current Account: The Harberger-Laursen-Metzler Effect," *Journal of Political Economy*, February 1983.

#### IV. Stochastic Models of International Capital Flows and Asset Prices

Obstfeld-Rogoff, chs. 2 and 5.

D. Backus, P. Kehoe, and F. Kydland, "International Real Business Cycles," *Journal of Political Economy*, August 1992.

D. Backus and G. Smith, "Consumption and Real Exchange Rates in Dynamic Exchange Economies with Nontraded Goods," *Journal of International Economics*, November 1993.

H. Cole, "Financial Structure and International Trade," *International Economic Review*, May 1988.

A. Kraay and J. Ventura, "Current Accounts in Debtor and Creditor Countries," *Quarterly Journal of Economics*, November 2000.

R. Lucas, "Interest Rates and Currency Prices in a Two-Country World," *Journal of Monetary Economics*, November 1982.

P. Martin and H. Rey, "Financial Supermarkets: Size Matters for Asset Trade," <http://www.haas.berkeley.edu/groups/iber/wps/cider/c00-110.pdf>, March 2000.

A. Stockman, "Fiscal Policies and International Financial Markets," in J. Frenkel, ed., *International Aspects of Fiscal Policies*. Chicago: University of Chicago Press, 1988.

R. Stulz, "An Equilibrium Model of Exchange Rate Determination and Asset Pricing with Nontraded Goods and Imperfect Information," *Journal of Political Economy*, October 1987.

L. Svensson, "Trade in Risky Assets," *American Economic Review*, June 1988.

#### V. Money and Exchange-Rate Regimes

Obstfeld-Rogoff, chap. 8.

F. Alvarez and A. Atkeson, "Money and Exchange Rates in the Grossman-Weiss-Rotemberg Model," *Journal of Monetary Economics*, December 1997.

M. Baxter and A. Stockman, "Business Cycles and the Exchange Rate Regime: Some International Evidence," *Journal of Monetary Economics*, May 1989.

B. Eichengreen and M. Flandreau, eds., *The Gold Standard in Theory and History*. London: Routledge, 1997.

V. Grilli and N. Roubini, "Liquidity and Exchange Rates," *Journal of International Economics*, May 1992.

E. Helpman, "An Exploration in the Theory of Exchange-Rate Regimes," *Journal of Political Economy*, October 1981.

O. Jeanne and A. Rose, "Noise Trading and Exchange Rate Regimes," *Quarterly Journal of Economics*, May 2002.

K. Lewis, "Puzzles in International Financial Markets," in G. Grossman and K. Rogoff, eds., *Handbook of International Economics*, vol. 3. Amsterdam: North-Holland, 1995.

R. Lyons, *The Microstructure Approach to Exchange Rates*, MIT Press, 2001.

T. Persson, "Real Transfers in Fixed Exchange Rate Systems and the International Adjustment Mechanism," *Journal of Monetary Economics*, May 1984.

A. Stockman, "The Cash-in-Advance Constraint in International Economics," in M. Kohn, ed., *Finance Constraints and the Theory of Money*, Academic Press, 1989.

P. Weil, "Currency Competition and the Evolution of Multi-currency Regions," in A. Giovannini and C. Mayer, eds., *European Financial Integration*, Cambridge University Press, 1991.

## VI. Changes of Regime

Obstfeld-Rogoff, chap. 8.

G. Bertola, "Continuous-Time Models of Exchange Rates and Intervention," in F. van der Ploeg, ed., *The Handbook of International Macroeconomics*, Blackwell, 1994.

R. Flood and P. Garber, "Collapsing Exchange Rate Regimes: Some Linear Examples," *Journal of International Economics*, August 1984.

P. Garber and L. Svensson, "The Operation and Collapse of Fixed Exchange Rate Regimes," in G. Grossman and K. Rogoff, eds., *Handbook of International Economics*, vol. 3, North-Holland, 1995.

O. Jeanne, *Currency Crises: A Perspective on Recent Theoretical Developments*, Princeton Special Papers in International Economics 20, March 2000.

P. Krugman, "A Model of Balance-of-Payments Crises," *Journal of Money, Credit and Banking*, August 1979.

P. Krugman, "Target Zones and Exchange Rate Dynamics," *Quarterly Journal of Economics*, August 1991.

M. Obstfeld, "Rational and Self-fulfilling Balance of Payments Crises," *American Economic Review*, March 1986.

A. Velasco, "Financial Crises and Balance of Payments Crises" *Journal of Development Economics*, 1987.

#### VII. More on Sticky Prices and Stabilization Policies

G. Calvo and C. Végh, "Exchange-Rate Based Stabilisation under Imperfect Credibility," in H. Frisch and A. Worgotter, eds., *Open-Economy Macroeconomics*. London: Macmillan, 1993.

R. Clarida and J. Gali, "Source of Real Exchange-Rate Fluctuations: How Important Are Nominal Shocks?" *Carnegie-Rochester Conference Series on Public Policy*, December 1994.

R. Dornbusch and A. Giovannini, "Monetary Policy in the Open Economy," in B. Friedman and F. Hahn, eds., *Handbook of Monetary Economics*. Amsterdam: North-Holland, 1990.

W. McKibbin and J. Sachs, *Global Linkages*. Washington: Brookings, 1991.

L. Svensson, "The Zero Bound in an Open Economy: A Foolproof Way of Escaping from a Liquidity Trap," *Monetary and Economic Studies* (Bank of Japan), February 2001.

J. B. Taylor, *Macroeconomic Policy in a World Economy: From Econometric Design to Practical Operation*. New York: W. W. Norton, 1993.

#### VIII. Optimal Policies, Accommodation, and Credibility

Obstfeld-Rogoff, chap. 9.

G. Alogoskoufis and R. Smith, "The Phillips Curve, the Persistence of Inflation and the Lucas Critique: Evidence from Exchange Rate Regimes," *American Economic Review*, December 1991.

M. Bordo and F. Kydland, "The Gold Standard as a Rule: An Essay in Exploration" *Explorations in Economic History*, 1995.

G. Calvo, "Temporary Stabilization: Predetermined Exchange Rates," *Journal of Political Economy*, December 1986.

A. Drazen, *Political Economy in Macroeconomics*, Princeton University Press, 2000. Chapter 12.

F. Giavazzi and M. Pagano, "The Advantage of Tying One's Hands: EMS Discipline and Central Bank Credibility," *European Economic Review*, June 1988.

S. Morris and H. Shin, "Unique Equilibrium in a Model of Self-Fulfilling Attacks," *American Economic Review*, 1998.

M. Obstfeld, "Models of Currency Crises with Self-fulfilling Features," *European Economic Review*, 1996.

K. Rogoff, "Can International Monetary Policy Cooperation Be Counterproductive?" *Journal of International Economics*, May 1985.

L. Svensson, "Fixed Exchange Rates as a Means to Price Stability: What Have We Learned?" *European Economic Review*, 1994.

#### IX. Sovereign Risk, Imperfect Capital Markets, and Capital Controls

Obstfeld-Rogoff, chap. 6.

P. Aghion, P. Bacchetta, and A. Banerjee, "Capital Markets and the Instability of Open Economies" <http://www.szgerzensee.ch/download/wp-9901.pdf>.

A. Atkeson, "International Lending with Moral Hazard and Risk of Repudiation," *Econometrica*, July 1991.

J. Bulow and K. Rogoff, "A Constant Recontracting Model of Sovereign Debt," *Journal of Political Economy*, February 1989.

J. Bulow and K. Rogoff, "Sovereign Debt: Is to Forgive to Forget?" *American Economic Review*, March 1989.

J. Eaton and M. Gersovitz, "Debt with Potential Repudiation: Theoretical and Empirical Analysis," *Review of Economic Studies*, April 1981.

B. Eichengreen, *Globalizing Capital*, Princeton University Press, 1996.

K. Froot and J. Stein, "Exchange Rates and Foreign Direct Investment: An Imperfect Capital Markets Approach," *Quarterly Journal of Economics*, November 1991.

M. Gertler and K. Rogoff, "North-South Lending and Endogenous Domestic Capital Market Inefficiencies," *Journal of Monetary Economics*, October 1990.

R. Gordon and A. Bovenberg, "Why Is Capital So Immobile Internationally? Possible Explanations and Implications for Capital Income Taxation," *American Economic Review*, December 1996.

P. Gourinchas and O. Jeanne, "On the Benefits of Capital Account Liberalization for Emerging Economies," mimeo, Princeton and IMF.

K. Lewis, "Trying to Explain Home Bias in Equities and Consumption," *Journal of Economic Literature*, June 1999.

M. Obstfeld and K. Rogoff, "The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?" *NBER Macroeconomics Annual 2000*.

M. Obstfeld and A. Taylor, "The Great Depression as a Watershed: International Capital Mobility over the Long Run," in M. Bordo, C. Goldin, and E. White, ed., *The Defining Moment: The Great Depression and the American Economy in the Twentieth Century*, University of Chicago Press, 1998.

J. Sachs, *Theoretical Issues in International Borrowing*. Princeton Studies in International Finance 54, July 1984.

#### X. Economics of Currency Areas

A. Alesina and R. Barro, "Currency Unions," *Quarterly Journal of Economics*, May 2002.

T. Bayoumi, "A Formal Model of Optimum Currency Areas," *IMF Staff Papers*, December 1994.

G. Calvo and C. Reinhart, "Fear of Floating," *Quarterly Journal of Economics*, May 2002.

B. Eichengreen, *Golden Fetters*, Oxford University Press, 1992.

S. Fischer, "Exchange Rate Regimes: Is the Bipolar View Correct?" *Journal of Economic Perspectives*, Spring 2001.

R. Mundell, "Optimum Currency Areas," *American Economic Review*, September 1961.

M. Obstfeld, *EMU: Ready or Not?* Princeton Essays in International Finance 209, July 1998.

A. Rose, "One Money, One Market: Estimating the Effect of Common Currencies on Trade," *Economic Policy*, April 2000. [See also the Persson-Rose exchange in *Economic Policy*, October 2001.]

#### XI. The New Open Economy Macroeconomics

P. Aghion, P. Bacchetta, and A. Banerjee, "A Simple Model of Monetary Policy and Currency Crises," *European Economic Review*, May 2000.

P. Bacchetta and E. van Wincoop, "Does Exchange Rate Stability Increase Trade and Welfare?" *American Economic Review*, December 2000.

P. Bacchetta and E. van Wincoop, "A Theory of the Currency Denomination of International Trade," <http://www.szgerzensee.ch/download/wp-0107.pdf>.

V. V. Chari, P. Kehoe, and E. McGrattan, "Can Sticky Price Models Generate Volatile and Persistent Real Exchange Rates?" Federal Reserve Bank of Minneapolis Staff Report 277, August 2000. Forthcoming, *Review of Economic Studies*.

G. Corsetti and P. Pesenti, "International Dimensions of Optimal Monetary Policy," mimeo, University of Rome and Federal Reserve Bank of New York, March 2001.

M. Devereux and C. Engel, "Monetary Policy in the Open Economy Revisited: Price Setting and Exchange Rate Flexibility," NBER Working Paper 7665 (April 2000).

C. Engel, "Expenditure Switching and Exchange Rate Policy," NBER Working Paper 9016, June 2002. Forthcoming, *NBER Macroeconomics Annual 2002*.

P. Lane, "The New Open Economy Macroeconomics: A Survey," *Journal of International Economics*, August 2001.

M. Obstfeld, "International Macroeconomics: Beyond the Mundell-Fleming Model," *IMF Staff Papers*, Special Issue, 2001.

M. Obstfeld, "Exchange Rates and Adjustment: Perspectives from the New Open Economy Macroeconomics," July 2002, at [http://elsa.berkeley.edu/users/obstfeld/ftp/exch\\_rates\\_adjust.pdf](http://elsa.berkeley.edu/users/obstfeld/ftp/exch_rates_adjust.pdf).

M. Obstfeld and K. Rogoff, "Exchange Rate Dynamics Redux," *Journal of Political Economy*, June 1995.

M. Obstfeld and K. Rogoff, "New Directions for Stochastic Open Economy Models," *Journal of International Economics*, February 2000.