



ECON 517: Open Economy Macroeconomics, Spring 2017

Tuesday and Thursday 9:05–10:20 // Oak Building 102

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The focus of the course will be on questions, the data that underly them, and the models created to explain them. What are the the facts? Which models are consistent with which facts? Which facts are particularly troublesome to explain with a model? We will cover the workhorse models in class and point to models that have gone beyond them, some of which students will present in class. The idea is not to enumerate the entirety of international economics, but to give you an understanding of the big questions so that you may find your own ways to contribute to the field. These questions include:

- What is the scope for cross-country risk sharing? To what extent does this risk sharing take place? How important are international financial markets? Why are price differences across countries so large and persistent?
- Why does capital flow into the United States and out of China and Saudi Arabia? Why is there relatively little international diversification of portfolios? Why are equity returns more highly correlated across countries than output?
- What happens during sovereign debt crises? Why do people keep lending Argentina money?

A question you should ask any international economist is: “Why is the country an interesting object to study?” One answer might be: “Because policies may be relatively homogeneous internally, and heterogeneous externally.” That’s a good answer, but a more pragmatic answer is probably: “Because that is how the data are collected.” We’ll spend a significant part of class thinking about data, usually as a way to motivate questions and models. We’ll also try and clarify some of the tricky aspects of measurement that arise in open economy models.

Prerequisites

If you are taking this class, you should have already completed the first-year PhD courses in macro- and micro-economic theory. You should also be comfortable (or be willing to work hard to learn) to use a computer to solve an economic model.

Grading

Your course grade is based on problem sets and in-class presentations. We will discuss the details of each component in class.

Problem sets (40%) I anticipate three or four problem sets throughout the semester. In the problem sets, you will be asked to solve models, find and analyze data, and use the principles we are studying to analyze and comment on various issues. Most of the problem set work will be computational in nature.

Problem set participation (10%) After each problem set has been graded, I will assign questions to students to present their answer in a two or three slide short presentation. The presentation should include the way that the student solved the problem, any particular difficulties, and the solution itself.

Short presentation (15%) The short presentation is meant to practice distilling a paper down to its core elements. What question is the paper trying to answer? How do they go about answering it? What do they find? This presentation is no more than 15 minutes long and should not require more than 5 slides. We will present these in the first half of the semester.

Long presentation (35%) The long presentation is meant to practice presenting your own work. This presentation is no more than 45 minutes long and should not require more than 20 slides. We will present these in the second half of the semester.

Course outline

Below is a thematic course outline. The schedule on the course web page is the most up to date and includes links to the assignments and readings. On the course web page you will find the week-by-week assigned reading list as well as an extended reading list.

1. Risk sharing
 - (a) Data: Cross country correlations, relative prices and exchange rates
 - (b) Small open economy models
 - (c) Two-country models
2. Capital flows
 - (a) Data: Current and financial accounts, net foreign assets
 - (b) Capital market liberalization
 - (c) Financial development and capital flows
 - (d) Trade costs and capital flows
3. Sovereign debt
 - (a) Data: Interest rates, defaults
 - (b) Complete markets models
 - (c) Incomplete markets models

Excused Absences

Illness or injury, family emergencies, certain University-approved curricular and extra-curricular activities, and religious holidays can be legitimate reasons to miss class or to be excused from a scheduled examination.

In the case of your own illness or injury, confirmation from a physician, physician's assistant, a nurse-practitioner, or a nurse is required. Be advised that University Health Services cannot provide such verification unless they have provided treatment and the student authorizes release of information to the instructor. Further, barring extraordinary circumstances, the confirmation must be available to the instructor prior to the missed course event.

With regard to family emergencies, you must provide verifiable documentation of the emergency. Given the vast array of family emergencies the instructor will provide precise guidance as to what constitutes adequate documentation. Unless the emergency is critical you should notify the instructor in advance of your absence from the scheduled course event. In cases of critical emergencies, you must notify the instructor within one week of your absence.

For University-approved curricular and extra-curricular activities, verifiable documentation is also required. The student should obtain from the unit or department sponsoring the activity a letter (or class absence form) indicating the anticipated absence(s). The letter must be presented to the instructor at least one week prior to the first absence.

In the case of religious holidays, the student should notify the instructor by the third week of the course of any potential conflicts.

If a student misses a class during which an evaluative event (e.g., a quiz or an exam) takes place, and the student has a valid excuse, it is the policy of the Economics Department that the missed event may be made up in one of two ways that are to be decided by the instructor:

1. the student will take a make-up version for the missed evaluative event; or
2. the student will be excused from the missed event, and the weight of that event in the overall course grade will be reassigned to either the course final exam or to a subset of the subsequent evaluative events in the course.

Academic Integrity

Penn State defines academic integrity as the pursuit of scholarly activity in an open, honest and responsible manner. All students should act with personal integrity, respect other students dignity, rights and property, and help create and maintain an environment in which all can succeed through the fruits of their efforts (Faculty Senate Policy 49-20).

Dishonesty of any kind will not be tolerated in this course. Dishonesty includes, but is not limited to, cheating, plagiarizing, fabricating information or citations, facilitating acts of academic dishonesty by others, having unauthorized possession of examinations, submitting work of another person or work previously used without informing the instructor, or tampering with the academic work of other students. Students who are found to be dishonest will receive academic sanctions and will be reported to the University's Judicial Affairs office for possible further disciplinary sanction.

Nondiscrimination

The Pennsylvania State University is committed to the policy that all persons shall have equal access to programs, facilities, admission, and employment without regard to personal characteristics not related to ability, performance, or qualifications as determined by University policy or by state or federal authorities. The Pennsylvania State University does not discriminate against any person because of age, ancestry, color, disability or handicap, national origin, race, religious creed, sex, sexual orientation, or veteran status.

Students with disabilities

The Pennsylvania State University encourages qualified people with disabilities to participate in its programs and activities and is committed to the policy that all people shall have equal access to programs, facilities, and admissions without regard to personal characteristics not related to ability, performance, or qualifications as determined by University policy or by state or federal authorities. If you anticipate needing any type of accommodation in this course or have questions about physical access, please tell the instructor as soon as possible.