

Economics 4520: International Finance**Fall 2023, University of Pennsylvania**

Instructor: Alessandro Dovis

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Lecture Times: Monday and Wednesday 8:30-10:00am.

Lecture Location: PCPE 200

Office Hours: Tuesdays 11:00am-noon and by appointment (see details on canvas).

Teaching Assistant: The TA for the course is Mingzhuo Deng. His e-mail address is dengmz@upenn.edu. He will have office hours on Monday 3:30-4:30 PM and Thursday 9:00-10:00 AM in PCPE 208.

Course Website: Course information is available in Canvas. Canvas is the official channel I will use to make announcements, post slides, problem sets, exercises, and relevant papers for you to read.

Course Description: This is a one-semester course in international finance and open economy macroeconomics. The course's objective is to build the analytical foundation for understanding key macro issues in the world economy such as such as current account deficits, the global financial cycle, financial and sovereign debt crises.

To this end, we will develop a set of theoretical tools to model an economy open to trade in goods and assets. Broadly speaking, we are going to cover the following topics:

1. Current Account Determination: Data and Theory
2. Asset Prices, Risk Sharing, Nominal Exchange Rates and Interest Rate Parities
3. External Debt, Debt Crises, and Sovereign Default
4. Monetary Policy and Sustainability of Government Debt

Pre-requisites:

- Intermediate Micro and Intermediate Macro: Econ 2100 and Econ 2200.

- Calculus: Math 1070-1080 or Math 1400-1410.

Grading: Your grade will be based on:

- **4 problem sets (1/8 of total grade each)** You are allowed (actually encouraged) to work with other students on the problem sets but each must submit their own copy. Problem sets will consist of: i) answering theoretical questions, ii) data work, iii) reading articles and prepare summary / answer questions about the articles. You will have about 10 days to finish each problem set.
- **2 in-class midterms (1/6 of total grade each).** These are closed book exams and will be scheduled during class time.
- **1 take-home exam (1/6 of total grade).** This is an open book exam and you are not allowed to work with your classmates. You will have 36 hours to finish the take-home final exam.

Tentative schedule for in-class midterms:

- Midterm 1: October 4 or 9
- Midterm 2: November 8 or 13

The take-home exam will be assigned on December 14 and due on December 15.

If a student has a valid excuse to miss one of the midterms, the missed event may be made up in one of two ways that are to be decided by the instructor:

- the student will take a make-up version for midterm; or
- the student will be excused from the missed event, and the weight of that event in the overall course grade will be reassigned to the average of the other midterms.

We will make every effort to have the midterms and problem sets graded and handed back in one week. If you have any concern with the grade, you have one week to return your test with a written explanation of why you think the grade is incorrect. After that week, grades cannot be modified.

Course Policies: The Department of Economics maintains a common set of policies that apply to all classes. Taking this class you agree to abide by these policies. You are encouraged to read these policies carefully. Full details can be found here: <http://>

economics.sas.upenn.edu/undergraduate-program/course-information/guidelines/policies

Reading List

The slides and lecture notes I will post on canvas are the required material for the course. There is no required textbook. A useful reference is:

- International Macroeconomics: A Modern Approach by Stephanie Schmitt-Grohe, Martin Uribe, and Michael Woodford (referred to as SGUW below) <http://www.columbia.edu/~mu2166/UIM/index.html>

During the class, I will make connections to current advances in the research in international finance and to policy issues. The following readings are complementary to my lectures. I will indicate during the course of the class which are required (and I will likely add more). I will also post articles from Financial Times, The Economist, The Wall Street Journal related to the topics we are covering.

1. Current Account Determination: Data and Theory

- SGUW Chapters 1 - 5, 7
- McGrattan, Ellen R., and Edward C. Prescott. "Technology Capital and the US Current Account." *The American Economic Review* 100, no. 4 (2010): 1493.
- Atkeson, A., Heathcote, J. and Perri, F., 2022. The end of privilege: A reexamination of the net foreign asset position of the United States (No. w29771). National Bureau of Economic Research.
- Gourinchas, Pierre-Olivier, and Helene Rey. "From world banker to world venture capitalist: US external adjustment and the exorbitant privilege." In *G7 Current Account Imbalances: Sustainability and Adjustment*, pp. 11-66. University of Chicago Press, 2007.
- Gourinchas, Pierre-Olivier, and Olivier Jeanne. "The elusive gains from international financial integration." *The Review of Economic Studies* 73, no. 3 (2006): 715-741.
- Gourinchas, Pierre-Olivier, and Olivier Jeanne. "Capital flows to developing countries: The allocation puzzle." *Review of Economic Studies* 80, no. 4 (2013): 1484-1515.

2. Asset Prices, Risk Sharing, Nominal Exchange Rates and Interest Rate Parities

- SGUW Chapter 6, 10
- Gourinchas, Pierre-Olivier, Hélène Rey, and Nicolas Govillot. *Exorbitant privilege and exorbitant duty*. No. 10-E-20. Institute for Monetary and Economic Studies, Bank of Japan, 2010.

3. External Debt, Debt Crises, and Sovereign Default

- SGUW Chapter 15
- Reinhart, Carmen, and Kenneth Rogoff. 2014. "This Time Is Different: A Panoramic View of Eight Centuries of Financial Crises." *Annals of Economics and Finance* 15 (2). Cambridge: Harvard University: 1065-1188.
- Reinhart, Carmen M, and Kenneth Rogoff. 2011. "From Financial Crash to Debt Crisis." *American Economic Review* 101: 1676-1706.
- Eaton, Jonathan, and Mark Gersovitz. "Debt with potential repudiation: Theoretical and empirical analysis." *The Review of Economic Studies* (1981): 289-309.
- Cole, Harold L., and Timothy J. Kehoe. "A self-fulfilling model of Mexico's 1994–1995 debt crisis." *Journal of international Economics* 41.3 (1996): 309-330.
- Brunnermeier, M, L Garicano, P Lane, M Pagano, R Reis, T Santos, D Thesmar, S Van Nieuwerburgh, and D Vayanos (2016a), "The sovereign-bank diabolic loop and ESBies", *American Economic Review Papers and Proceedings*, 106 (5), 508-512.
- Chari, V. V., Alessandro Dovis, and Patrick J. Kehoe. "On the optimality of financial repression." *Journal of Political Economy* 128, no. 2 (2020): 710-739.
- Reinhart, Carmen M., and M. Belen Sbrancia. *The liquidation of government debt*. No. w16893. National Bureau of Economic Research, 2011.
- Dovis, Alessandro, and Rishabh Kirpalani. "Reputation, bailouts, and interest rate spread dynamics." (2018).
- Chari, Varadarajan V., and Patrick J. Kehoe. *Asking the Right Questions about the IMF*. Federal Reserve Bank of Minneapolis, 1999.
- Chari, V. V., Alessandro Dovis, and Patrick J. Kehoe. "A Journey Down the Slippery Slope to the European Crisis: A Theorist's Guide," in *Rules for International*

Monetary Stability: Past, Present and Future, edited by Michael Bordo and John Taylor, Hoover Press

- Bulow Jeremy, and Kenneth Rogoff. 2015. The modern Greek tragedy. Vox-EU. <http://voxeu.org/article/modern-greek-tragedy>
- Fernández-Villaverde, Jesús, Luis Garicano, and Tano Santos. 2013. "Political Credit Cycles: The Case of the Eurozone." *Journal of Economic Perspectives*, 27(3): 145-66.
- Horn, Sebastian, Carmen M. Reinhart, and Christoph Trebesch. Coping with Disasters: Two Centuries of International Official Lending. No. w27343. National Bureau of Economic Research, 2020.

4. Monetary Policy and Sustainability of Government Debt

- SGUW Chapter 12
- Kehoe, Timothy J., Juan Pablo Nicolini, and Thomas J. Sargent. A Framework for Studying the Monetary and Fiscal History of Latin America, 1960–2017. No. 607. Federal Reserve Bank of Minneapolis, 2020.
- "Monetary and Fiscal History of Latin America" project at the Becker-Friedman Institute: <https://mafhol.uchicago.edu/>
- Aguiar, Mark, Manuel Amador, Emmanuel Farhi, and Gita Gopinath. Crisis and commitment: Inflation credibility and the vulnerability to sovereign debt crises. No. w19516. National Bureau of Economic Research, 2013.
- Aguiar, Mark, Manuel Amador, Emmanuel Farhi, and Gita Gopinath. "Sovereign debt booms in monetary unions." *American Economic Review* 104, no. 5 (2014): 101-06.