Instructor: Alessandro Dovis
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Lectures: Tuesday and Thursday 1:45-3:15PM PCPE 203
Office Hours: by appointment.

Course description  This class will cover topics at the intersection between macroeconomics and international finance. Applications will include: endogenously incomplete markets and the optimality (or not) of government interventions, positive and normative model of government debt determination, exchange rates and theory of optimal currency areas, monetary policy and risk premia. On the methodological side, we will study how to use tools from dynamic game theory and mechanism design to analyze optimal policy when the government lacks commitment and optimal markets arrangements with lack of commitment and private information.


Expectations  I will regularly assign you problem sets and there would be a take home exam at the end of the class. Some of you will be asked to present the solutions of the problem set to the class. I expect you to actively participate in class.

Topics  I will tentatively cover (a subset of) the following topics, in particular papers with a “*”:

1. Optimal taxation with and without commitment

Positive and normative model of government debt determination:

- Ch. 16, RMT4. Optimal Taxation with Commitment
- Ch. 20, RMT4. Two Ramsey Problems Revisited


Policy without commitment:

• Ch. 24. Credible Government Policies, I

• Ch. 25. Credible Government Policies, II


Unique implementation:
2. Monetary policy

Classic results:


Monetary policy and risk premia:


Debt sustainability and convenience yields


Quantitative Easing


3. Bailouts, regulation, and rules


4. Dynamic contracts

• Ch. 21, RMT4. Insurance Versus Incentives

• Ch. 22, RMT4. Equilibrium without Commitment


5. Debt and default


• *Passadore, Juan, and Juan Pablo Xandri. "Robust Conditional Predictions in Dynamic Games: An Application to Sovereign Debt."


