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INTERNATIONAL MACROECONOMIC  
THEORY AND POLICY  
SYLLABUS  
*SEM Tsinghua*

THIS VERSION: FEBRUARY 26, 2021

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February 26, 2021

**Instructor:** Tuo Chen, Weilun 446, chentuo@sem.tsinghua.edu.cn

**Time:** 2021 Spring

**Location:** 6A201

**Office Hours:** Friday 2:00 - 3:00pm

**TAs:** Jingxin Ning, ningjx.18@sem.tsinghua.edu.cn

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**Types of course:** Elective course

**Prerequisite:** Intermediate Macroeconomics

**Course Description:** This course is a field course in International Macroeconomics. The course develops a theoretical framework for the analysis of the determinants of international capital movements, trade imbalances, and nominal and real exchange rates. The theoretical framework is then used as the basis for the discussion of policy issues such as the emergence of the U.S. as the largest foreign debtor, global trade imbalances, developing-country debt crises, the European financial crisis, exchange-rate-based inflation stabilization, currency unions, debt default, balance-of-payment crises, and the effect of the great recession of 2008 on the world economy.

**Homework:** There will be one homework for each topic. The problem sets are distributed after class, and are due at the beginning of the next class. You can and are encouraged to discuss the homework among your cohorts, but each student has to turn in his/her own copy independently. No delay is accepted unless you have good excuses.

**Final Grade:** 30% Homework + 30% Midterm + 40% Final

**Text books:**

- “International Macroeconomics,” by Stephanie Schmitt-Grohe, Martin Uribe, and Michael Woodford

## 1 Global Imbalances

- International Macroeconomics, Chapter 1.
- Additional Readings:

- Milesi-Ferretti, Gian Maria, “A \$2 Trillion Question,” VOX, January 28, 2009, available online at <http://www.voxeu.org>.
- Hausmann, Ricardo and Federico Sturzenegger, “U.S. and Global Imbalances: Can Dark Matter Prevent a Big Bang?,” Working Paper, CID (Center For International Development), Harvard University, 2005.
- Gourinchas, Pierre-Olivier, and Helene Rey, “From World Banker to World Venture Capitalist: U.S. External Adjustment and the Exorbitant Privilege,” in Richard H. Clarida, editor, *G7 Current Account Imbalances: Sustainability and Adjustment*, University of Chicago Press, May 2007, pp. 11-66.

## **2 Current Account Sustainability**

- International Macroeconomics, chapter 2.

## **3 A Theory of Current Account Determination**

- International Macroeconomics, chapters 3 and 5.

## **4 Uncertainty and the Current Account**

- International Macroeconomics, chapter 4.

## **5 Current Account Determination in a Production Economy**

- International Macroeconomics, chapter 5.

## **6 External Adjustment in Small and Large Economies**

- International Macroeconomics, chapter 6.
- Additional Reading:
  - Ben S. Bernanke, “The Global Saving Glut and the U.S. Current Account Deficit,” Homer Jones Lecture, St. Louis, Missouri, April 14, 2005.

## **7 Twin Deficits: Fiscal Deficits and Current Account Imbalances**

- International Macroeconomics, chapter 7.

## **8 International Capital Market Integration**

- International Macroeconomics, chapter 8.
- Additional Readings:
  - Obstfeld, Maurice and Alan M. Taylor, Globalization and Capital Markets, in Michael D. Bordo, Alan M. Taylor and Jeffrey G. Williamson, Editors, Globalization in Historical Perspective, University of Chicago Press, 2003.
  - “Carry on Speculating,” The Economist Magazine, February 24, 2007, page 90.

## **9 The Law of One Price, Purchasing Power Parity, and Real Exchange Rates**

- International Macroeconomics, chapter 9 and chapter 10.1.
- Additional Readings:
  - Taylor, Alan M. and Mark P. Taylor, “The Purchasing Power Parity Debate,” Journal of Economic Perspectives 18, Fall 2004, 135-158.

## **10 The Macroeconomics of External Debt**

- International Macroeconomics, chapter 11.

## **11 Monetary Policy and Nominal Exchange Rates**

- International Macroeconomics, chapter 12.
- Additional Readings:

- Schmitt-Grohe, Stephanie, and Martin Uribe, “Managing Currency Pegs,” *American Economic Review, Papers and Proceedings* 102, May 2012, 192-197.
- Schmitt-Grohe, Stephanie, and Martin Uribe, “Downward Nominal Wage Rigidity and the Case for Temporary Inflation in the Eurozone,” *Journal of Economic Perspectives* 27, Summer 2013, 193-212.