

12I006

Money and Exchange Rates

Overview and Objectives

This course provides the tools necessary to address these questions: How are real and nominal exchange rates determined? How is monetary policy conducted in advanced and emerging economies? When is a monetary union such as the Euro area optimal? Should emerging economies have fixed or flexible exchange rates? Why are some countries subject to hyperinflations and currency crises? We will cover some chapters from Obstfeld and Rogoff, "Foundations of International Macroeconomics," MIT Press, 1996 (OR). Starred articles are mandatory reading.

Course Outline and Materials

I. Real exchange rates

* OR, chapter 4 (4.1, 4.2, 4.3)

Froot, K., and K. Rogoff, "Perspectives on PPP and long-run real exchange rates," in Handbook of International Economics III, Elsevier Science, 1995

Rogoff, K., "The Purchasing Power Parity Puzzle," Journal of Economic Literature 34, 647–668, 1996

* Taylor, A., and M. Taylor, "The purchasing power parity debate," Journal of Economic Perspectives 18, 135-58, 2004

* Engel, C., "Accounting for U.S. real exchange rate changes," Journal of Political Economy 107, 507-538, 1999

Imbs, J., H. Mumtaz, M. Ravn, and H. Rey, "PPP strikes back: Aggregation and the real exchange rate," Quarterly Journal of Economics 120, 1-43, 2005

* Dornbusch, R., "Exchange rates and prices," American Economic Review 77, 93-106, 1987

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Atkeson, A., and A. Burstein, "Pricing-to-market, trade costs, and international relative prices," *American Economic Review* 98, 1998-2031, 2008

II. Money and exchange rates in industrial countries

* OR, chapter 9

* Rogoff, K., "Dornbusch's overshooting model after twenty-five years," *IMF Staff Papers* 49, 1-35, 2002

* Obstfeld, M., "International macroeconomics: Beyond the Mundell-Fleming model," *IMF Staff Papers* 47, 1-39, 2001

Fischer, S., "Exchange rate systems, surveillance, and advice," *IMF Staff Papers* 55, 367-83, 2008

Taylor, M., "The economics of exchange rates," *Journal of Economic Literature* 33, 13-47, 1995

Blanchard O., and S. Fischer, "The dynamics of demand: The IS-LM and Mundell-Fleming models," in *Lectures on Macroeconomics*, MIT Press, 529-42, 1989

Gali, J., and M. Gertler, "Macroeconomic modeling for monetary policy evaluation," *Journal of Economic Perspectives* 21, 25-45, 2007

Persson, T., and G. Tabellini, "Political economics and macroeconomic policy," in *Handbook of Macroeconomics I*, Elsevier Science, 1999

Honohan, P., and P. Lane, "Divergent inflation rates in EMU," *Economic Policy* 37, 358-394, 2003 (See also Honohan, P., and P. Lane, "Divergent inflation rates in EMU: An update," CEPR Discussion Paper No. 4583, 2004)

Lane, P., "The real effects of European monetary union," *Journal of Economic Perspectives* 20, 47-66, 2006

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* Alesina, A., R. Barro, and S. Tenreyro, "Optimal currency areas," with comments by R. Dornbusch and A. Rose, NBER Macroeconomics Annual, 301-56, 2002

De Grauwe, P., Economics of Monetary Union, 7th edition, Oxford University Press, 2007

Burnside, C., M. Eichenbaum, and S. Rebelo, "Carry trade: The gains from diversification," Journal of the European Economic Association P&P 6, 581-88, 2008

III. Money and exchange rates in emerging economies

* OR, chapter 8 (8.1, 8.2, 8.4)

* Blanchard O., and S. Fischer, "Seigniorage and inflation," in Lectures on Macroeconomics, MIT Press, 195-201, 1989

* Goldfajn, I., and R. Valdes, "The aftermath of appreciations," Quarterly Journal of Economics 114, 229-62, 1999

Burstein, A., M. Eichenbaum, and S. Rebelo, "Large devaluations and the real exchange rate," Journal of Political Economy 113, 742-84, 2005

* Calvo, G., and C. Vegh, "Inflation stabilization and BOP crises in developing countries," in Handbook of Macroeconomics I, Elsevier Science, 1999

* Broner, F., "Discrete devaluations and multiple equilibria in a first generation model of currency crises," Journal of Monetary Economics 55, 592-605, 2008

Calvo, G., "Varieties of capital-market crises," in Emerging Capital Markets in Turmoil: Bad Luck or Bad Policy? MIT Press, 2005

Calvo, G., and F. Mishkin, "The miracle of exchange rate regimes for emerging market countries," Journal of Economic Perspectives 17, 99-118, 2003

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Burnside, C., M. Eichenbaum, and S. Rebelo, "The returns to currency speculation in emerging markets," *American Economic Review* P&P 97, 333-38, 2007

Evaluation

Final Exam