ECON 683-PCE1
International Macroeconomics and Finance
MASTER OF SCIENCE IN APPLIED ECONOMICS PROGRAM
UNIVERSITY OF MARYLAND, FALL 2022

Revised: 11/09/2022

Instructor: Ricardo Reyes-Heroles

Class hours & location: Mondays 6:30 – 9:15pm, with a 15 minute break at 7:45pm, TYD 1132.

Office Hours: Wednesdays 5:00 - 6:00pm via Zoom

Contact: rreyeshe@umd.edu

Teaching Assistant: Wantian Huang

Office Hours: Sundays 4:00 - 5:00pm (if in person or via Zoom is decided by TA)

Contact: whuang11@umd.edu

Zoom links for particular lectures and for the instructor's office hours are available on ELMS-Canvas by opening the Zoom tab. Zoom links for TA office hours will be emailed to you.

Course Overview

This course focuses on economic analysis of international macroeconomic issues and policy. Topics can include the study of exchange rates, balance of payments, international financial markets, international business cycles, contagion, and the roles played by international economic institutions.

Prerequisites: ECON 641, 642, and 644

Required Textbooks:

1. *International Macroeconomics: A Modern Approach* (2022), by Schmitt-Grohé, Uribe and Woodford, Princeton University Press. **(SUW)**
2. *International Macroeconomics*, by Feenstra and Taylor, McMillan, 5th Edition. **(FT)**

Additional Readings: Additional lecture notes and readings will be posted on ELMS

Other useful textbooks:

1. *Foundations of International Macroeconomics* (1995), Obstfeld & Rogoff, MIT Press. **(OR)**
2. *Open Economy Macroeconomics* (2017), Uribe and Schmitt-Grohé, Princeton University Press. **(USG)**
3. *International Economics: Theory and Policy*; Krugman, Obstfeld and Melitz, Pearson Series in Economics, 12th Edition. **(KOM)**

COVID Information

Up-to date information about UMD Covid-19 policies and guidance are posted at `https://umd.edu/4Maryland`. Given the evolving nature of the pandemic, the guidance and polices are subject to change. The plans are always coordinated with state and county health officials, with additional guidance provided by the University System of Maryland. The focus will always be on the health and well-being of our entire campus community. We strongly urge all students, staff and faculty to read announcements they receive about Covid-related guidance and policy, and to stay familiar with the current guidance. We thank you all for your individual efforts to help protect the collective health of our entire community.

Objectives

The Master's of Science in Applied Economics at the University of Maryland lists the following general objectives for the program:

1. Ability to understand, evaluate, and analyze economic data
2. Ability to understand and interpret statistical evidence from economic data
3. Ability to apply empirical evidence to assessing economic arguments
4. Ability to apply macroeconomic theories to policy discussions
5. Ability to apply microeconomic theories to policy discussions
6. Ability to communicate economic ideas to a broader audience
7. Ability to evaluate the effectiveness of policy programs using sound economic techniques

This course focuses developing skills related to objectives **1, 2, 3, 4**, and **6**.

Course Requirements

Evaluation for the course will be based on numerical points on a scale from 0-100 with the following distribution of points for each graded activity

- Midterm exam: **25 points**
- Final exam: **25 points**
- Problem sets (x3): **30 points, 10 points each**
- Group presentation: **10 points**
- Class participation: **10 points**

Numerical grades

Each activity will receive a numerical grade corresponding to the number of points described above. There will be a total of 3 problem sets, each with an equal value of 10 points. The final numerical grade for the course will be the cumulative sum of all the grades you received on each activity.

For example, imagine you score 20 points on the midterm exam and 25 points on the final, 10 points in the group presentation and obtained 10 points in class participation and 15 points in the problem sets. Then your numerical grade will be equal to $20+25+10+10+15=80$.

Letter grades

At the end of the term, every student will have a numerical course grade between 0 and 100. I will decide upon the numerical cutoffs between various letter grades based on my professional judgement. I will consider students' performance relative to the class. I will also consider absolute standards of professional competence. Highly competent students will get A's. Barely competent students will get B's. Incompetent students will get B-'s or worse. The cutoffs that I use will respect the ordinal ranking of numerical course grades. No student with a given numerical course grade will receive a lower letter grade than someone else with a lower numerical course grade.

Exams

The midterm and final are closed book exams. The midterm will be **in person on Monday, October 31st**, and covers all material covered in class until week 8. The final exam is schedule for **Monday, December 12** and is cumulative, inclusive of topics discussed during group presentations. Each exam will begin at 6:30pm on the day of the exam and last for **two (2) hours**. Further instructions on how the exams will be administered will be posted on the ELMS in due course.

Problem sets (PS)

There will be **three problem sets** throughout the term. You will have at least two weeks to complete each problem set. The due date of the problem sets is listed in **Course Outline and Schedule** section. All problem sets will be due at the start of class on the indicated due date. Late submissions will not be accepted. Students are permitted and encouraged to discuss the problem sets with one another, however each student must turn in their work individually. Identical copies of a problem set will be assigned the lowest numerical grade. Submitted work must be legible, clearly written, and neatly presented.

Group presentations (GP)

Students, working in groups of minimum two and maximum 3, will be required to prepare a short presentation of less than 15-20 minutes. Groups have to choose from the list of papers/topics listed in the syllabus. Topics will be allocated as follows. On the specified date in the course outline, groups will submit a list of 3 papers ranked by interest. If multiple groups share an interest, I will

assign papers through a lottery. If groups are unmatched to papers in the first round, I will use your second choice, and so on. **Groups will be notified of their selected paper at the end of week 4.**

A successful presentation would achieve the following:

- Clearly identifies the central topic and question of the paper
- Summarizes the relevant evidence discussed by the authors
- Explains policy implications, policy trade-off or provides intuition for the results
- Offers an assessment using tools learned in class and during the M.S. program.

Tips to prepare your presentation:

- Keep your slides simple. Do not crowd the slides with text
- Ensure figures and tables are legible to the audience
- Use a reasonable number of slides. For a 15 minute presentation, aim for 5-7 slides.
- Practice, practice, practice!

Course Outline and Schedule (subject to change)

Part I: Foundations

Week	Date	Topics	Readings/Assignments
1*	8/29/22	○ Meet each other and introduce course **Introduction: International Macro and Finance** 1. National Income Accounts and the Balance of Payments 2. Global Imbalances	SUW Ch. 1-2 FT Ch. 1, 5 and 6.1
	9/05/22	**Labor Day (no class)**	
2	9/12/22	**Intertemporal Trade, the Current Account and Gains from Financial Openness I** 1. Current Account Sustainability 2. Intertemporal Trade / Consumption Smoothing 3. Terms of Trade and World Interest Rates	SUW Ch. 2-4 FT Ch. 6.2 OR Ch. 1.1 Gourinchas and Rey [2007]
3	9/19/22	**Intertemporal Trade, the Current Account and Gains from Financial Openness II** 1. Production and Investment 2. Uncertainty	SUW Ch. 5-6 FT Ch. 6.3-6.4 OR Ch. 1.2
4	9/26/22	**Dynamics of Small Open Economies (SOE)** 1. A SOE with Many Periods 2. Dynamics of the Current Account	OR Ch. 2.1 and 2.2 USG Ch. 3
5	10/10/22	**Large Open Economies**	SUW Ch. 7 (maybe 8) OR Ch. 1.3
6	10/14/22	**The Real Exchange Rate and Purchasing Power Parity (PPP)**	SUW Ch. 9 Pakko and Pollard [2003]
7	10/17/22	**Real Exchange Rate Determination I**	SUW Ch. 10 Problem Set 1 due
8	10/24/22	**Real Exchange Rate Determination II** ○ Review for Midterm Exam	SUW Ch.10
9	10/31/22	**Midterm Exam**	Problem Set 2 due

Notes: $(*)$ Class will take place on Zoom.

Part II: Topics

Week	Date	Topics	Readings/Assignments
10	11/07/22	**Introduction to Nominal Exchange Rates** **International Capital Markets I**	FT Ch. 2 SUW Ch. 11
11	11/14/22	**International Capital Markets II**	FT Ch. 3 SUW Ch. 11 Frankel [2008]
12	11/21/22	**Nominal Exchange Rates** 1. The Monetary Approach in the Long Run 2. The Asset Approach in the Short Run	FT Ch. 4 SUW Ch. 11 Bernanke et al. [2001]
13	11/28/22	**Topics in International Macroeconomics & Finance**	Group Presentations
14	12/05/22	**Monetary Policy and Nominal Exchange Rate Determination** 1. Open Economy Models Used for Policy 2. Exchange Rate Regimes	FT Ch. 7-8 SUW Ch. 12 Pesenti and Tille [2000] Problem Set 3 due
15	12/12/22	**Final Exam**	

Notes: $(*)$ Class will take place on Zoom.

Additional Readings Referenced in Course Outline

Below is the list of readings referenced above.

1. Ben S Bernanke, Thomas Laubach, Frederic Mishkin, and Adam A Posen. The rational for inflation targeting. In Inflation Targeting: Lessons from the International Experience. Princeton: Princeton University Press, 2001

2. Jeffrey Frankel. Carried away: everything you always wanted to know about the carry trade, and perhaps much more. Milken Institute Review, 10(1):38, 2008

3. Pierre-Olivier Gourinchas 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, pages 11–66. University of Chicago Press, 2007

4. Michael R Pakko and Patricia S Pollard. Burgernomics: a big mac™ guide to purchasing power parity. Federal Reserve Bank of St. Louis Review, 85(November/December 2003), 2003

5. Paolo A Pesenti and Cédric Tille. The economics of currency crises and contagion: an introduction. Economic policy review, 6(3), 2000

Reading List for Group Presentations

Below is a list of approved readings for group presentations.

1. Andrew Atkeson, Jonathan Heathcote, and Fabrizio Perri. The end of privilege: A reexamination of the net foreign asset position of the united states. Working Paper 29771, National Bureau of Economic Research, February 2022. URL http://www.nber.org/papers/w29771

2. Wenxin Du and Jesse Schreger. Cip deviations, the dollar, and frictions in international capital markets. Working Paper 28777, National Bureau of Economic Research, May 2021. URL http://www.nber.org/papers/w28777

3. Charles M Engel and Feng Zhu. Exchange rate puzzles: evidence from rigidly fixed nominal exchange rate systems. 2019 https://www.bis.org/publ/work805.pdf

4. Tarek Alexander Hassan, Jesse Schreger, Markus Schwedeler, and Ahmed Tahoun. Sources and transmission of country risk. Working Paper 29526, National Bureau of Economic Research, November 2021. URL http://www.nber.org/papers/w29526

5. Silvia Miranda-Agrippino and Hélène Rey. The global financial cycle. Working Paper 29327, National Bureau of Economic Research, October 2021. URL http://www.nber.org/papers/w29327

Program and University Policies

Course Website

Copies of the course syllabus, your grades synchronous lecture videos, the online discussion board, student presentations, and other relevant links and documents will be posted on the course website. Problem sets and exams will also be submitted through the course webpage. You can access the site via www.elms.umd.edu. You will need to use your University of Maryland "directory ID" and password.

Email communication

The University has adopted email as the primary means of communication outside the classroom. It will be used to inform students of important announcements. Students are responsible for updating their current email address via the website link http://www.registrar.umd.edu/current/. (Under the first major heading of "Online Transactions" there is a link to "Update Contact Information.") I will do my best to respond to email within 24 hours.

Work Load and Contact Hours

Mastering the material covered in this course requires a significant amount of work outside of class. Students should expect to spend more time outside of class than in class – typically at

least twice as much time. The courses in our DC program are 12-week courses that cover all the same material as a traditional semester-long 3-credit course (15 weeks). The compressed schedule makes it possible to complete our degree in just 15 months if you take 2 courses each term. But the compressed schedule also implies an accelerated pace with an average of 25% more work per week in a given course (15/12 = 1.25). The normal full-time load in a master's program is 3 courses per semester, or 6 courses per year. The weekly work load when taking 2 of our DC courses per term is equivalent to the load from 2.5 "normal" 15-week courses - so 2.5/3.0=83% of a full-time load. However, the DC program takes just 1 week off between terms. Students who take 2 courses per quarter in our program complete 8 courses per year. So over the course of a year, taking 2 courses per quarter in our DC program is equivalent to 133% of a "normal" full-time load in the traditional semester-based program (8/6 = 1.33).

Building Access

The midterm and final exams in this course must be taken in person with a proctor on the dates indicated in the Course Outline and Schedule. Details about how to access the building and out program suite will be provided by the Program Coordinator.

Academic Integrity

The University of Maryland has a nationally recognized Code of Academic Integrity. You should inform yourself about the UMD policies related to academic misconduct: `https://www.studentconduct.umd.edu/home/current-students`.

Cases of academic misconduct, including plagiarism and giving or receiving unauthorized assistance on exams, will be referred to the UMD Office of Student Conduct. If found responsible for academic misconduct, students can be subject to sanctions. The standard sanction for graduate students found responsible for cheating on exams is expulsion from the university. The exams in this course will ask students to affirm the UMD Honor Pledge: "I pledge on my honor that I have not given or received any unauthorized assistance on this examination."

Student Conduct

Students are expected to be active contributors to the lectures when attending and should be prepared to ask and answer questions during the lectures and to participate in the online discussion boards. Students are expected to refrain from any behavior that would distract the instructor or fellow students during synchronous lectures and to conduct themselves professionally at all times.

Excused Absences

The University of Maryland's policy on excused absences is posted here: `http://www.president.umd.edu/administration/policies/section-v-student-affairs/v-100g`. Please note: If you miss any class meetings for any reason, you are still responsible for all material covered during the meeting you missed. It is your responsibility – not the instructor's – to get yourself caught up in the course. Instructors routinely facilitate things by posting lecture notes, etc.

If you need to miss an exam or other graded course requirement because of illness, injury, or some other emergency: Follow doctor's orders and get documentation. Get in touch with the instructor as soon as you're able – preferably prior to missing the exam or deadline. Communicate with the instructor to make up the course requirement as soon as possible. You are entitled to recover before you make up the course requirement, but you are not entitled to extra days to study beyond the time the doctor's note says you're incapacitated. If you are incapacitated for more than a week or so beyond the end of the term, your grade in the course will be an "Incomplete." In such cases you must negotiate a plan with your instructor for completing the course requirements. Once you make up the course requirement the instructor will change your "I" to the appropriate letter grade.

School Closing and Delays

In the unlikely event that weather or some other event causes a delay or closing, information can be found on the campus website and the snow phone line: (301) 405- SNOW (405-7669). The program director will always announce cancellation information to the program as an announcement on the program's ELMS/Canvas site. This will generally be done by 1:00 PM on days when weather or other factors are an issue.

UMD Counseling Center

Sometimes students experience academic, personal and/or emotional distress. The UMD Counseling Center in Shoemaker Hall provides comprehensive support services that promote personal, social, and academic success. The cost of these services is covered by the fees you already paid when you registered for classes, and there is no additional charge if you use the services. Proactively explore the range of services available, including the Counseling Service, Accessibility and Disability Service, Learning Assistance Service, and the Testing Office, all described at `http://www.counseling.umd.edu/`.

Students with Disabilities

The University of Maryland does not discriminate based on differences in age, race, ethnicity, sex, religion, disability, sexual orientation, class, political affiliation, or national origin. Reasonable accommodations will be arranged for students with documented disabilities. Students who have an accommodations letter from the Accessibility and Disability Service (ADS) should meet with me during the first week of the term to discuss and plan for the implementation of your accommodations. If you require reasonable accommodations but have not yet registered with ADS, please contact the Accessibility and Disability Service at 301-314-7682 or `adsfrontdesk@umd.edu`.

Academic Progress

The UMD Graduate School requires that students maintain a GPA of at least 3.0. Students whose cumulative GPA falls below 3.0 will be placed on academic probation by the graduate school. Students on academic probation must ask the program's director to petition the graduate school if they want to remain enrolled in the program. The petition must include a plan for getting the

student's GPA up to at least 3.0. Students who do not live up to their plan can have their enrollment in the program terminated without having earned the degree. Note: a grade of "B" corresponds to a GPA of 3.0. A grade of "B-" corresponds to a GPA of 2.7.

Graduate Academic Counselor

The UMD Graduate School also has an academic counselor available to support students who are having difficulty navigating mental health resources on campus, are considering a leave of absence and/or need assistance finding mental health care off campus. The Graduate Academic Counselor also facilitates bi-weekly Graduate Student Circle Sessions which provide an opportunity to learn about resources and connect with other graduate students. Students can learn more about the Graduate Academic Counselor by going to: `https://gradschool.umd.edu/gradcounselor`.