

171037

Exchange Rates and Monetary Policy

Winter Term - 3 ECTS
Elective Course
Prof. Fernando Broner

Prerequisites to Enroll

None

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

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

171037

Exchange Rates and Monetary Policy

Winter Term - 3 ECTS
Elective Course
Prof. Fernando Broner

II. Exchange Rates and Monetary Policy in Developed 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

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

* 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

171037

Exchange Rates and Monetary Policy

Winter Term - 3 ECTS
Elective Course
Prof. Fernando Broner

III. Exchange Rates and Monetary Policy in Emerging Markets

* 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

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

17I037

Exchange Rates and Monetary Policy

Winter Term - 3 ECTS
Elective Course
Prof. Fernando Broner

Evaluation

Final Exam (90%) Problem Sets (10%)

Competences

X To possess and understand the knowledge that provides a basis or opportunity to be original in the development and / or application of ideas, often in a research context.

X That students know how to apply the acquired knowledge and their ability to solve problems in new or unfamiliar environments within broader (or multidisciplinary) contexts related to their field of study.

X That the students be able to communicate their conclusions and the knowledge and the ultimate reasons that sustain them to both, specialized and non-specialized publics in a clear and unambiguous way.

X That students possess the learning skills that allow them to continue studying in a way that will be largely self-directed or autonomous.

X To identify and apply the insights of the theory, the models, and the analytical tools of modern economy to its global dimension.

X Understand and apply the economics of international trade and finance and economic development

X To understand and apply the quantitative methods used to solve complex problems of the economy.

X To evaluate, with theoretical and quantitative instruments, the complex realities of the economy to understand the way it works.

Learning Outcomes

X Deep knowledge of the economics of international trade, finance and development.

X Applies economic concepts to economic pressure policy problems related to growth, economic stability and poverty.

X Analyze economic data rigorously.