Aug. 22, 2020

***API-119: Advanced Macroeconomics for the Open Economy I, Fall 2020***

**Harvard Kennedy School**

## Course Syllabus: prospectus, outline/schedule and readings

**Staff: Professor: Jeffrey Frankel** Jeffrey\_Frankel@harvard.edu

 Faculty Assistant: Minoo Ghoreishi Minoo\_Ghoreishi@hks.harvard.edu

Teaching Fellow: Can Soylu

Course Assistants: Julio Flores, Alberto Huitron & Yi Yang.

Email to send all questions for the teaching team: mpaid.macro@gmail.com.

**Times:**  Lectures: Tuesdays and Thursdays, 10:30-11:45 a.m. EST.[[1]](#footnote-1)

Review Sessions: Tuesdays, 12:30-1:30 pm;
Fridays,12:30-1:30 pm EST.[[2]](#footnote-2)

 Final exam: Friday, Dec. 11, 8:00-11:00 am EST.

**Prospectus**

**Course Description**: This course is the first in the two-course sequence on Macroeconomic Policy in the MPA/ID program. It particularly emphasizes the international dimension. The general perspective is that of developing countries and other small open economies, defined as those for whom world income, world inflation and world interest rates can be taken as given, and possibly the terms of trade as well. The focus is on monetary, fiscal, and exchange rate policy, and on the determination of the current account balance, national income, and inflation. Models of devaluation include one that focuses on the price of internationally traded goods relative to non-traded goods. A theme is the implications of increased integration of global financial markets. Another is countries’ choice of monetary regime, especially the degree of exchange rate flexibility. Applications include Emerging Market crises and problems of commodity-exporting countries. (Such topics as exchange rate overshooting, speculative attacks, portfolio diversification and debt crises will be covered in the first half of Macro II in February-March.)

**Nature of the approach**:The course is largely built around analytical models. Although real-world examples will appear throughout, we will rely heavily on theoretical and econometric analysis, as is customary in economics classes. Having said that, the course largely leaves to the successor course, API 120, the mathematical derivation of behavioral equations from first principles of individuals’ optimization of intertemporal utility.

**Who is expected to take the course**: This course, like Advanced Macroeconomics for the Open Economy II (API 120), is a required component of the MPA in International Development sequence. It is envisioned that some students might one day be making policy recommendations or decisions in a central bank or economics ministry or an international financial institution, but first need training at a high level of intellectual rigor. Many other students are less macro-oriented, and just want to be able better to read the *Economist* or *Financial Times*. In addition to MPA/ID students, a very few other students are sometimes admitted by permission of instructor – for example, someone who has taken BGP-620 and done well in it, and who in addition is comfortable with calculus and the other mathematical tools that distinguish the MPA/ID curriculum.

**Required tools**: Besides basic macroeconomics, some knowledge of basic microeconomics is presumed. Analytical tools to be used include especially calculus.

 **Weekly structure of the course:**
 A standard week will consist of two units. Each unit will consist of:
(i) a required reading (plus others recommended)

(ii) the live lecture from the Professor,

(iii) an asynchronous component, which will include one or more mini-Lectures from the professor, plus quizzes on all the material for that unit.

Before each live lecture, you should complete the asynchronous module for the preceding lecture, plus the required reading for the new unit.

 Most weeks will also include a Friday review session conducted by the Teaching Fellow (TF), a problem set due Thursday (covering preceding material), and a TF review session on Tuesday concentrating on material relevant for that week’s problem set. Attending at least one of the Tuesday and Friday review sessions is strongly recommended; you are encouraged to attend both.

 The entire teaching team will also hold office hours. Students should make heavy use of mpaid.macro@gmail.com, sending any and all questions to it. The teaching team will monitor it frequently. The response to a student’s question may be a directly e-mailed answer, a decision to dedicate somebody’s office hours to the topic in question, or the arrangement of a special bilateral appointment.

**Grading**: 25%: 8 Problem sets (due on Thursday mornings)
 20%: Quizzes (in asynchronous modules, but covering entire unit)
 20%: Mid-term exam (Oct. 15)
 30%: Final exam (Dec. 11. No alternate dates for exams.)
 5%: Course participation.

### Problem Set Due date (8:30 am, EST). No late problem sets.

1. Thurs., Sept. 10
2. Thurs.,Sept. 17
3. Thurs., Sept.24
4. Thurs., Oct. 1
5. Thurs., Oct. 8
 *[Midterm exam: Thurs., Oct. 15, 10:30-11:45 am]*
6. Thurs., Oct. 29
7. Thurs., Nov. 5
8. Thurs., Nov. 19

Please check the dates of the midterm and final exams.
If you cannot take the exams, do not take the course.

Students are responsible for knowing what is in [the Academic Code](https://www.hks.harvard.edu/educational-programs/academic-calendars-policies/student-handbook/general-regulations-and-1), including this paragraph:
*“Cheating on assignments or exams, plagiarizing or misrepresenting the ideas or language of someone else as one’s own, falsifying data, or any other instance of academic dishonesty violates the standards of our community, as well as the standards of the wider world of learning and affairs…If students submit work either not their own or without clear attribution to the original source, including but not limited to the Internet, they will be subject to discipline by the HKS Administrative Board, ranging from a warning to required withdrawal or expulsion from HKS.”*

**Readings:**

For each lecture, there is a double-starred or triple-starred reading that students are required to read *in advance of the lecture*.

The second half of this syllabus lists the readings in full. Readings are either scholarly articles, short news media stories, or textbook chapters. The main textbook is the second half of *World Trade and Payments*, R. Caves, J. Frankel, & R. Jones (10th edition, Addison-Wesley Longman, 2007), which is abbreviated *WTP* on the reading list. Chapters are available online at the Canvas course page and also [on my Publications page](https://scholar.harvard.edu/frankel/world-trade-payments-text-10th-ed). For those who want to try to buy a hard copy, possible options include the Coop or online from Amazon (either new or used).

For lectures 7 and 11-15 [Money & Inflation], the text is “Monetary Policy,” Chapter 12, of David Romer’s *Advanced Macroeconomics,* 5th ed., McGraw Hill, 2019, or Chapter 10 in the 4th ed., 2012**.**  (Romer is also the text for the 2nd half of Macro II, in the spring.)

**Textbooks for further background**: Most students will have already studied basic or intermediate macroeconomics. The necessary pre-requisite background in macroeconomics at a basic level is represented by Greg Mankiw, *Macroeconomics*, e.g., 10th ed., 2019. At a considerably more advanced level than *WTP*, the recommended text is Maurice Obstfeld and Kenneth Rogoff, [*Foundations of International Economics*](https://scholar.harvard.edu/files/rogoff/files/contents_foundations_of_international_macroeconomics.pd) (MIT Press, 1996); or for a more recent treatment, [Carlos Végh](https://mitpress.mit.edu/contributors/carlos-vegh), [*Open Economy Macroeconomics in Developing Countries*](https://ideas.repec.org/b/mtp/titles/026201890x.html) (MIT Press, 2013).

##### API-119: Macroeconomic Policy Analysis I

#### Prof. Jeffrey A. Frankel, Harvard Kennedy School

**Topics and schedule:** Due dates for
Problem Sets:

**I. REVIEW OF BASIC MACRO CONCEPTS**

1. GDP

 (9/1) Lecture 1: GDP accounting

Asynchronous module 1: Measuring potential output.

1. More identities
(9/3) Lecture 2: Balance of payments accounting

Asynchronous module 2: (i) National Saving identity, (ii) Consumption & saving.

**II. DEVALUATION AND THE TRADE BALANCE**

1. The elasticities approach to the trade balance
(9/8) Lecture 3: The Marshall-Lerner condition
Async.mod. 3: Alternate assumptions of goods pricing in open economies

 \_ PS 1 (Marshall-Lerner) due 9/10

1. The trade balance in practice
(9/10) Lecture 4: Empirical evidence on the elasticities

Async.mod. 4: (i) A delayed J-curve, (ii) Overview of models of external balance

**III. THE MUNDELL-FLEMING MODEL**

1. The Open-economy Keynesian model
(9/15) Lecture 5: The Open-economy Keynesian multipliers
Async.mod. 5: Goals (internal & external balance) & instruments

 \_ PS 2 (Derivation of Meade-Swan diagram) due 9/17

1. Meet the Mundell-Fleming model
(9/17) Lecture 6: The Mundell-Fleming model with a fixed exchange rate

Async.mod. 6: The Taylor Rule

1. Unconventional Monetary Policies
(9/22) Lecture 7: Monetary policy at the Zero Lower Bound
Async.mod. 7: The real interest rate in the model.
 \_ PS 3 (Mundell-Fleming with a fixed rate) due 9/24
2. International reserve flows

(9/24) Lecture 8: Reserve flows in the Mundell-Fleming model

Async.mod. 8: The example of China’s attempted sterilization of inflows, 2003-08

1. Mundell-Fleming with a floating rate

(9/29) Lecture 9: The model when the exchange rate is flexible.
Async.mod. 9: The example of Japan’s 2012-15 monetary expansion
 \_ PS 4 (Mundell-Fleming with expected inflation) due 10/1

1. Mundell Fleming with perfect capital mobility
(10/1) Lecture 10: The model when the country loses control over its interest rate.
Async.mod. 10: The Impossible Trinity.

**IV. INFLATION**

1. AD, AS, and Inflation

(10/6) Lecture 11: Aggregate Demand & Aggregate Supply

Async.mod. 11: (i) Chinese overheating, 2006-08. (ii) The Phillips Curve & the labor market
 \_\_PS 5 (Aggregate Supply derivation) due 10/8

1. The rational expectations attack on activist monetary policy
(10/8) Lecture 12: Rational expectations & dynamic inconsistency

Async.mod. 12: (i) The case against activist policy. (ii) Why might high inflation hurt growth?

1. How to achieve low-inflation credibility

(10/13) Lecture 13: Addressing dynamic inconsistency of monetary policy
Async.mod. 13: (i) The decline of inflation since the 1980s, (ii) Rules vs. discretion.

1. (10/15) ***MIDTERM EXAM***
2. Seigniorage and hyperinflation

(10/20) Lecture 15: The theory of seigniorage
Async.mod. 15 (i) Public borrowing, (ii) Venezuela case, (iii) Can seigniorage explain hyperinflation?

1. Case Study: Internal & external balance in China
(10/22) Lecture 16: Macroeconomics in China, 2004-12.
Async.mod. 16: (i) The Swan Diagram applied to China, (ii) Macro-prudential policies.

**V. INTEGRATION OF GOODS MARKETS**

1. How well-integrated are goods markets?

(10/27) Lecture 17: Trade. Does arbitrage enforce PPP?
Async.mod. 17: Barriers to international integration

 \_\_ PS 6 (Application) due 10/29

1. What explains failures of Purchasing Power Parity?
(10/29) Do sticky prices give rise to PPP deviations?
Async.mod. 18: The Law of One Price
2. The Balassa-Samuelson relationship
(11/3) Lecture 19: The role of non-traded goods.

Async.mod. 19: Case: Was the renminbi “undervalued”?

**VI. SMALL OPEN ECONOMIES**
 \_\_ PS 7 (PPP) due 11/5

1. The Salter-Swan SOE model
(11/5) Lecture 20: Devaluation in small open economies

Async.mod.20: Adjustment in the Salter-Swan model

1. Contractionary effects of devaluation

(11/10) Lecture 21: Currency mismatch, the balance sheet effect & contractionary devaluations.
Async.mod. (21): (i) Implications of contractionary devaluation (ii) Did EMEs conquer original sin?

?

1. Introduction to crises in Emerging Market Economies (EMEs)

(11/12) Lecture 22: Sudden stops

Async.mod.22: Managing outflows

1. The Dutch Disease

(11/17) Lecture 23: Macroeconomic consequences of a natural resource boom

Async.mod. 23: Governments over-spend in boom times.

­ \_\_PS8 (Exercise) due 11/19

1. The Natural Resource Curse

(11/19) Pitfalls of a large primary sector
Async.mod. 24: Pro-cyclicality

**VII. EXCHANGE RATE REGIMES**

1. Pros and cons of fixed vs. floating exchange rates
(11/24) Lecture 25: Advantages of fixing

Async.mod. 25: Advantages of floating

 [*11/25-11/29 Thanksgiving holiday*]

1. Which dominate: advantages of fixing or floating?
(12/1) Lecture 26: Optimum Currency Areas
Async.od.26: Real shocks in developing countries

1. More on EM currencies
(12/3) Lecture 27: Intermediate exchange rate regimes
Possible Async.mod. 27: Overview

 **Friday, Dec. 11, 8:00-11:00 am (EST)**. ***FINAL EXAM***

**API-120: Macroeconomic Policy Analysis I**

#### Prof. Jeffrey A. Frankel, Harvard Kennedy School

**READING ASSIGNMENTS**

\* = recommended reading

\*\* = required to read before lecture. You may be quizzed.

\*\*\* = required strongly to read before lecture..

[ ] = background readings

**I REVIEW OF MACROECONOMIC CONCEPTS**

1. (9/1) GDP accounting

 Paul Krugman, 1994, “[The Myth of the Asian Miracle](https://search.proquest.com/docview/1290286901),” *Foreign Affairs,* 73, 6*,* Nov., 62-78. \*\*

 “[The lives of the parties: China’s economy is more Soviet than you think](https://www.economist.com/finance-and-economics/2018/12/15/the-lives-of-the-parties),” *Economist,* Dec.15, 2018.\*\*

#  “[A new study shows emerging economies are catching up](https://www.economist.com/finance-and-economics/2020/08/15/a-new-study-shows-emerging-economies-are-catching-up),” *The* *Economist,* Aug.15, 2020. \*

 Arvind Subramanian, 2019, “Validating India’s GDP Growth Estimates,” July, [CID WP 357](https://www.hks.harvard.edu/centers/cid/publications/faculty-working-papers/india-gdp). Reported in “[The Indian growth fable: A former official casts doubt on India’s GDP figures,“](https://www.economist.com/finance-and-economics/2019/06/13/a-former-official-casts-doubt-on-indias-gdp-figures) *Economist*, June 15, 2019.
 W.Chen, X.Chen, Chang-Tai Hsieh & Z.Song, 2019, “[A Forensic Examination of China's National Accounts](https://faculty.chicagobooth.edu/chang-tai.hsieh/research/bpea%202019%20final%20April.pdf),” [NBER WP 25754,](https://www.nber.org/papers/w25754) April.
 Amadou Sy, 2015, “[Are African countries rebasing GDP in 2014 finding evidence of structural transformation](https://www.brookings.edu/blog/africa-in-focus/2015/03/03/are-african-countries-rebasing-gdp-in-2014-finding-evidence-of-structural-transformation/)?,” Brookings Institution, March 3.

1. (9/3) Balance of payments accounting

Caves, Frankel & Jones, [*World Trade and Payments* (*WTP)*, 2007, Chapter 15 & 17.2](https://scholar.harvard.edu/frankel/chapters-15-20-money-income-balance-payments) \*\*\*

“China Concerns: [Tourism deficit leaves current account vulnerable to trade shock](https://www.ft.com/content/a7944958-6e47-11e8-92d3-6c13e5c92914),” *Financial Times*, June 14, 2018. \*

“[Pakistan’s economy: In need of re-stitching](https://www.economist.com/asia/2018/06/14/pakistan-faces-a-currency-crisis.-who-will-help),” *The Economist*, June 16, 2018. \*\*

“[A milder infection: The Philippine peso is the champion of emerging-market currencies](https://www.economist.com/asia/2020/07/23/the-philippine-peso-is-the-champion-of-emerging-market-currencies),” *The Economist,* July 23, 2020. \*\*

**II. DEVALUATION AND THE TRADE BALANCE**

1. (9/8) The Marshall-Lerner condition

 Caves, Frankel & Jones, *WTP*, 2007, Chapter 16 & Supplement, pp. S43-S44.  **\*\*\***

1. (9/10) The trade balance in practice.

 Jaime Marquez, 2002, “Income and Price Effects of Asian Trade,” in his *Estimating Trade Elasticities* (Kluwer, Boston), pp. 91-97. **\***

Dani Rodrik, 2008, “[The Real Exchange Rate and Economic Growth](https://www.brookings.edu/wp-content/uploads/2008/09/2008b_bpea_rodrik.pdf),” *Brookings Papers on Economic Activity*, No.2.

**III. THE MUNDELL-FLEMING MODEL**

1. (9/15) The open-economy Keynesian model

Caves, Frankel and Jones *WTP,* 2007, Chapters 17.1, 17.3 & 18.1-18.2 \*\*\*

Olivier Blanchard and Daniel Leigh, 2014, “[Growth Forecasts Errors and Fiscal Multipliers](http://www.jstor.org/stable/23469713),” *American Economic Review*, 103, no.3, pp. 117-120. From [IMF WP 13-1](https://www.imf.org/external/pubs/ft/wp/2013/wp1301.pdf).

D.Egger, J.Haushofer, E.Miguel, P.Niehaus, and M.Walker, 2019,“[General equilibrium effects of cash transfers: experimental evidence from Kenya,”](http://emiguel.econ.berkeley.edu/assets/miguel_research/88/GE-Paper_2019-11-20.pdf) UC Berkeley, Nov.

1. (9/17) Mundell-Fleming model of monetary & fiscal policy with a fixed exchange rate

[Caves, Frankel & Jones, *WTP,* 2007, Chapters](https://scholar.harvard.edu/frankel/chapter-21-26-international-financial-markets-their-macro-implications) 18.3-18.4, [22.1-22.3](https://scholar.harvard.edu/frankel/chapter-21-26-international-financial-markets-their-macro-implications)  **\*\*\***

[Also Romer, Chapter 6.1]

Ethan Ilzetzki, Enrique Mendoza & Carlos Vegh, 2013, “[How Big (Small?) Are Fiscal Multipliers?”](http://www.sciencedirect.com/science/article/pii/S030439321200116X) *J.Mon.Ec*. 60, 2, 239-54. [NBER WP](http://ideas.repec.org/s/nbr/nberwo.html) 16479 or [IMF WP 1152](http://www.imf.org/external/pubs/ft/wp/2011/wp1152.pdf). [Summary](http://www.nber.org/digest/mar11/w16479.html) *NBER Digest*, 2011. \*

 G.Chodorow-Reich, G.Gopinath, P.Mishra & A.Narayanan, 2020, “[Cash and the Economy: Evidence from India's Demonetization](https://scholar.harvard.edu/gopinath/publications/cash-and-economy-evidence-indias-demonetization),” [*Quarterly J. Econ.*, 135(1), pp.57-103](https://academic.oup.com/qje/article-abstract/135/1/57/5567189). [NBER WP 25370.](https://www.nber.org/papers/w25370)

 “[A stimulating question: Can emerging economies now afford counter-cyclical policies?”](http://www.economist.com/node/12775548/print)  *The Economist*, Dec. 13, 2008, p. 90. \*

 “[Argentine businesses battle to survive 40% interest rates,”](https://www.ft.com/content/ec0eb0e0-69e3-11e8-8cf3-0c230fa67aec) *Financial Times*, June 11, 2018. \*

#  “[China’s economists debate deficit monetization](https://www.economist.com/finance-and-economics/2020/05/28/chinas-economists-debate-deficit-monetisation),” *The Economist*, May 30, 2020. \*\*

#  “[Debt investors bet on emerging markets as ‘QE’ begins to travel](https://www.ft.com/content/779b7776-cfef-4d53-9295-b4493559dc71),” *Fin. Times*, 15 June, 2020.

1. (9/22) Monetary Policy at the Zero Lower Bound

# Romer’s *Advanced Macroeconomics,* Chapter 12.2 & 12.6-12.7 in 5th ed. \*Paul Krugman, “[The Shock of the Normal](https://krugman.blogs.nytimes.com/2017/01/07/the-shock-of-the-normal/?mtrref=undefined&assetType=REGIWALL),” *NYT* blog, Jan. 7, 2017. \*

“[Emerging markets can use quantitative easing, too](https://app.ft.com/content/e5e40252-afdb-11ea-a4b6-31f1eedf762e?sectionid=markets),” *Financial Times*, 18 June, 2020. \*

1. (9/24) Reserve flows

 Caves, Frankel & Jones, *WTP,* 2007, Chapters 19.1, 22.4-22.7. \*\*\*

 “[Hot money flows into Argentine peso spook President Macri](https://app.ft.com/cms/s/ba84956e-22ad-11e6-9d4d-c11776a5124d.html?sectionid=world),” *Financial Times*, May 27, 2016.
 “[Swiss central bank blames strong franc as eurozone pulls away](https://www.ft.com/content/fcc25e7e-51bf-11e7-bfb8-997009366969),” *Fin. Times*, June 16, 2017.

 “[Turkish lira up 2% after central bank raises interest rates to keep inflation in check](https://www.ft.com/content/80b278f0-6a55-11e8-b6eb-4acfcfb08c11),” *Financial Times*, July 8, 2018. \*\*

 “[Why investors favour economically orthodox political strongmen: A guide to auto-technocracy](https://www.economist.com/finance-and-economics/2019/07/27/why-investors-favour-economically-orthodox-political-strongmen)”, *The Economist*, July 27, 2019. \*\*

1. (9/29) Mundell-Fleming with a floating rate.

 *WTP,* 2007, Chapter 23.1-23.2 \*\*\*
 “[Brazil’s economy: Wild horses – A soaring currency…”](http://www.economist.com/node/18587335) *The Economist*, Apr.23, 2011. \*\*

1. (10/1) The model with perfect capital mobility; the Impossible Trinity

*WTP,* 2007, Chapter 23.3-23.4. \*\*\*

Robert Mundell, 1963, "[Capital Mobility and Stabilization Policy under Fixed and Flexible Exchange Rates](http://www.columbia.edu/~ram15/ie/ie-18.html)," *Canadian J .Ec.& P.S.*, Nov.

“[Turkey needs a new approach to the lira](https://www.ft.com/content/328f7086-565d-47f2-a717-30cc3be37beb),” *Financial Times*, July 29, 2020.

**IV. INFLATION**

1. (10/6) Aggregate Demand, Aggregate Supply, and inflation

 *WTP*, Chapter 26.1 \*\*\*
 Romer’s *Advanced Macroeconomics* (McGraw Hill, 2019), Chapter 12.1 in 5th ed. \*

 Prachi Mishra & Peter Montiel, 2013,”[How Effective is Monetary Transmission in Low-income Countries? A Survey of the Empirical Evidence](http://www.sciencedirect.com/science/article/pii/S0939362513000332),” *Economic Systems.* [vol.37, issue 2](http://www.sciencedirect.com/science/journal/09393625/37/2), June, 187–216.  [IMF WP12143.](http://www.imf.org/external/pubs/ft/wp/2012/wp12143.pdf) \*

“[Some like it hot: Which emerging economies are at greatest risk of overheating?”](http://www.economist.com/node/18895150) *Economist*, July 2, 2011, p.65. \*\*

 “[India lifts interest rate to curb price pressures](https://www.ft.com/content/f5f8dc76-6974-11e8-8cf3-0c230fa67aec),” *Financial Times,* June 7, 2018. \*
 “[Joblessness in Asia: The luxury of unemployment](https://www.economist.com/finance-and-economics/2018/06/07/in-developing-countries-many-people-cannot-afford-not-to-work),” *The Economist*, June 9, 2018.

1. (10/8) The rational expectations attack on activist monetary policy

David Romer, *Advanced Macroeconomics,* Chapter 12.3 in 5th ed. \*\*\*
 [Chapter 6.2-6.4 of Romer’s *Advanced Macroeconomics,* 4rd ed.]

“[Argentina’s inflation problem: The price of cooking the books](http://www.economist.com/node/21548229),” *Economist,* Feb. 25, 2012, 47-48.
“[Monetary policy in Africa has become more orthodox](https://www.economist.com/finance-and-economics/2019/01/24/monetary-policy-in-africa-has-become-more-orthodox),” *Economist*, 1/26/2019.\*\*

1. (10/13) Addressing dynamic inconsistency of monetary policy

*WTP*, Chapters 26.3-26.4 \*\*\*

 Romer, *Advanced Macroeconomics,* Chapters 12.8-12.9 in 5th ed. (11.7-11.8 in 4th ed.) \*\*

Kenneth Rogoff, 1985, "[The Optimal Degree of Commitment to an Intermediate Monetary Target](http://scholar.harvard.edu/files/rogoff/files/51_qje85.pdf)," *Quarterly Journal of Economics* 100, Nov., 1169-1189.

Kenneth Rogoff, 2003, “[Globalization and Disinflation](https://www.kc.frb.org/Publicat/Econrev/PDF/4Q03Rogo.pdf),” *Economic Review*, Federal Reserve Bank of Kansas City, 88, no. 4, 4th quarter, pp. 45-78.

J. Frankel, 2011, "[Monetary Policy in Emerging Markets](http://www.hks.harvard.edu/fs/jfrankel/HandbookEMkts2010.doc): A Survey,” [in](http://www.hks.harvard.edu/fs/jfrankel/MPolEMktsHandbkCh25prfs.pdf) [*Handbook of Monetary Economics*](http://www.elsevierdirect.com/ISBN/9780444534545/Handbook-of-Monetary-Economics-Volume-3B), Benjamin Friedman & Michael Woodford, eds. (North Holland). HKS [RWP 11-003](http://web.hks.harvard.edu/publications/workingpapers/citation.aspx?PubId=7561); NBER WP 16125.

“[Nigeria’s Central Bank Chief Warns on Autonomy](http://www.ft.com/cms/s/0/42d7dc52-afec-11e1-b737-00144feabdc0.html#axzz22VctqxpL),” *Financial Times*, June 7, 2012.

 Mario Blejer, 2013, “[Political Central Banking: Get ready for the end of central bank independence](http://www.thefreelibrary.com/Political%2Bcentral%2Bbanking%3A%2Bget%2Bready%2Bfor%2Bthe%2Bend%2Bof%2Bcentral%2Bbank...-a0336672348),” *The International Economy*, 27, no.2, spring, pp. 32-33.
 “[The desperation of independents: Stubbornly low interest rates may mean the end of central-bank autonomy](http://www.economist.com/news/finance-and-economics/21703372-stubbornly-low-interest-rates-may-mean-end-central-bank-autonomy),” *The Economist*, Aug, 6, 2016.
 “[Erdogan deals a fresh blow to Turkey’s economy](https://www.ft.com/content/0de1ac30-a0a8-11e9-a282-2df48f366f7d),” *Financial Times*, July 8, 2019.

“[Recep Tayyip Erdogan sacks the head of Turkey’s central bank,”](https://www.economist.com/finance-and-economics/2019/07/11/recep-tayyip-erdogan-sacks-the-head-of-turkeys-central-bank) *The Economist*, July 13, 2019. \*

1. (10/15) ***MIDTERM EXAM***

1. (10/20) Seigniorage and hyperinflation

*WTP*, Chapter 19.3 & page 582 \*\*\*

Romer’s *Advanced Macroeconomics,* Chapter 12.10 in 5th edition (11.9 in 4th ed.) \*

Rudiger Dornbusch & Stanley Fischer, 1993, “[Moderate Inflation](http://wber.oxfordjournals.org/content/7/1/1.full.pdf%2Bhtml),” *W.Bk.Ec.Rev.* 7**,** 1, 1-44.

Philip Cagan, 1956, “The Monetary Dynamics of Hyperinflation,” in Milton Friedman, ed., *Studies in the Quantity Theory of Money* (Univ. of Chicago Press, Chicago), 25-117.

 “[Venezuela – The half life of a currency](https://www.economist.com/finance-and-economics/2018/09/13/hyperinflation-is-hard-to-grasp-harder-still-to-tolerate): Hyperinflation is hard to grasp, harder still to tolerate,” *The Economist*, Sept. 13, 2018.

 “[Hyperinflation can end quickly, given the right sort of regime change](https://www.economist.com/finance-and-economics/2019/01/31/hyperinflations-can-end-quickly-given-the-right-sort-of-regime-change),” *Economist*, Jan. 31, 2019. \*\*\*
 “[Argentine inflation rise adds to pressures on Fernandez](https://www.ft.com/content/4ae27da8-5967-11ea-abe5-8e03987b7b20),” *Financial Times*, January 15, 2020.
 “[Zimbabwe’s secret money printing threatens IMF assistance](http://www.ft.com/content/4ae27da8-5967-11ea-abe5-8e03987b7b20),” *Financial Times,* Feb.27, 2020. \*\*

1. (10/22) Macroeconomics in China, 2004-12

J. Frankel, 2010, "[The Renminbi](https://www.hks.harvard.edu/fs/jfrankel/ChinaRMB%24VoxEU2010Apr11.doc) [Since 2005](http://voxeu.org/article/win-win-proposal-let-renminbi-appreciate),"  in [*The US-Sino Currency Dispute: New Insights from Economics, Politics and Law*,](http://voxeu.org/epubs/cepr-reports/us-sino-currency-dispute-new-insights-economics-politics-and-law#anchor) edited by S. Evenett (CEPR: London), 51-60. \*\*

Eswar Prasad, and Shang-Jin Wei, 2011, "[The Chinese approach to capital inflows: patterns and possible explanations,"](http://www.nber.org/chapters/c0158.pdf) in *Capital Controls and Capital Flows in Emerging Economies: Policies, Practices and Consequences* (University of Chicago Press): 421-480.

 Macroeconomics in China #2 (RMB policy & 2012-19 slowdown)
 Lant Pritchett and Larry Summers, 2014. "[Asia-phoria meet regression to the mean,](http://ideas.repec.org/a/fip/fedfpr/00007.html)" *AEPC Proceedings* (Federal Reserve Bank of San Francisco), Nov., pp. 1-35. [NBER WP 20573](http://www.nber.org/papers/w20573).

J.Frankel, 2015, "[Congress, China, & Currency Manipulation](http://www.chinausfocus.com/finance-economy/congress-china-and-currency-manipulation/)," *China-US Focus*, May, 36-8. \*

“[China faces a tough test stabilizing the renminbi](https://www.ft.com/content/a0d450c6-7f8c-11e8-bc55-50daf11b720d),” *Financial Times*, July 5, 2018; and response letter, “[A double standard for China’s currency](https://www.ft.com/content/e867fc46-8075-11e8-bc55-50daf11b720d),” Desmond Lachman, *FT*, July 11. \*

**V. INTEGRATION OF GOODS MARKETS**

1. (10/27) Does arbitrage enforce Purchasing Power Parity?

 Caves, Frankel and Jones, *WTP*, 2007, Chapter 19.2-19.3. \*\*\*

Andrew Rose, 2000, “[One Money, One Market: Estimating the Effect of Common Currencies on Trade](https://academic.oup.com/economicpolicy/article/15/30/08/2366365),” *Economic Policy* vol.15, no.30, April. \*\*

Charles Engel and John Rogers, 1996, "[How Wide is the Border](https://econpapers.repec.org/article/aeaaecrev/v_3A86_3Ay_3A1996_3Ai_3A5_3Ap_3A1112-25.htm)?" *Am.Econ.Rev.* 86, 5, Dec., 1112-25. [NBER WP 4829](https://www.nber.org/papers/w4829).

1. (10/29) Do sticky prices give rise to PPP deviations?

Kenneth Rogoff, 1996,“[The Purchasing Power Parity Puzzle](http://danica.popovic.ekof.bg.ac.rs/Rogoff%20exr%20puzzle.pdf),” *J.Ec.Lit.*, 34, 2, June, 647-68. \*

Michael Mussa, 1986, "[Nominal Exchange Rate Regimes and the Behavior of Real Exchange Rates: Evidence and Implications](https://www.sciencedirect.com/science/article/pii/0167223186900394)," *Carnegie Rochester Series on Public Policy* 25, 117-214.

Alan Taylor and Mark Taylor, 2004, “[The Purchasing Power Parity Debate](https://pubs.aeaweb.org/doi/pdfplus/10.1257/0895330042632744),” [*Journal of Economic Perspectives*](http://ideas.repec.org/s/aea/jecper.html), 18, 4, 135-158, Fall. \*

1. (11/3) Nontraded goods and Balassa-Samuelson

“[The Big Mac Index: Of Bucks and Burgers](https://www.economist.com/news/finance-and-economics/21725034-dollar-has-slipped-over-past-six-months-still-looks-dear-big-mac),” *The Economist*, July 15, 2017. \*\*

Bela Balassa, 1964, "[The Purchasing Power Parity Doctrine: A Reappraisal](https://pdfs.semanticscholar.org/58a1/47727ff6aff4b42438d8550b0f735f2fcf43.pdf)," *JPE,* 72, 584-96.

Jose De Gregorio, Alberto Giovannini, and Holger Wolf, 1994, "[International Evidence on Tradables and Nontradables Inflation](https://www.sciencedirect.com/science/article/pii/001429219490070),” *European Economic Review* 38, no. 6, June, 1225-44.

**VI. SMALL OPEN ECONOMIES**

1. (11/5) The Salter-Swan SOE model

Caves, Frankel and Jones, *WTP:* Ch. 19.4, Appendix 19.C & Chapter 20. \*\*\*

“[Latin American producers boosted by weaker domestic currencies](https://www.ft.com/content/753dae16-1c26-11ea-97df-cc63de1d73f4),” *Fin. Times*, Dec. 11, 2019. \*\*

C.Casas, F.Diez, [G.Gopinath,](https://scholar.harvard.edu/gopinath/publications/dominant-currency-paradigm) & P.O.Gourinchas, 2020, “[Dominant Currency Paradigm](https://scholar.harvard.edu/gopinath/publications/dominant-currency-paradigm),” *American Economic Review*, 110(3), 677-719. [NBER WP 22943](http://www.nber.org/papers/w22943).

W.E.G. Salter, 1959, “Internal and External Balance – The Role of Price and Expenditure Effects,” *Economic Record*, August.

Trevor Swan, 1963, "Longer Run Problems of the Balance of Payments," in H.W.Arndt & W.M.Corden, eds., *The Australian Economy* (Cheshire, Melbourne).

Rudiger Dornbusch, 1973, "[Devaluation, Money and Nontraded Goods](http://ftp.itam.mx/pub/academico/licencia/DivEco/ecomex/Parte%20I/DORNBUSC.PDF)," *AER,* Dec., 71-80.

Ariel Burstein, Martin Eichenbaum & Sergio Rebelo, 2005, [“Large Devaluations and the Real Exchange Rate](http://ces.univ-paris1.fr/membre/Cudeville/pdf/pdf%20M2/rebelo.pdf),” *J. Political Economy*113, no.4, August: 742-784. [NBER WP 10986](http://www.nber.org/papers/w10986.pdf).

Stephanie Schmitt-Grohé and Martín Uribe, 2020, “Reviving the Salter-Swan Small Open Economy Model,” NBER International Seminar on Macroeconomics, June. NBER WPr 27477.

1. (11/10) Currency mismatches and contractionary devaluation

J.Frankel, 2005, “[Contractionary Currency Crashes in Developing Countries](http://www.imf.org/External/Pubs/FT/staffp/2005/02/frankel.htm),” *IMF Staff Papers* 52, 2, 149-92.

“[Financial indulgence,”](http://www.economist.com/news/finance-and-economics/21600150-cheap-credit-tempting-emerging-markets-towards-risky-borrowing-financial) *The Economist*, April 5, 2014.

“[Lira plunges as rates freeze raises fears over Erdogan’s economic role](https://www.ft.com/content/5f389ec8-8f23-11e8-bb8f-a6a2f7bca546),” *F.T.*, 7/25/2018. \*

1. (11/12) EM Sudden stops

 *WTP,* 2007, Ch. 24.1-24.2, 24.6-24.7 **\*\*\***

 Guillermo Calvo, Leo Leiderman and Carmen Reinhart, 1996, “[Inflows of Capital to Developing Countries in the 1990s](https://mpra.ub.uni-muenchen.de/13707/1/MPRA_paper_13707.pdf)," *Journal of Economic Perspectives*, 10, 2, Spring, 123-139.

“[Emerging markets face a dollar double whammy](https://www.ft.com/content/e193381a-64c1-11e8-bdd1-cc0534df682c),” Urjit Patel, *Fin. Times*, June 4, 2018. \*

“[Russia tapped foreign exchange reserves as rouble tumbled](https://www.ft.com/content/17fcdb99-b8a0-4b69-a949-e73b5825bed5),” *Financial Times*, April 10, 2020. \*\*

1. (11/17) Dutch Disease

Jeffrey Sachs, 2007, “[How to Handle the Macroeconomics of Oil Wealth](http://policydialogue.org/files/publications/papers/Ch07.pdf),” *Escaping the Resource Curse*, Humphreys, Sachs & Stiglitz, eds. (Columbia U. Press), pp.173-193. \*\*\*

W. Max Corden and J. Peter Neary, 1982, “[Booming Sector and De-industrialisation in a Small Open Economy](https://www.jstor.org/stable/pdf/2232670.pdf),” *The Economic Journal.* Vol. 92, No. 368, Dec., pp. 825-848

 “[Peru’s roaring economy: Hold on tight](http://www.economist.com/news/americas/21571162-biggest-threats-latin-americas-economic-star-are-overconfidence-and-complacency-hold),” *The Economist*, Feb. 2, 2013. \*

 “[Nigeria’s economy : More misery ahead](https://www.economist.com/middle-east-and-africa/2019/05/30/nigerians-got-poorer-in-muhammadu-buharis-first-term),” *The Economist*, June 1, 2019. \*\*

1. (11/19) The Natural Resource Curse

J. Frankel, 2012, “[The Natural Resource Curse](https://scholar.harvard.edu/files/frankel/files/nresourcecurseimf2012fa.pdf): [A Survey of Diagnoses and Some Prescriptions](https://scholar.harvard.edu/files/frankel/files/nresourcecurseimf2012fa.docx),” *in*[*Commodity Price Volatility and Inclusive Growth in Low-Income Countries*](https://www.imf.org/en/Publications/Books/Issues/2016/12/31/Commodity-Price-Volatility-and-Inclusive-Growth-in-Low-Income-Countries-25718), Arezki, Patillo, Quintyn & Zhu, eds. (IMF). HKS RWP12-014; [CID](https://www.hks.harvard.edu/centers/cid/publications) [WP](https://www.hks.harvard.edu/centers/cid/publications/faculty-working-papers) [no.233](https://www.hks.harvard.edu/centers/cid/publications/faculty-working-papers/natural-resource-curse), [2012](https://scholar.harvard.edu/files/frankel/files/nresourcecurseimf2012fa.doc).  \*\*\*

“[Twilight of the petrostates](https://www.economist.com/middle-east-and-africa/2020/07/18/the-end-of-the-arab-worlds-oil-age-is-nigh),” The Economist, July 18, 2020. \*

**VII. EXCHANGE RATE REGIMES**

1. (11/24) Pros and cons of fixed vs. floating Rates

J.Frankel, 2004, ["Experience of and Lessons from Exchange Rate Regimes in Emerging Economies,"](http://www.hks.harvard.edu/fs/jfrankel/ADBpaperOnExRateRegimes.pdf) in *Monetary and Financial Integration in East Asia*, Asian Development Bank (Palgrave Macmillan), vol.2, 91-138**.** [RWP03-011](https://research.hks.harvard.edu/publications/workingpapers/citation.aspx?PubId=1492&type=FN&PersonId=15) and [NBER WP no.10032](http://www.nber.org/papers/w10032). \*\*

Guillermo Calvo and Carmen Reinhart, 2002, “[Fear of Floating](https://academic.oup.com/qje/article-abstract/117/2/379/1883887),” *QJE*, 117, 2, [May, 379-408](https://www.jstor.org/stable/2696430).

Milton Friedman, 1953, “The Case for Flexible Exchange Rates,” in *Essays in Positive Economics* (University of Chicago Press: Chicago), 157-203.

Kenneth Rogoff and Maurice Obstfeld, 1995, "[The Mirage of Fixed Exchange Rates](https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.9.4.73)," *Journal of Economic Perspectives* 9, Fall, 73-96.

“[Petri-dish economies: Poland – Few woes in Warsaw](http://www.economist.com/node/18621646),” *Economist*, April 30, 2011, p. 83. \*

1. (12/1) Optimum Currency Areas

*WTP*, Chapter 26.5. \*\*\*

Robert Mundell, 1961, "[A Theory of Optimum Currency Areas](http://web.ntpu.edu.tw/~guan/courses/Mundell61.pdf)," *Am.Ec.Rev.*, Sept., 657-65.

A.Ghosh, A.Gulde and H.Wolf, 2000, “[Currency Boards -- More Than a Quick Fix](https://academic.oup.com/economicpolicy/article/15/31/270/2366375)?*” Economic Policy*, 31, Oct., 270-335.

“[Macron signals rethink on French-backed Africa currency](https://www.ft.com/content/6f0cef38-1db7-11ea-97df-cc63de1d73f4),” *Financial Times*, Dec. 16, 2019. \*

1. (12/3) Intermediate Exchange Rate Regimes

 Paul Krugman, 1991, "[Target Zones and Exchange Rate Dynamics](https://www.jstor.org/stable/pdf/2937922.pdf)," *Q. J. Ec.* 106, 3, 669-82.

1. / 1st lecture: Tuesday, Sept.1, 2020. [↑](#footnote-ref-1)
2. 2/ 1st review session: Tuesday, Sept.8, 2020. [↑](#footnote-ref-2)