Department of Economics, Harvard University

Economics 1545: International Financial and Macroeconomic Policy

Professor Kenneth Rogoff

Time and Place: Fall 2016; M, W, 1-2:30 pm.; Harvard Hall 103

Office Hours: Littauer Center 216. Mondays 4-5 PM, or by appointment

Email: krogoff@harvard.edu (N.B. When sending an email pertaining to this course, please put "1545" in the subject header.)

Teaching Assistant: Nihar Shah, nshah@fas.harvard.edu

Discussion Sections: T.B.A. (both sections will cover identical material).

Staff Assistant: Jane Trahan, jtrahan@harvard.edu, 496-0062

Overview:

This is an advanced international finance and macroeconomics course that uses a mix of theoretical, empirical and policy frameworks to analyze topical problems in international finance.

Prerequisites: Economics 1011b (preferably) or 1010b (Knowledge of basic calculus will be assumed.)

Background Texts: (On reserve at Lamont Library, and available for purchase at the COOP.)

- The Curse of Cash, by Kenneth Rogoff, Princeton University Press, 2016 (selected chapters)

Readings: Readings can be accessed online or are available on Reserve at Lamont Library. Primary readings are denoted by an * symbol. Supplementary readings will be summarized in class but are not required.

Problem Sets: Students are encouraged to work with others on the problem sets, and it is permissible to hand in a single answer sheet for up to three students, with all three receiving the same group grade.
Course Requirements:

Midterm: Wednesday, October 19 (in-class, closed book; but exam will provide most of the basic formulas you might require, to lessen need for memorization). Analytical problems on the exam will closely parallel material covered in problem sets (but will generally require much less algebra), and the essay problem will relate to a central topic covered extensively in class.

Final: The final will have a larger essay component than the mid-term. It will draw on the entire course.

Short policy paper: You will be asked to write a short policy paper on a topic drawn from a list of questions relating to reform of the international monetary system. A one-page outline of your paper is due Monday morning, 9 am, October 31, and the complete paper is due at 9 am on Monday, November 14. The three policy discussions will be in class on November 21, November 28 and November 30. The papers are intended to be short and succinct—there is an absolute total page limit of 10 double-spaced (12 pt.) pages (roughly 2500 words); Only figures and references are excluded in this limit. The papers do not need to include any formal analytical or econometric analysis; you may write them in a style you find suitable to the question you are addressing. The final exam will include (a choice of) essay questions relating to the paper topics that you and your classmates have chosen.

Problems: There will be 3 problem sets, due September 19, October 3 and November 7.

Grades: Problems: 10%, Mid-term: 20%, Final: 35%, Paper: 35%

TOPICS

I. THE LOW INTEREST RATE PUZZLE AND FINANCIAL REPRESSION

*Obstfeld-Rogoff (OR) 285-294 (consumption correlations puzzle, rationale for the representative agent assumption), OR 306-319 (the equity premium puzzle and the low interest rate puzzle), OR 329-332 (how large are the gains from international risk sharing)


II. THE LOW INTEREST RATE PUZZLE AND SECULAR STAGNATION


**III. BANK RUNS AND THE PERSISTENCE OF THE GREAT DEPRESSION**


Also: International transmission of the Great Depression via flaws in the inter-war gold standard

*Obstfeld and Rogoff: pp. 626-630.


**IV. WHY MONEY FLOWS FROM NORTH TO SOUTH**


V. SOVEREIGN RISK AND DEFAULT

*Obstfeld and Rogoff, chapter 6, 363-401.


VI. THE LOW INTEREST RATE PUZZLE AND GLOBAL IMBALANCES


*Obstfeld and Rogoff: pp. 1-84.


VII. SPECULATIVE EXCHANGE RATE ATTACKS

Basic models and empirical issues: Salant-Henderson-Krugman model, multiple equilibria ("generation 2")


**VIII. PERFORMANCE OF EXCHANGE RATE REGIMES**


**IX. ZERO BOUND ON INTEREST RATES (PART 1)**

*Krugman, Paul, "It's Baaack: Japan's Slump and the Return of the Liquidity Trap," Brookings Papers on Macroeconomic Activity, 1998, v2, 137-205 (including comment by Dominguez and Rogoff) (N.B.: Our focus will be on the analytics as covered in the HANDOUT).*


**X. ZERO BOUND ON INTEREST RATES (PART 2), DEALING WITH THE ZERO BOUND**


XI. GLOBAL CAPITAL MARKET INTEGRATION: DEVELOPING COUNTRIES


XII. GLOBAL CAPITAL MARKET INTEGRATION: ADVANCED COUNTRIES


*Obstfeld and Rogoff: pp. 161-164.

XIII. THE SPECIAL ROLE OF THE DOLLAR


Ilzetski, Ethan, Carmen Reinhart and Kenneth Rogoff, “Modern History of Exchange Rates Revisited,” mimeo, Harvard University, Fall 2016 (anticipated).

XIV: GLOBAL FINANCIAL CRISIS, PART I


XV: GLOBAL FINANCIAL CRISIS, PART II


XVI: DEBT OVERHANG


XVII. THE PURCHASING POWER PARITY PUZZLE AND RELATED PUZZLES


*Obstfeld and Rogoff: pp. 199-225.


XVIII: SELECTED ISSUES IN INEQUALITY

