

UNIVERSITY OF ESSEX

DEPARTMENT OF ECONOMICS

Session 2005-06

Alexander Mihailov

EC933-G-AU: INTERNATIONAL FINANCE

READING LIST AND COURSE OUTLINE

Details of assessment and submission deadlines are contained in the Postgraduate Economics Handbook, available from room 5B.217. Further information about the course is contained in the University's course catalogue, see <http://www2.essex.ac.uk/courses/>, and – in much greater depth – on the specially developed and maintained course website at <http://courses/essex.ac.uk/ec/ec933/>.

There are two excellent textbooks for this course that complement each other, the first one with a focus on theory and the second one on empirics. They are recommended as *essential* reading (see below) but cannot, and will not, be covered in full during lectures. In addition, two other useful books are suggested as *supplementary* reading on a number of topics (see below). Other bibliographical sources, including book chapters and journal articles, are proposed as *background* reading, more precisely on certain aspects of the course (as described further down).

The choice of required and recommended material is aimed at laying the theoretical and empirical foundations a graduate student needs to understand the modern open-economy literature and be able to embark on own research. For those who are particularly interested in the subject matter, the most (directly) relevant specialised *journals* and *websites* are selected from the multitude of existing ones: these contain articles and data, often downloadable in suitable formats.

Lecture notes and their essential structure in the form of *presentation slides* (to be discussed in class) are posted in pdf version on the course website. Any feedback will be appreciated.

Essential reading

1. Obstfeld, Maurice and Kenneth Rogoff, "Foundations of International Macroeconomics", MIT Press, 1996 – uses modern analytical methods to develop a (first) coherent framework for the study of a wide range of fundamental issues related to the interdependence of open economies; a *companion website* to this comprehensive treatise with solution guide to end-of-chapter problems can be consulted at <http://www.economics.harvard.edu/~krogoff/Foundations/ObstfeldRogoffBook.html>.
2. Mark, Nelson, "International Macroeconomics and Finance: Theory and Econometric Methods", Blackwell, 2001 – a compact, balanced and insightful account of the most influential theory and empirics in international macroeconomics; a *companion website* to this lucid textbook with a number of downloadable Gauss programmes can be consulted at <http://www.nd.edu/~nmark/book/book.htm>.

Supplementary reading

1. Gandolfo, Giancarlo, "International Finance and Open-Economy Macroeconomics", Springer, 2001 – a wonderful reading, and a major reference book, on both the intellectual history and the analytics of the most prominent lines of research in open-economy macroeconomics.
2. Sarno, Lucio and Mark Taylor, "The Economics of Exchange Rates", Cambridge University Press, 2002 – at present, the most updated and synthetic survey of the literature on exchange rate economics.

Relevant journals and their websites

1. <http://www1.elsevier.com/homepage/sae/econworld/econbase/inec/frame.htm> – *Journal of International Economics*, Elsevier Science: a major outlet, since 1971, for theoretical and empirical research in all areas of international economics, including in particular exchange rates, open-economy macroeconomics, international finance and international factor mobility; *JIE* is accessible for reading either at the Albert Sloman Library or via its EBSCO Host Electronic Journal Service facility (the issues of the most recent 12 months, in the latter case).
2. <http://www1.elsevier.com/homepage/sae/econworld/econbase/jimf/frame.htm> – *Journal of International Money and Finance*, Elsevier Science: since its launch in 1982, *JIMF* has built up a solid reputation as a high-quality scholarly journal devoted to theoretical and empirical research in the fields of international monetary economics, international finance, and the rapidly developing overlap area between the two; it is accessible for reading either at the Albert Sloman Library or via its EBSCO Host Electronic Journal Service facility (the issues of the most recent 12 months, in the latter case).
3. <http://www.roie.org/> – *Review of International Economics*, Blackwell: founded in 1993, this journal covers a full range of topics in international economics including both controversial and innovative ideas and detailed contributions from other directly related fields, relevance to real world problems being a paramount concern; *RIE* is accessible for reading either at the Albert Sloman Library or via its EBSCO Host Electronic Journal Service facility (the issues of the most recent 12 months, in the latter case).
4. <http://www.udayton.edu/~iref/> – *International Review of Economics and Finance*, Elsevier Science: since its launch in 1992, the journal publishes papers which deal with contemporary economic and financial issues and problems faced by national, regional, and global economies; unfortunately, *IREF* is not (yet) accessible for reading in, or through, the Albert Sloman Library.
5. <http://www3.interscience.wiley.com/cgi-bin/jhome/15416> – *International Journal of Finance and Economics*, Wiley InterScience: a relatively new journal, launched in 1996, which aims to be accessible to non-specialists, policy-makers and practitioners and to publish on a broad scope of issues in international finance such as, among other, exchange rates, balance of payments, Third World debt, European monetary union, the financial aspects of transition economies, and international financial policy co-ordination; unfortunately, *IJFE* is not (yet) accessible for reading in, or through, the Albert Sloman Library.
6. <http://www.kluweronline.com/issn/0923-7992/current> – *Open Economies Review*, Kluwer: the journal, which first appeared in 1990, encourages interdisciplinary communication and interaction among researchers in the vast area of international and transnational economics and covers models and applications on topics such as, with view to our course focus, the adjustment mechanism to external imbalances, exchange rate movements, alternative monetary regimes, real and financial integration, monetary union, and external debt; unfortunately, *OER* is not (yet) accessible in, or through, the Albert Sloman Library; but, starting from 2004, it can be read at the RePEc website (see its URL below).
7. <http://www.blackwellpublishing.com/journal.asp?ref=1367-0271&site=1> – *International Finance*, Blackwell: a recently founded journal, in 1998, *IF* claims to bridge the gap between theory and policy in macroeconomics and finance, seeking to publish thought-provoking and policy-relevant analysis, particularly in the areas of exchange rates, monetary policy and financial markets, among others; unfortunately, *IF* is not (yet) accessible in, or through, the Albert Sloman Library.
8. <http://webmail.econ.ohio-state.edu/john/GenInfo.php> – *Journal of Money, Credit and Banking*, Ohio State University Press: founded in 1969, *JMCB* is a leading professional journal in the areas of money and banking, credit markets, regulation of financial institutions, international payments, portfolio management, and monetary and fiscal policy; it is accessible for reading either at the Albert Sloman Library or in electronic format via JSTOR (up to 2002, in the latter case).

9. <http://www1.elsevier.com/homepage/sae/econworld/econbase/monec/frame.htm> – *Journal of Monetary Economics*, Elsevier Science: since its launch in 1975, it has established itself as the top periodical reference for theoretical and empirical research in the broad field of monetary economics; *JME* is accessible for reading either at the Albert Sloman Library or via its EBSCO Host Electronic Journal Service facility (the issues of the most recent 12 months, in the latter case).

Other useful websites

I. Special Field/Topic Homepages

1. http://www.geocities.com/brian_m_doyle/open.html – Brian Doyle's *New Open-Economy Macroeconomics* homepage
2. <http://www.geocities.com/monetaryrules/mpoe.htm> – Gianluca Benigno, Pierpaolo Benigno and Fabio Ghironi's website on *Monetary Policy Rules in Open Economies*
3. <http://www.iue.it/RSCAS/Research/Eurohomepage/> – Giancarlo Corsetti's *Euro* homepage

II. Graduate Course Websites

1. <http://www.econ.ucdavis.edu/faculty/bergin/Econ260d/index.html> – Paul Bergin's graduate course website on *International Macroeconomics* at the University of California at Davis
2. <http://www.ssc.wisc.edu/~cengel/Econ872/Econ872.htm> – Charles Engel's graduate course website on *Advanced International Economics* at the University of Wisconsin
3. <http://www.iue.it/Personal/corsetti/graduate/syllabus2005.html> – Giancarlo Corsetti's graduate course website on *International Finance* at European University Institute
4. <http://www.courses.fas.harvard.edu/~ec2530b/> – Gita Gopinath and Kenneth Rogoff's graduate course website on *International Finance* at Harvard University
5. <http://www-rcf.usc.edu/~cbetts/caroline-econ651/index.html> – Caroline Betts' graduate course website on *International Monetary Policy* at the University of Southern California, Los Angeles
6. <http://econserv2.bess.tcd.ie/plane/ec41002001.htm> – Philip Lane's graduate course website on *International Macroeconomics* at the Trinity College Dublin

III. Research Institutes/Centres

1. <http://www.iie.com> – Institute for International Economics (IIE)
2. <http://www.econ.upf.es/crei/> – Research Centre in International Economics (CREI)
3. <http://www.uni-kiel.de/IfW/homeeng.htm> – Kiel Institute for World Economics (IfW)
4. <http://www.igier.uni-bocconi.it/> – Innocenzo Gasparini Institute for Economic Research (IGIER)
5. <http://www.nber.org/> – National Bureau of Economic Research (NBER)
6. <http://www.cepr.org/content/en/headlinepage.php?PageID=1> – Centre for Economic Policy Research (CEPR)

IV. International Organisations

1. <http://www.imf.org/> – International Monetary Fund (IMF)
2. <http://www.worldbank.org/> – World Bank (WB) Group
3. <http://www.bis.org/index.htm> – Bank for International Settlements (BIS)
4. <http://www.oecd.org/home/> – Organisation for Economic Cooperation and Development (OECD)

V. Major Central Banks

1. <http://www.ecb.int/home/html/index.en.html> – European Central Bank (ECB)
2. <http://www.federalreserve.gov/> – Board of Governors of the Federal Reserve System (Fed)
3. <http://www.boj.or.jp/en/> – Bank of Japan (BoJ)
4. <http://www.bankofengland.co.uk/Links/setframe.html> – Bank of England (BoE)

VI. Web Resources

1. http://www.princeton.edu/~ies/old_series-win.htm#studies – discontinued series (1943-2001) by the *International Economics Section* (formerly *International Finance Section*) at Princeton University
2. <http://www.internationaleconomics.net> – Jamus Jerome Lim's *International Economics Network* portal
3. <http://www.stern.nyu.edu/globalmacro/> – Nouriel Roubini's *Global Economics Monitor* service
4. <http://politics.ankara.edu.tr/~kibritci/econgate.html> – Aykut Kibritcioglu's *Online Gateway to Economics*
5. <http://repec.org/> – Research Papers in Economics (RePEc)

Course Outline

All starred (*) references below are recommended as *essential* readings whereas the non-starred ones are suggested either as *supplementary* readings for a deeper understanding of a particular topic or as *background* readings on certain aspects of it.

I. INTRODUCTION (Week 1)

1. Basic *Notions* of Open-Economy Macroeconomics

1.1 Old and New Approaches to International Finance

- (1) *Gandolfo, sections 1.1 and 1.3
- (2) *LN = lecture notes (slides, handouts) posted on the course website

1.2 The Exchange Rate and the Forex Market

- (1) *Gandolfo, chapter 2
- (2) *LN

1.3 Exchange-Rate Regimes

- (1) *Gandolfo, chapter 3
- (2) *LN

1.4 International Interest-Rate Parity Conditions: Covered (CIP) and Uncovered (UIP)

- (1) *Gandolfo, chapter 4
- (2) *Mark, section 1.1
- (3) *LN

1.5 The Balance of Payments and Forex Reserves

- (1) *Gandolfo, chapter 5
- (2) *Mark, section 1.2
- (3) *LN

1.6 Central Bank Balance Sheet and Intervention Policies

- (1) *Mark, section 1.3
- (2) *LN

1.7 Real and Financial Flows in the Open Economy: An Accounting Matrix

- (1) *Gandolfo, chapter 6
- (2) *LN

II. BALANCE OF PAYMENTS ADJUSTMENT (Weeks 1 - 5)

2. Macroeconomic Theories of Balance of Payments Adjustment: *Flow Approaches*

2.1 BoP Adjustment Through Exchange-Rate Variations: The Elasticity Approach

2.1.1 Expenditure Switching and Expenditure Reducing Policies

- (1) *Gandolfo, section 7.1
- (2) *LN

2.1.2 The Marshall-Lerner (Bickerdicke-Robinson or Critical Elasticities) Condition

- (1) *Gandolfo, section 7.2
- (2) *LN

2.1.3 Foreign Exchange Market Equilibrium and Stability

- (1) *Gandolfo, section 7.3
- (2) *LN

2.2 BoP Adjustment Through Income Changes: The Multiplier Approach

2.2.1 The Multiplier Theory

- (1) *Gandolfo, sections 8.1-8.5
- (2) *LN

2.2.2 The Transfer Problem: Keynes (classical theory) vs. Ohlin (multiplier theory)

- (1) *Gandolfo, section 8.6
- (2) Obstfeld and Rogoff, section 4.5.5.4
- (3) Keynes, J. M. (1929), The German Transfer Problem, *Economic Journal* 39, 1-7

- (4) Ohlin, B. (1929), The Reparation Problem: A Discussion I. Transfer Difficulties, Real and Imagined, *Economic Journal* 39, 172-178
- (5) Johnson, H. G. (1956), The Transfer Problem and Exchange Stability, *Journal of Political Economy* 44, 212-225
- (6) *LN

2.3 An Integrated Approach: The Laursen-Metzler (1950) Model

2.3.1 Interaction between Exchange-Rate and Income Changes in the Adjustment Process

- (1) *Gandolfo, section 9.1
- (2) Laursen, S. and L. A. Metzler (1950), Flexible Exchange Rates and the Theory of Employment, *Review of Economic Studies* 32, 281-299
- (3) Harberger, A. C. (1950), Currency Depreciation, Income and the Balance of Trade, *Journal of Political Economy* 58, 47-60
- (4) Stolper, W. F. (1950), The Multiplier, Flexible Exchange Rates and International Equilibrium, *Quarterly Journal of Economics* 64, 559-582
- (5) *LN

2.3.2 The J-Curve and the S-Curve: currency-contract, pass-through and quantity-adjustment periods

- (1) *Gandolfo, sections 9.2 and 9.3
- (2) NIESR (1968), The Economic Situation. The Home Economy, *National Institute Economic Review* No. 44, 4-17
- (3) Magee, S. P. (1973), Currency Contracts, Pass-Through, and Devaluation, *Brookings Papers on Economic Activity* No. 1, 303-323
- (4) Backus, D. K., P. J. Kehoe and F. E. Kydland (1994), Dynamics of the Trade Balance and the Terms of Trade: The J-Curve?, *American Economic Review* 84, 84-103
- (5) Senhadji, A. S. (1998), Dynamics of the Trade Balance and the Terms of Trade in LDCs: The S Curve, *Journal of International Economics* 46, 105-131
- (6) Mihailov, Alexander (2003a), Is Grassman's Law Still There? The Empirical Range of Pass-Through in US, German and Japanese Macrodatab, *Essex Economics Discussion Paper* No. 567 (October), Department of Economics, University of Essex
- (7) *LN

2.3.3 The Alleged Insulating Power of Flexible Exchange Rates

- (1) *Gandolfo, section 9.4
- (2) *LN

2.4 The Mundell (1960-1964) - Fleming (1962) Model

- (1) *Gandolfo, chapters 10 and 11
- (2) *Mark, section 8.1
- (3) Sarno and Taylor, section 4.1.1
- (4) *LN

3. Macroeconomic Theories of Balance of Payments Adjustment: *Stock(-Flow)* Approaches

3.1 The Stock Approach: Purchasing Power Parity (PPP) and the Monetary Model

- (1) *Gandolfo, chapter 12
- (2) *Mark, chapters 3 and 7
- (3) Obstfeld and Rogoff, section 4.1
- (4) Sarno and Taylor, chapter 3 and sections 4.1.2, 4.1.3, 4.2.1
- (5) *LN

3.2 The Stock-Flow Approach: The Portfolio Balance Model

3.2.1 Asset Stock Adjustment in Partial Equilibrium

- (1) *Gandolfo, sections 13.1 and 13.2
- (2) *LN

3.2.2 Portfolio and Macroeconomic (General) Equilibrium

- (1) *Gandolfo, sections 13.3 and 13.4
- (2) Sarno and Taylor, sections 4.1.5 and 4.2.3
- (3) *LN

4. The Intertemporal Approach to the Current Account: Analytical Introduction of *Time*

4.1 A Two-Period Small Open Economy Real Model: Partial Equilibrium

- (1) *Obstfeld and Rogoff, section 1.1
- (2) *LN

4.2 A Two-Period Two-Region World Economy Real Model: General Equilibrium

- (1) *Obstfeld and Rogoff, section 1.3
- (2) *LN

4.3 A Dynamic Real Model of a Small Open Economy

- (1) *Obstfeld and Rogoff, section 2.1
- (2) *LN

5. Asset Markets and Risk Sharing: Analytical Introduction of *Uncertainty*

5.1 A Stochastic Two-Period Real Model of a Small Open Economy

- (1) *Obstfeld and Rogoff, section 5.1
- (2) *LN

5.2 A Stochastic Two-Period Real Model of a Two-Country Global Economy

- (1) *Obstfeld and Rogoff, section 5.2
- (2) *LN

5.3 Models with Capital Market Imperfections

5.3.1 Sovereign Risk

- (1) Obstfeld and Rogoff, section 6.1
- (2) *LN

5.3.2 Risk Sharing with Asymmetric Information

- (1) Obstfeld and Rogoff, section 6.3
- (2) *LN

5.3.3 Moral Hazard in International Lending

- (1) Obstfeld and Rogoff, section 6.4
- (2) *LN

III. EXCHANGE-RATE DETERMINATION AND REGIMES (Weeks 6 - 9)

6. *Aggregate (Ad-Hoc) Models of Exchange Rates*

6.1 Flexible-Price Models: The Cagan (1956) Monetary Model in a Closed and Open Economy

- (1) *Obstfeld and Rogoff, chapter 8
- (2) *Mark, chapter 3
- (3) Cagan, Phillip (1956), The Monetary Dynamics of Hyperinflation, in Friedman, Milton (ed.), *Studies in the Quantity Theory of Money*, Chicago: Chicago University Press
- (4) *LN

6.2 The Rational Expectations Revolution: Muth (1961)

- (1) Muth, John (1961), Rational Expectations and the Theory of Price Movements, *Econometrica* 29 (July), 315-335
- (2) *LN

6.3 Sticky-Price Models under Rational Expectations: The Dornbusch (1976) Overshooting Model

- (1) *Obstfeld and Rogoff, chapter 9
- (2) Dornbusch, Rudiger (1976), Expectations and Exchange Rate Dynamics, *Journal of Political Economy* 84 (6, December), 1161-1176
- (3) *LN

7. *Microfounded (Optimising) Models of Exchange Rates under Flexible Prices*

7.1 The Lucas (1976) Critique

- (1) Lucas, Jr., Robert (1976), Econometric Policy Evaluation: A Critique, in Brunner, Karl and Meltzer, Allan (eds.), *The Phillips Curve and Labour Markets*, Amsterdam: North Holland
- (2) *LN

7.2 The Lucas (1982) Dynamic General Equilibrium Model of Exchange Rates

- (1) *Mark, chapter 4
- (2) Lucas, Jr., Robert (1982), Interest Rates and Currency Prices in a Two-Country World, *Journal of Monetary Economics* 10 (3, November), 335-359
- (3) *LN

7.3 The Real Business Cycle (RBC) Research Programme in a Closed Economy

- (1) *Mark, section 5.1
- (2) *Obstfeld and Rogoff, sections 7.4.3.1 – 7.4.3.4
- (3) Kydland, Finn and Edward Prescott (1982), Time To Build and Aggregate Fluctuations, *Econometrica* 50 (November), 1345-1370
- (4) King, Robert, Charles Plosser and Sergio Rebelo (1988a), Production, Growth and Business Cycles: I. The Basic Neoclassical Model, *Journal of Monetary Economics* (March/May), 195-232
- (5) King, Robert, Charles Plosser and Sergio Rebelo (1988b), Production, Growth and Business Cycles: II. New Directions, *Journal of Monetary Economics* (March/May), 309-341
- (6) *LN

7.4 International (Real) Business Cycle (I(R)BC) Models

- (1) *Mark, section 5.2
- (2) *Obstfeld and Rogoff, section 7.4.3.5

- (3) Backus, David, Patrick Kehoe and Finn Kydland (1992), International Real Business Cycles, *Journal of Political Economy* 100 (August), 745-775
- (4) Baxter, Marianne (1995), International Trade and Business Cycles, *National Bureau of Economic Research Working Paper No. 5025* (February)
- (5) Baxter, Marianne and Mario Crucini (1995), Business Cycles and the Asset Structure of Foreign Trade, *International Economic Review* 36 (4, November), 821-854
- (6) *LN

8. New Open-Economy Macroeconomics: Monetary Models of Exchange Rate Dynamics

8.1 The New Neo-Classical Synthesis (NNS) in a Closed Economy: Goodfriend and King (1997)

- (1) *Sarno and Taylor, chapter 5
- (2) Goodfriend, Marvin and Robert King (1997), The New Neoclassical Synthesis and the Role of Monetary Policy, *NBER Macroeconomics Annual 1997*, 231-395
- (3) Lane, Philip (2001), The New Open Economy Macroeconomics: A Survey, *Journal of International Economics* 54 (2, August), 235-266
- (4) Canzoneri, Matthew, Robert Cumby and Behzad Diba (2002), The Need for International Policy Coordination: What's Old, What's New, What's Yet to Come?, *National Bureau of Economic Research Working Paper No. 8765* (February)
- (5) Vanhoose, David (2004), The New-Open Economy Macroeconomics: A Critical Appraisal, *Open Economies Review* 15, 193-215
- (6) *LN

8.2 New Open-Economy Macroeconomics (NOEM): The Obstfeld-Rogoff (1995) Redux Model

- (1) *Obstfeld and Rogoff, chapter 10
- (2) *Mark, section 9.1
- (3) Walsh, Carl (1998), *Monetary Theory and Policy*, MIT Press, chapter 6
- (4) *LN

8.3 The Betts-Devereux (1996, 2000) Redux Extensions: Pricing to Market (PTM)

- (1) *Mark, section 9.2
- (2) Betts, Caroline and Michael B. Devereux (1996), The Exchange Rate in a Model of Pricing to Market, *European Economic Review* 40 (3-5, April), 1007-1021
- (3) Betts, Caroline and Michael B. Devereux (2000), Exchange Rate Dynamics in a Model of Pricing to Market, *Journal of International Economics* 50 (1, February), 215-244
- (4) *LN

8.4 The Corsetti-Pesenti (1997, 2001) Redux Extensions: Low (Unit) Cross-Country Substitutability

- (1) *LN
- (2) Corsetti, Giancarlo and Paolo Pesenti (1997), Welfare and Macroeconomic Independence, *National Bureau of Economic Research Working Paper No. 6307* (October)
- (3) Corsetti, Giancarlo and Paolo Pesenti (2001a), Welfare and Macroeconomic Independence, *Quarterly Journal of Economics* 116 (2, May), 421-445
- (4) Corsetti, Giancarlo and Paolo Pesenti (2001b), International Dimensions of Optimal Monetary Policy, *National Bureau of Economic Research Working Paper No. 8230* (April)
- (5) Corsetti, Giancarlo and Paolo Pesenti (2002), International Dimensions of Optimal Monetary Policy, *Centre for Economic Policy Research Discussion Paper No. 3349* (April)

8.5 The Devereux-Engel (1998, 1999, 2000) Redux Extensions: Exchange Rate Regimes

- (1) *LN
- (2) Devereux, Michael B. and Charles Engel (1998), Fixed versus Floating Exchange Rates: How Price Setting Affects the Optimal Choice of Exchange-Rate Regime, *National Bureau of Economic Research Working Paper No. 6867* (December)

- (3) Devereux, Michael B. and Charles Engel (1999), The Optimal Choice of Exchange-Rate Regime: Price Setting Rules and Internationalized Production, *National Bureau of Economic Research Working Paper No. 6992* (March)
- (4) Devereux, Michael B. and Charles Engel (2000), Monetary Policy in the Open Economy Revisited: Price Setting and Exchange Rate Flexibility, *National Bureau of Economic Research Working Paper No. 7665* (April)
- (5) Devereux, Michael B. (2000), Monetary Policy Rules and Exchange Rate Flexibility in a Simple Dynamic General Equilibrium Model, mimeo (revised version of October)
- (6) Engel, Charles (2000), Optimal Exchange Rate Policy: The Influence of Price Setting and Asset Markets, *National Bureau of Economic Research Working Paper No. 7889* (September)

9. New Open-Economy Macroeconomics: Explicitly *Stochastic Monetary Models*

9.1 Obstfeld and Rogoff (1998, 2000, 2001) Directions for NOEM Research: Risk and Space

- (1) *LN
- (2) Obstfeld, Maurice and Kenneth Rogoff (1998), Risk and Exchange Rates, *National Bureau of Economic Research Working Paper No. 6694* (August)
- (3) Obstfeld, Maurice and Kenneth Rogoff (2000), New Directions for Stochastic Open Economy Models, *Journal of International Economics* 50 (1, February), 117-153
- (4) Obstfeld, Maurice, and Kenneth Rogoff (2001), The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?, *NBER Macroeconomics Annual 2000*, Volume 15, 341-390

9.2 Early Stochastic NOEM Contributions: Bacchetta and van Wincoop (1998, 2000)

- (1) *LN
- (2) Bacchetta, Philippe and Eric van Wincoop (1998), Does Exchange Rate Stability Increase Trade and Capital Flows?, *National Bureau of Economic Research Working Paper No. 6704* (August)
- (3) Bacchetta, Philippe and Eric van Wincoop (2000), Does Exchange Rate Stability Increase Trade and Welfare?, *American Economic Review* 90 (5, December), 1093-1109
- (4) Mihailov, Alexander (2003b), Effects of the Exchange-Rate Regime on Trade under Monetary Uncertainty: The Role of Price Setting, *Essex Economics Discussion Paper No. 566* (October), Department of Economics, University of Essex

9.3 A Single-Period NOEM Model with Trade Costs and Inelastic Imports: Mihailov (2003c)

- (1) *LN
- (2) Mihailov, Alexander (2003c), When and How Much Does a Peg Increase Trade? The Role of Trade Costs and Import Demand Elasticity under Monetary Uncertainty, *Essex Economics Discussion Paper No. 567* (October), Department of Economics, University of Essex

9.4 A Multi-Period NOEM Model with Asset Structure and Intermediate Goods: Singh (2004)

- (1) *LN
- (2) Singh, Rajesh (2004), Trade and Welfare Under Alternative Exchange Rate Regimes, *Iowa State University Working Paper No. 04008* (February)

IV. FOREX MARKETS, SPECULATIVE ATTACKS AND MONETARY COOPERATION (Weeks 9 - 10)

10. Foreign Exchange Market Efficiency and Microstructure: Models with *Noise Traders*

10.1 Forex Market Efficiency

- (1) *Mark, chapter 6
- (2) *Sarno and Taylor, chapter 2
- (3) *LN

10.2 Official Intervention in Forex Markets

- (1) *Sarno and Taylor, chapter 7
- (2) *LN

10.3 Forex Market Microstructure

- (1) *Sarno and Taylor, chapter 9
- (2) *LN

10.4 The Jeanne and Rose (2002) Model with Noise Traders

- (1) *LN
- (2) De Long, J. Bradford, Andrei Shleifer, Lawrence Summers and Robert Waldmann (1990), Noise Trade Risk in Financial Markets, *Journal of Political Economy* 98, 703-738
- (3) Jeanne, Olivier and Andrew Rose (2002), Noise Trading and Exchange Rate Regimes, *Quarterly Journal of Economics* 117 (May), 537-569

11. Models of Balance of Payments / Currency Crisis and *Speculative Attack*

11.1 First-Generation Models

- (1) *Mark, section 11.1
- (2) *Sarno and Taylor, section 8.1
- (3) Gandolfo, section 16.3.1
- (4) *LN

11.2 Second-Generation Models

- (1) *Mark, section 11.2
- (2) *Sarno and Taylor, section 8.2
- (3) Gandolfo, section 16.3.2
- (3) *LN

11.3 Third-Generation Models

- (1) *Gandolfo, section 16.3.3
- (2) Sarno and Taylor, section 8.3
- (3) *LN

12. International *Monetary Integration*

12.1 The Theory of Optimal Currency Areas (OCAs)

- (1) *Gandolfo, chapter 20
- (2) *LN

12.2 Target-Zone Models and Currency Unions

- (1) *Sarno and Taylor, chapter 10
- (2) *LN

12.3 The Experience with the European Monetary System/Union (EMS/EMU)

- (1) *Gandolfo, chapter 21
- (2) *LN