

**Macroeconomía II – International Macroeconomics****Prof. Stephen McKnight****E-mail: [mcknight@colmex.mx](mailto:mcknight@colmex.mx) / Office: 4475**

---

**Course Description**

- There are 2 classes scheduled for 16 weeks: Tuesday 11:00 – 13:00 and 17.00 – 18.00.
- In addition to the classes, four tutorials have been scheduled with Fernando Vazquez. These tutorials will take place on weeks 4, 7, 10, and 13, and will give students the opportunity to discuss and resolve specific difficulties with the course materials.
- This course aims to provide students with an up-to-date knowledge of the major topics in international finance and open-economy macroeconomics. The course will cover the most important models (both real and nominal). Emphasis will be given throughout the course on understanding contemporary international macroeconomic policy issues.
- The course is divided into the following 3 sections:
  1. The Dynamics of the Current Account.
  2. Money and Exchange Rates.
  3. International Macroeconomic Policy.
- Lecture notes will be distributed via email before each class.

**Course Evaluation**

- There will be two (in-class) examinations. A mid-term exam and a final-term exam.
- The evaluation of the course will be based on both examinations.
  - Mid-Term Exam 35%
  - Final-Term Exam 65%
- The Mid-Term Exam will take place on Tuesday 1<sup>st</sup> March (week 8) between 11:00 – 13:00.

## Textbooks

The main textbooks for this course are:

- Schmitt-Grohe, Uribe, and Woodford (2021), *International Macroeconomics*, in preparation for Princeton University Press. The book can be downloaded from [www.columbia.edu/~mu2166/UIM/index.html](http://www.columbia.edu/~mu2166/UIM/index.html).
- Krugman, Obstfeld, and Melitz (2018), *International Economics: Theory and Policy*, 11<sup>th</sup> Edition, Pearson.

## Course Outline

### Section 1 – The Dynamics of the Current Account

#### **Topic 1: The Balance of Payments, National Income Accounting, and the Current Account**

- The Balance of Payments
- The Trade Balance and the Current Account
- The Current Account and the Net International Investment Position
- National Income Accounting
- Can Countries Run Perpetual Trade and Current Account Deficits?

Reading: SUW (2021), chapters 1 and 2; and KOM (2018).

#### **Topic 2: Intertemporal Trade and the Current Account**

- A Small Two-Period Endowment Economy Model
- The Trade Balance and the Current Account
- Explaining Intertemporal Trade Patterns
- Example: An Economy with Logarithmic Preferences

Reading: SUM (2021), chapter 3.

### **Topic 3: The Terms of Trade, the World Interest Rate, Tariffs, and the Current Account**

- Terms of Trade Shocks
- World Interest Rate Shocks
- Import Tariffs

Reading: SUM (2021), chapter 4.

### **Topic 4: Current Account Dynamics in Production Economies**

- The Investment Decision of Firms
- The Investment Schedule
- The Consumption-Saving Decision of Households
- The Saving Schedule
- The Current Account Schedule
- Equilibrium in the Production Economy
- An Algebraic Approach
- The Terms of Trade in Production Economies
- An Application: Giant Oil Discoveries

Reading: SUM (2021), chapter 5.

### **Topic 5: Uncertainty and the Current Account**

- The Great Moderation
- A Small Open Economy Model with Uncertainty
- Complete Asset Markets

Reading: SUM (2021), chapter 6.

## Section 2 – Money and Exchange Rates

### **Topic 6: The Foreign Exchange Market**

- The Basics of Exchange Rates
- A Model of the Foreign Exchange Market
- Covered Interest Parity
- Covered Interest Parity and Free Capital Mobility: Empirical Evidence

Reading: KOM (2018), chapter 14; and SUW (2021), chapter 10.1 – 10.3.

### **Topic 7: Money, Interest Rates, and Exchange Rates**

- Money: A Brief Review
- Equilibrium in the Money Market
- The Money Supply and the Exchange Rate in the Short Run
- The Short Run Versus Long Run
- Permanent Money Supply Changes and Exchange Rate Overshooting

Reading: KOM (2018), chapter 15.

### **Topic 8: Long-Run Models of the Exchange Rate**

- The Law of One Price
- Purchasing Power Parity
- Relative Purchasing Power Parity
- A Flexible Price Exchange Rate Model Based on PPP (or the Monetary Approach to the Exchange Rate)
- Beyond PPP: A Long-Run Real Exchange Rate Model (or the Real Exchange Rate Approach to the Exchange Rate)
- Real Interest Parity

Reading: KOM (2018), chapter 16, and SUM (2021), chapter 8.

### **Topic 9: Monetary and Fiscal Policies under Flexible Exchange Rates**

- Determinants of Aggregate Demand in an Open Economy
- The DD – AA Model
- Monetary and Fiscal Policy
- The J – Curve
- The Liquidity Trap

Reading: KOM (2018), chapter 17.

### **Topic 10: Fixed Exchange Rates**

- Central Bank Intervention and the Money Supply
- Macroeconomic Policies under Fixed Exchange Rates
- Balance of Payments Crises and Speculative Attacks
- Managed Float and Sterilized Intervention

Reading: KOM (2018), chapter 18.

## **Section 3 – International Macroeconomic Policy**

### **Topic 11: Fixed Vs. Flexible Exchange Rate Regimes**

- Macroeconomic Policy Goals in an Open Economy
- The Open-Economy Monetary Trilemma
- Analyzing Policy Options for Reaching Internal and External Balance
- The Case Against Fixing the Exchange Rate
- The Case for Flexible Exchange Rates

Reading: KOM (2018), chapter 19.

## **Topic 12: The Macroeconomic Problems of Developing Countries**

- The Gap Between Rich and Poor
- Structural Features of Developing Countries
- Borrowing and Debt
- The Macroeconomic Policy Framework of Mexico
- Explaining the Mexican Growth Paradox

Reading: KOM (2018), chapter 22.

## **Topic 13: Financial Globalization and Financial Crises**

- The International Financial Markets and the Gains from Trade
- International Banking and International Financial Markets
- Banking and Financial Crises
- Regulating International Banking?
- Capital, Risk, and International Financial Markets

Reading: KOM (2018), chapter 20.