

Advance Topics in International Trade

Econ 8481, Fall 2004 MW 1220-1415 CSOM 1-127

Cristina Arellano

Office: 1171 Heller Hall

Telephone: 625-0511

E-mail: arellano@econ.umn.edu

Office Hours: 10:00-12:00 M and feel free to drop by when I am in my office.

This course is about studying business cycles for emerging economies with an emphasis on currency crises and sovereign debt. I will start with an overview of small open economies models and the intertemporal approach to the current account. Then I will turn to three topics: currency crises, financial imperfections and sudden stops, and sovereign debt. The goal of the course is get you acquainted with the literature on these topics and to review some recent papers and developments.

I plan to discuss the papers that are listed below with an asterisk (*).

Reference Text

Obstfeld, Maurice and Kenneth Rogoff, *Foundations of International Macroeconomics*, MIT Press 1996.

Grading

Grades will be based on a class presentation and a referee report of an article that we agree on.

1. Business Cycles in Small Open Economies

Lane, P. R. and G. M. Milesi-Ferretti "The External Wealth of Nations: Measures of Foreign Assets and Liabilities for Industrial and Developing Nations." *Journal of International Economics* 55: 263-294, 2001.

* Mendoza, E., "Real Business Cycles in a Small Open Economy," *AER* 1991.

Mendoza, E., "The Terms of Trade, the Real Exchange Rate and Economic Fluctuations," *International Economic Review*, 1995.

* Neumeyer, Pablo A. and F. Perri, "Business Cycles in Emerging Markets: The Role of Interest Rates," forthcoming *Journal of Monetary Economics*. Available as Staff Report 335, Federal Reserve Bank of Minneapolis.

Feldstein, M. and C. Horioka, "Domestic Saving and International Capital Flows," *Economic Journal* 90, 1980.

Schmitt-Grohe S. and M. Uribe, "Closing Small Open Economy Models" *JIE* 2003.

Tesar, L., "Savings, Investment and International Capital Flows," *Journal of International Economics* 31, August 1991.

Uribe, M. and Z. V. Yue, "Country Spreads and Emerging Countries: Who Drives Whom?," manuscript, Duke University and University of Pennsylvania, July 2003.

2. Currency Crises

Burnside, C and M. Eichenbaum S. Rebelo, "Prospective Deficits and the Asian Currency Crises" *Journal of Political Economy*, 2001.

Burnside, C and M. Eichenbaum S. Rebelo, "Government Finance in the Wake of Currency Crises" mimeo, Northwestern University, 2003.

Calvo, G. A., "Balance of Payments Crises in a Cash-in-Advance Economy," *Journal of Money, Credit and Banking*, 19, 19-32,1987.

* Cespedes, L., R. Chang and A. Velasco, "Balance Sheets and Exchange Rate Policy." forthcoming *American Economic Review*.

Chang, R. and A. Velasco, "A Model of Financial Crises in Emerging Markets," *Quarterly Journal of Economics*, 2001.

Chari, V. V., and P. J. Kehoe, "Hot Money," *Journal of Political Economy* 111, 1262-92, 2003.

Cole, H and T. Kehoe "Self-Fulfilling Debt Crises", *Review of Economic Studies*, 67 , 91-116, 2000.

Krugman, P. R., "A Model of Balance of Payments Crises," *Journal of Money, Credit and Banking*, 11, 311-325, August,1979.

* Schneider, M. and A. Tornell , "Balance Sheet Effects and Financial Crises," forthcoming *Review of Economic Studies*.

* Morris, S.. and H. S. Shin, "Unique Equilibrium in a Model of Self-Fulfilling Currency Attacks," *American Economic Review* 88 , 587-97, June 1998.

Empirical Facts

Frankel, J. and A. Rose, "Currency Crashes in Emerging Markets: An Empirical Treatment," *Journal of International Economics*, 41, 351-368,1996.

Kaminsky, G. and C. Reinhardt, "The Twin Crises: The Causes of Banking and Balance of Payments Problems," *American Economic Review* 89, 473-500, 1999.

Milesi-Ferretti, G.M and A Razin, "Current account reversals and currency crises: Empirical Regularities", 1999

3. Financial Imperfections and Sudden Stops

Alvarez F. A. Atkeson and P. Kehoe, "Money, Interest Rates, and Exchange Rates with Endogenously Segmented Asset Markets", *Journal of Political Economy*, 2002, Vol. 110, n. 1, pp. 73-112, 2002.

* Arellano, C. and E. Mendoza, "Credit Frictions and 'Sudden Stops' in Small Open Economies: An Equilibrium Business Cycle Framework for Emerging Markets Crises," NBER WP No. w8880, 2002.

Caballero, R. and A. Krishnamurthy, "International and Domestic Collateral Constraints in a Model of Emerging Market Crises," *Journal of Monetary Economics*, 2001.

Caballero, R. and S. Panageas, "Hedging Sudden Stops and Precautionary Recessions: A Quantitative Framework," NBER WP, 2003.

Calvo, G. A., "Capital Flows and Capital-Market Crises: The Simple Economics of Sudden Stops," *Journal of Applied Economics*, v. 1, pp. 35-54, 1998.

Cavallo, M., F. Perri, N. Roubini and K. Kisselev, "Exchange Rates Overshooting and the Costs of Floating," mimeo, Stern School of Business, NYU, 2002.

Christiano, L., C. Gust; and J. Roldos, "Monetary Policy in a Financial Crisis," NBER working paper No. 9005, June 2002.

Gopinath, G. "Lending Booms, Sharp Reversals and Real Exchange Rate Dynamics," mimeo, GSB University of Chicago, 2003.

Lahiri, A. R. Singh, and C. Vegh "Segmented Asset Markets and Optimal Exchange Rate Regimes", mimeo, 2002.

Mendoza, E. "Credit, Prices, and Crashes: Business Cycles with a Sudden Stop," in *Preventing Currency Crises in Emerging Markets*, ed. by S. Edwards and J. Frankel, Univ. of Chicago Press, 2002, also available as NBER WP no. w8338, 2001.

Mendoza, E. and K. Smith, "Margin Calls, Trading Costs, and Asset Prices in Emerging Markets: The Financial Mechanics of the Sudden Stops Phenomenon," NBER WP 9286, 2002.

Oviedo, P. M., "Macroeconomic Risk and Banking Crises in Emerging Countries," mimeo, Department of Economics, Iowa State University, 2003.

4. Sovereign Debt and Default

Amador, M. "A Political Economy Model of Sovereign Debt Repayment," mimeo, Stanford University, 2003

* Arellano, C. , "Default Risk, Income Fluctuations and Real Exchange Rates," mimeo, University of Minnesota, 2004

Atkeson, A. , "International Lending with Moral Hazard and Risk of Repudiation," *Econometrica*, 59, 1991, 1069-89. (see also chapter 15 of Thomas J. Sargent and Lars Ljungquist, *Recursive Macroeconomic Theory*, MIT Press, 2000)

* Bulow, J. and K. Rogoff, "Sovereign Debt: Is to Forgive to Forget?," *American Economic Review*, 79, 43-50, March 1989.

Bulow, J. and K. Rogoff, "A Constant Recontracting Model of Sovereign Debt," *Journal of Political Economy*, 97, 155-78, February 1989.

Chari V.V. and P. Kehoe, "Sustainable Plans," *Journal of Political Economy*, August 1990

Cole, H. and P. Kehoe "A General Reputation Model of Sovereign Debt," , *International Economic Review*, February 1998.

Cole, H. and T. Kehoe "A Self-Fulfilling Model of Mexico's 1994-95 Debt Crisis," *Journal of International Economics*, 41, 309-330, 1996.

Eaton, J. and M. Gersovitz, "Debt with Potential Repudiation: Theoretical and Empirical Analysis," *Review of Economic Studies*, 48, 289-309, April 1981.:

Eaton, J. and R. Fernandez, "Sovereign Debt," In *Handbook of International Economics*, edited by Gene M. Grossman and Kenneth Rogoff, Amsterdam: Elsevier, 2031-2076, 1995.

* Kletzer, K. and B. D. Wright, "Sovereign Debt as Intertemporal Barter," *American Economic Review*, (90): 621-39, June 2000.

Wright, M. L. J., "Reputations and Sovereign Debt," mimeo, Stanford University, September 2002.

Empirical Facts

Reinhart, C, . K. Rogoff and M. A. Savastano, "Debt Intolerance," in William Brainard and George Perry (eds.), *Brookings Papers on Economic Activity* , 1-74, 2003.

Rose, A. K. "One Reason Countries Pay their Debts: Renegotiation and International Trade." unpublished paper, University of California Berkeley, 2002.

Rose, A. K. and M. M. Spiegel "A Gravity Model of Sovereign Lending: Trade, Default and Credit." unpublished paper, University of California Berkeley, 2002.