University of Wisconsin-Whitewater

Curriculum Proposal Form #3

## New Course

**Effective Term:**

**Subject Area - Course Number:** **Econ 773 Cross-listing:**

(See Note #1 below)

**Course Title:** (Limited to 65 characters) International Macroeconomics

**25-Character Abbreviation:** International Macro

**Sponsor(s):** Eylem ERSAL KIZILER

**Department(s):** Economics

**College(s):**

# **Consultation took place**: [x]  NA [ ]  Yes (list departments and attach consultation sheet)

Departments:

**Programs Affected:**

**Is paperwork complete for those programs?** (Use "Form 2" for Catalog & Academic Report updates)

[x]  NA [ ]  Yes [ ]  will be at future meeting

**Prerequisites:** Econ 732

**Grade Basis:** [x]  Conventional Letter [ ]  S/NC or Pass/Fail

**Course will be offered:** [x]  Part of Load [ ]  Above Load

 [x]  On Campus [ ]  Off Campus - Location

**College:**  **Dept/Area(s):** Economics

**Instructor:** Eylem ERSAL KIZILER

 *Note: If the course is dual-listed, instructor must be a member of Grad Faculty.*

**Check if the Course is to Meet Any of the Following:**

[ ]  Technological Literacy Requirement [ ]  Writing Requirement

[ ]  Diversity [ ]  General Education Option:

Note: For the Gen Ed option, the proposal should address how this course relates to specific core courses, meets the goals of General Education in providing breadth, and incorporates scholarship in the appropriate field relating to women and gender.

**Credit/Contact Hours:** (per semester)

Total lab hours: 0 Total lecture hours: 48

Number of credits: 3 Total contact hours: 48

**Can course be taken more than once for credit? (Repeatability)**

[x]  No [ ]  Yes If "Yes", answer the following questions:

No of times in major:       No of credits in major:

No of times in degree:       No of credits in degree:

Proposal Information: ([***Procedures for form #3***](http://acadaff.uww.edu/UCC/Curriculum_Handbook_09/Procedures_form3.docx))

**Course justification:**

This proposed course will be one of the elective courses for students, who choose to specialize in international macroeconomic analysis. It will expose the students to the techniques and models used in modern open economy macroeconomics research and analysis. Since the course will be one of the elective courses of the MS Economics Degree, it will be offered to all students as part of a selection of macroeconomics course electives.

**Relationship to program assessment objectives:**

Analytical and critical thinking, and quantitative skills as well as economic literacy are the learning objectives of the degree that this course addresses. The specific student learning outcomes (traits) that this course attends are:

* Students are able to identify and structure intertemporal current account problems and dynamic small open economy models.
* Students are able solve intertemporal problems using optimization techniques, and collect data on international macroeconomic variables and capital flows.
* Students have a thorough understanding of core macroeconomic concepts such as international financial flows, international business cycles, international risk-sharing, and sovereign debt and default.

**Budgetary impact:**

* **Staffing**:- the course will be staffed by a Economics Department faculty that is Academically Qualified (AQ) and has Grad Faculty status.
* **Academic unit library and service & supply budget:** - no budgetary impact.
* **Campus instructional resource units**:- impact is minimal; students will require the use of Matlab (- a 4th generation computing language) in the course, and Matlab is available in the General Access labs in the Library and McGraw. In addition, Matlab is available in the computer labs in Hyland Hall where the course is anticipated to take place.
* **Laboratory/studio facilities:**- No budgetary impact
* **Classroom space:**- A classroom is anticipated to be required in Hyland Hall to teach the class. The class will meet for 1hour 15 minute session, twice per week.
* **Evaluation of adequacy of current library holdings, recommendations for acquisitions, and impact of the course on the academic unit library allocation budget:** - No impact. The course will be taught using a graduate textbook which students will be required to obtain.
* **Explanation if the course is simply replacing another course, either entirely or in the cycle:**- This is a new course for the MS Economics degree, and does not replace any other courses.

**Course description:** (50 word limit)

This course focuses on macroeconomic issues and policies in open economies and surveys selected current research topics in the field. Topics treated include the intertemporal approach to the current account, international financial integration, international and domestic asset markets, sovereign debt crises, business cycle synchronization and transmission of shocks.

**If dual listed, list graduate level requirements for the following:**

1. **Content** (e.g., What are additional presentation/project requirements?)

N/A

2. **Intensity** (e.g., How are the processes and standards of evaluation different for graduates and undergraduates? )
N/A

3. **Self-Directed** (e.g., How are research expectations differ for graduates and undergraduates?)
N/A

**Course objectives and tentative course syllabus:**

**Econ 773 International Macroeconomics**

**Spring 2015**

**Dr. Eylem ERSAL KIZILER**

**Email:** kizilere@uww.edu

**Office:** HH4403

**Tel:** x5586

**Class times:** TBD

**Final Exam Schedule:** TBD

The University Registrar determines the final exam schedule and it cannot be changed.

**Prerequisites:** Econ 732

**Resources for the course:**

There is no required textbook, but the following texts will be useful for the course:

* Obstfeld, M. and Kenneth Rogoff, *Foundations of International Macroeconomics*, 1996, (Cambridge: MIT Press), ISBN: 978-0262150477
* McCandless, G., *The ABCs of RBCs: An Introduction to Dynamic Macroeconomic Models*, 1st Edition, 2008, (Harvard University Press), ISBN: 978-0674028142
* Eichengreen, Barry ,*Capital Flows and Crises*, 2003, MIT Press, Cambridge MA., ISBN: 978-0262550598
* Dornbusch, Rudiger, *Open Economy Macroeconomics*, 1980, Basic Books Inc., New York, ISBN: 978-0465052868
* Smith-Grohe, S. and M. Uribe, *Open Economy Macroeconomics Lecture Notes*, http://www.columbia.edu/~mu2166/GIM/lecture\_notes.pdf

**Office hours:** Walk-in: TR 3:30 pm - 6:30 pm, and by appointment; Electronic: W 10:00 am - 12:00 pm.

**Please read the syllabus fully and carefully, and keep it in your records. If you remain enrolled to this course after reading this syllabus, it means you agree to comply with its terms.**

**Course Description and Objectives**

This course focuses on macroeconomic issues and policies in open economies and surveys selected current research topics in the field. Topics treated include the intertemporal approach to the current account, international financial integration, globalization and capital flows, international and domestic asset markets, sovereign debt crises, business cycle synchronization and transmission of shocks.

The discussions will be based on both theoretical and empirical investigation of the international macro and finance issues. However, emphasis will be given to, but is not limited to, empirical applications. For each topic there will be both theoretical and empirical based readings. As the course focuses on fundamental policy issues you are expected to follow current news from the domestic and the international press.

**Course Performance Assessment and Grading**

This course has the following requirements, which will be used to assign you a grade at the end of the semester. There will be assignment, a written project, and a final exam. These will be weighted as follows:

|  |  |
| --- | --- |
| Assignments | 25% |
| Written Project | 30% |
| Final Exam | 45% |
| TOTAL | 100% |

The letter grades will only be assigned to the total grades you get at the end of the course. Below table provides general guidelines. Please note that it is only an approximation.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| A | >=86% |  |  | C+ | 66-69% |
| A- | 82-85% |  |  | C | 62-65% |
| B+ | 78-81% |  |  | C- | 56-61% |
| B | 74-77% |  |  | D | 50-55% |
| B- | 70-73% |  |  | F | <50% |

**Attendance Policy**

Enrollment in this course is taken as a commitment from you that you have made room in your life to fulfill the obligations of this course - coming to class, being there for exams when they are scheduled, etc.  I will not record attendance, but you will find yourself at a significant disadvantage if you miss class.  **It is the student’s responsibility to obtain any materials or information missed due to absence.**

**Advice**

The key piece of advice that I would say to you is to make sure you spend sufficient time trying to grasp the ideas that are being presented in class and in the papers you will read. These ideas are often complex and it takes time to fully grasp the issue at hand. You may find it useful as well to attend my office hours with any questions that you have. However, if you choose to use office hours, please come prepared with a list of questions, as that will probably allow us to use the time more effectively.

There is a lot of math in this course**. If you get stuck or feel like you’re falling behind, talk to your peers and do come to my office hours!** Come and see me if you have any questions whatsoever, be it about the material, or some concept you haven’t fully grasped yet. It will be easier for me to put you on the right track rather than have you struggle through something that you do not understand.

**Policy Statement**

*The University of Wisconsin-Whitewater is dedicated to a safe, supportive and non-discriminatory learning environment.  It is the responsibility of all undergraduate and graduate students to familiarize themselves with University policies regarding Special Accommodations, Misconduct, Religious Beliefs Accommodation, Discrimination and Absence for University Sponsored Events.  (For details please refer to the Undergraduate and Graduate Timetables; the “Rights and Responsibilities” section of the Undergraduate Bulletin; the Academic Requirements and Policies and the Facilities and Services sections of the Graduate Bulletin; and the “Student Academic Disciplinary Procedures” [UWS Chapter 14]; and the “Student Nonacademic Disciplinary Procedures” [UWS Chapter 17].*

**UWW Student Honor Code**

*As members of the University of Wisconsin – Whitewater College of Business & Economics community, we commit ourselves to act honestly, responsibly, and above all, with honor and integrity in all areas of campus life.  We are accountable for all that we say and write.  We are responsible for the academic integrity of our work.  We pledge that we will not misrepresent our work nor give or receive unauthorized aid.  We commit ourselves to behave in a manner that demonstrates concern for the personal dignity, rights and freedoms of all members of the community.  We are respectful of college property and the property of others.  We will not tolerate a lack of respect for these values.*

*This code originated at Wheaton College.*

**Course Outline and Reading List**

**I. Basic relations in the open economy – a refreshment**

Dornbusch, Rudiger (1980), Open Economy Macroeconomics, Basic Books Inc., New York. Chapters 1 and 2.

Eichengreen, Barry (2003), Capital Flows and Crises, MIT Press, Cambridge MA.
Chapter 1

Smith-Grohe, S. and M. Uribe, Open Economy Macroeconomics Lecture Notes, Chapter 1.

**II. An intertemporal approach to current account balance**

Obstfeld, M. and K. Rogoff (1996), Foundations of International Macroeconomics. Chapters 1 and 2.

Taylor, A. (1996), “International Capital Mobility in History: the Saving-Investment Relationship”, NBER Working Paper 5743.

Feldstein, M. And Horoika, C. (1980), “Domestic Saving and International Capital Flows”, Economic Journal.

Baxter, M. And M. Crucini (1993), “Explaining Savings—Investment Correlations”, American Economic Review.

Tesar, L. (1991) “Savings, Investment, and International Capital Flows,” Journal of International Economics.

Frankel, J. (1992), “Measuring International Capital Mobility: A Review”, American Economic Review.

Obstfeld, Maurice and Kenneth Rogoff, "New Directions for Stochastic Open Economy Models,’’ Journal of International Economics, 2000, 117-154.

Obstfeld, Maurice, and Alan Taylor (2002), “Globalization and Capital Markets,” NBER WP 8846 (published as a book in 2005).

**III. International Financial Integration**

Edison, Levine, Ricci and Slok (2003) “International Financial Integration and Economic Growth”, IMF Working Papers.

Lane and Milessi-Feretti (2001) “The external wealth of nations: measures of foreign assets and liabilities for industrial and developing countries”, Journal of International Economics.

Lucas (1990) “Why doesn’t capital flow from rich to poor countries”, American Economic Review.

Laura Alfaro, Sebnem Kalemli-Ozcan, Vadym Volosovych (2008) "Why Doesn’t Capital Flow from Rich to Poor Countries? An Empirical Investigation," Review of Economics and Statistics.

Caselli, Francesco, and Jim Feyrer (2005), “The Marginal Product of Capital,” Quarterly Journal of Economics.

Tornell and Velasco (1992) “The tragedy of the commons and economic growth: why does capital flow from poor to rich countries”, Journal of Political Economy.

**IV. International Financial Integration and Growth**

Bekaert, Harvey and Lundblad (2001) “Does financial liberalization spur growth?”, NBER working paper.

Levine (2002) “International Financial Liberalization and Economic Growth”, Review of International Economics.

Barro, Mankiw, Sala-i-Martin (1995) “Capital Mobility in Neoclassical Models of Growth”, American Economic Review.

Eichengreen, B. and M. Mussa, (1998), “Capital Account Liberalization: Theoretical and Practical Aspects”, IMF Occasional Paper.

Kaminsky, G. and S. Schmukler (2002), “Short-run Pain, Long-run Gain: The Effects of Financial Liberalization”, mimeo.

Borenzstein, de Gregario and Lee (1998), “How Does Foreign Direct Investment Affect Economic Growth?”, Journal of International Economics.

Gorg,H. And D. Greenaway (2002) “Much Ado About Nothing? Do Domestic Firms Really Benefit from Foreign Direct Investment”, unpublished mimeo.

Aitken, B. And A. Harrison (1999), “Do domestic Firms Benefit from Direct Foreign Investment? Evidence from Venezuela”, American Economic Review.

Alfaro, Chanda, Kalemli-Ozcan and Sayek (forthcoming), “FDI and Economic Growth: the Role of Local Financial Markets”, Journal of International Economics.

**V. Domestic Financial Markets – Role in Allocation of Capital and Growth**

King and Levine (1993) “Finance, entrepreneurship and growth”, Journal of Monetary Economics.

Levine (1997) “Financial Development and Economic Growth: Views and Agenda”, Journal of Economic Perspectives.

Wurgler (2000) “Financial Markets and the Allocation of Capital”, Journal of Financial Economics.

Levine and Zervos (1998) “Stock markets, banks and economic growth”, American Economic Review.

Rajan and Zingales (1998) “Financial dependence and growth”, American Economic Review.

Beck, Levine and Loayza (2000) “Finance and Sources of Growth”, Journal of Financial Economics.

**VI. International Risk Sharing**

Lewis, K., (1996) “What Can Explain the Apparent Lack of International Consumption Risk-sharing?” Journal of Political Economy.

Tesar, L., “Evaluating the Gains from International Risksharing,” Carnegie-Rochester Conference Series on Public Policy 42, June 1995, 95-142.

Kalemli-Ozcan, S., Sorenson, B. and Yosha, O. (2003) "Risk sharing and Industrial Specialization: Regional and International Evidence," American Economic Review.

Karen Lewis, "Trying to Explain Home Bias in Equities and Consumption," Journal of Economic Literature 37 (June 1999), 571-608.

Obstfeld, M. (1994) “Risk-Taking, Global Diversification and Growth,” American Economic Review.

Gourinchas, Pierre-Olivier and Helene Rey, 2005, “International Financial Adjustment,” Mimeo, Princeton University

**VII. Business Cycles and Synchronization**

Backus, D., P. Kehoe and F. E. Kydland. “International Real Business Cycles.” Journal of Political Economy 100(4) (1992): 745-775.

Kose, A., E. Prasad, and M. Terrones (2003), “How Does Globalization Affect the Synchronization of Business Cycles”, IMF Working Papers.

Canova, F. And J. Marrinan (1998) “Sources and Propogation of International output cycles: Common shocks or transmission?”, Journal of International Economics.

Corsetti, G., L. Dedola and S. Leduc. “International Risk Sharing and the Transmission of Productivity Shocks.” Review of Economic Studies 75 (2008): 443-473.

Forbes, K. And M. Chinn (2003), “A Decomposition of Global Linkages in Financial Markets over Time”, MIT working paper.

Kaminsky, G. And C. Reinhart (2003), “The Center and the Periphery: the Globalization of Financial Turmoil”, NBER Working Paper 9479.

Baxter, M. and U. Jermann. "The International diversification puzzle is worse than you think." American Economic Review 87(1) (1997): 170-180.

**VIII. Business Cycles in Emerging Economies: Empirics, Theory and Methodology**

Obstfeld M, Kenneth Rogoff, Foundations of International Macroeconomics, 2000, chapters 3, 5

Smith-Grohe, S. and M. Uribe, Open Economy Macroeconomics Lecture Notes, Chapters 2-4.

Aguiar, Mark and Gopinath, Gita, 2006. “Emerging Market Business Cycles: The cycle is the Trend,” Journal of International Economics, 69(1), 64-83.

Feldstein, Martin and Charles Horioka, 1980, “Domestic Saving and International

Capital Flows,” The Economic Journal, Vol. 90, pp. 314-329.

Mendoza, Enrique, 1991. “Real Business Cycles in a Small Open Economy,”

American Economic Review, 81, 797-818.

Mendoza, Enrique, 1995, “The Terms of Trade, the Real Exchange Rate, and

Economics Fluctuations,” International Economic Review, Vol 36 (1), 101-137.

Neumeyer, Pablo A. and Fabrizio Perri, 2005, “Business Cycles in Emerging Markets: The Role of Interest Rates,” Journal of Monetary Economics, 52/2, 345-380.

Uribe, Martin and Vivian Z. Yue. 2006. “Country Spreads and Emerging Countries: Who Drives Whom?” Journal of International Economics, 69(1), 6-36.

**IX. Sovereign Debt and Default**

Arellano, Cristina, 2005, “Default Risk, Income Fluctuations and Real Exchange Rates,” Manuscript, University of Minnesota.

Bulow, Jeremy and Kenneth Rogoff, 1989, “Sovereign Debt: Is to Forgive or Forget?,” American Economic Review, 79, 43-50.

Cole, Harold and Patrick J. Kehoe, 1998, “A General Reputation Model of Sovereign debt,” International Economic Review,

Gertler, Mark and Kenneth Rogoff, 1990, “North-South Lending with Endogenous Domestic Financial Market Inefficiencies,” Journal of Monetary Economics, 26, 245-266.

Wright, Mark L. J., 2002, “Reputations and Sovereign Debt,” Manuscript, Stanford University.

Reinhart, Carmen, Kenneth Rogoff and M A. Savastano, 2003, “Debt Intolerance,” NBER Working paper.

Rose, Andrew K., 2002, “One Reason Country Pay Their Debts: Renegotiation and International Trade,” Manuscript.

**Tentative Schedule**

Week 1: Introduction

Week 2 -3: Intertemporal Approach to Current Account Balance

Week 4-5: International Financial Integration

Week 6-7: International Financial Integration and Growth

Week 8-9: Domestic Financial Markets

Week 10-11: International Risk Sharing

Week 12-13: Business Cycles and Synchronization

Week 14: Business Cycles in Emerging Market Economies

Week 15: Sovereign Debt and Default

**BIBLIOGRAPHY**

1. Obstfeld, M. and Kenneth Rogoff, *Foundations of International Macroeconomics*, 1996, (Cambridge: MIT Press), ISBN: 978-0262150477
2. McCandless, G., *The ABCs of RBCs: An Introduction to Dynamic Macroeconomic Models*, 1st Edition, 2008, (Harvard University Press), ISBN: 978-0674028142
3. Eichengreen, Barry ,*Capital Flows and Crises*, 2003, MIT Press, Cambridge MA., ISBN: 978-0262550598
4. Dornbusch, Rudiger, *Open Economy Macroeconomics*, 1980, Basic Books Inc., New York, ISBN: 978-0465052868
5. Smith-Grohe, S. and M. Uribe, *Open Economy Macroeconomics Lecture Notes*, <http://www.columbia.edu/~mu2166/GIM/lecture_notes.pdf>
6. Taylor, A. (1996), “International Capital Mobility in History: the Saving-Investment Relationship”, NBER Working Paper 5743.
7. Feldstein, M. And Horoika, C. (1980), “Domestic Saving and International Capital Flows”, Economic Journal.
8. Baxter, M. And M. Crucini (1993), “Explaining Savings—Investment Correlations”, American Economic Review.
9. Tesar, L. (1991) “Savings, Investment, and International Capital Flows,” Journal of International Economics.
10. Edison, Levine, Ricci and Slok (2003) “International Financial Integration and Economic Growth”, IMF Working Papers.
11. Lane and Milessi-Feretti (2001) “The external wealth of nations: measures of foreign assets and liabilities for industrial and developing countries”, Journal of International Economics.
12. Lucas (1990) “Why doesn’t capital flow from rich to poor countries”, American Economic Review.
13. Laura Alfaro, Sebnem Kalemli-Ozcan, Vadym Volosovych (2008) "Why Doesn’t Capital Flow from Rich to Poor Countries? An Empirical Investigation," Review of Economics and Statistics.
14. Caselli, Francesco, and Jim Feyrer (2005), “The Marginal Product of Capital,” Quarterly
15. Bekaert, Harvey and Lundblad (2001) “Does financial liberalization spur growth?”, NBER working paper.
16. Eichengreen, B. and M. Mussa, (1998), “Capital Account Liberalization: Theoretical and Practical Aspects”, IMF Occasional Paper.
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18. King and Levine (1993) “Finance, entrepreneurship and growth”, Journal of Monetary Economics.
19. Beck, Levine and Loayza (2000) “Finance and Sources of Growth”, Journal of Financial Economics.
20. Lewis, K., (1996) “What Can Explain the Apparent Lack of International Consumption Risk-sharing?” Journal of Political Economy.
21. Tesar, L., “Evaluating the Gains from International Risksharing,” Carnegie-Rochester
22. Backus, D., P. Kehoe and F. E. Kydland. “International Real Business Cycles.” Journal of Political Economy 100(4) (1992): 745-775.
23. Kose, A., E. Prasad, and M. Terrones (2003), “How Does Globalization Affect the Synchronization of Business Cycles”, IMF Working Papers.
24. Aguiar, Mark and Gopinath, Gita, 2006. “Emerging Market Business Cycles: The cycle is the Trend,” Journal of International Economics, 69(1), 64-83.
25. Mendoza, Enrique, 1991. “Real Business Cycles in a Small Open Economy,” American Economic Review, 81, 797-818.