International Macroeconomics
Semester 2, 2006

Course Outline

Course Description

This course introduces advanced international macroeconomics to students enrolled in the graduate program in economics. We will study basic workhorse models as well as empirical methods to analyse various issues arising in modern international macroeconomics and finance. Wherever appropriate, the interplay between theory and empirics will be emphasised. The following topics will be considered: two-period and infinite-horizon models, stochastic models of the current, international financial markets, international business cycles, theories of exchange rate determination, the stochastic Mundell-Fleming model, and new open economy macro models.1

Lecturer: Natalia Ponomareva
Tel: 90369251
E-mail: n.ponomareva@econ.usyd.edu.au,
Office hours: by appointment

Classes: Thursdays 2-6pm.

Aims and Expected Learning Outcomes:

Upon a successful completion of this course, students should be able to:

• Understand the theoretical models that macroeconomists typically use and also form the basis of current research in international macroeconomics;
• Understand some of the main techniques used by macroeconomic researchers to create knowledge;
• Explain and understand the associated empirical implications and policy issues;
• Evaluate the contribution of some recently created knowledge in international macroeconomics;
• Synthesize some of the recently created knowledge in international macroeconomics;
• Be ready to identify a research topic and undertake an independent research.

Assumed Knowledge

This course assumes a good intermediate knowledge of macroeconomics and microeconomics. It will also be assumed that students are reasonably familiar with mathematical tools such as elementary calculus, matrix algebra, difference and differential equations and intermediate econometrics or statistics. No other prior knowledge will be assumed.

1 Note that some topics may be skipped due to the time constraints.
Assessment

The mark from this course is determined as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 discussion report + presentation</td>
<td>20%</td>
</tr>
<tr>
<td>2 Midterms</td>
<td>40%</td>
</tr>
<tr>
<td>Final exam</td>
<td>40%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

The final exam will be held for the duration of 2 hours. The exam will be entirely based on lecture material, required readings and tutorial questions. Further information will be provided in lectures.

Textbook and Readings

The primary reference for this course is:


We will try to understand the basic workhorse models presented in core sections of this book. This will provide the basic grounds for possible future research.

In addition, some sections of the following books may be useful for the course. See for details the ‘Lecture Outline’ in this handout.


If your econometric preparation is weak or needs a refresher, the following references would be useful and may be referred.


Online Access to Journal Articles

Most of the journal articles will be made available on the university library. Some important articles will be directly available from the course website.
Lecture Outline

Notes:

The lecture material is quite standard and can usually be found in the texts. Nevertheless, the readings provided in the outline will serve the following purposes.

a. Tracing down the original sources of the relevant ideas/material, usually published in scholarly journals, for those who are interested in a particular topic and wish to dig deeper. These readings are unmarked.

b. Sources which were used directly or indirectly. These readings are marked with a single asterisk.

c. There are readings available for presentation and discussion by students in class. These readings are marked with double asterisks.

d. It is not expected that you read all of the papers listed here. The reading list will constitute a bibliography should you wish to pursue work in these research areas.

Topic 1: Intertemporal Trade and the Current Account

Lecture Notes
OR: Chapter 1.


Topic 2: Dynamics of Small Open Economies

Lecture Notes
OR: Chapter 2.

Topic 3: The Life Cycle, Budget Deficits and the Current Account

Lecture Notes


**Topic 4: The Real Exchange Rate and the Terms of Trade**

Lecture Notes

OR Chapter 4.


**Topic 5: International Financial Markets and Asset Pricing**

Lecture Notes

OR Chapter 5.

Romer Chapter .5.


**Topic 6: Neoclassical Growth, Optimal Growth and Competitive Equilibrium**

Lecture Notes
OR Chapter 7.
Romer Chapters 1, 2, 3.


**Topic 7:** Open Economy Extensions of Business Cycle Models

Lecture Notes
Romer: Chapter 4.
OR: Chapters 5 and 7.

**Basic Facts and Closed Economy Models**


**Open Economy and International Business Cycles**


**Topic 8: Keynesian Approaches to the Exchange Rate: the Monetary Approach and the Dornbusch ‘Overshooting’ Model.**

Lecture Notes
OR Chapters 8, 9.


**Topic 9: New Open Economy Macroeconomics**

Lecture Notes
OR Chapter 10.


**Bergin, Paul (2003), "Putting the 'New Open Economy Macroeconomics' to a Test," Journal of International Economics, 60, 3-34.**


**Topic 10: Introduction to Macroeconometrics**

- ARMA models, Unit-root, VAR, VEC, Co-integration, and Structural VAR.

Lecture Notes
Mark: Chapter 2.
Blanchard and Fischer: Chapter 1.


Enjoy the course!