

1. Introduction

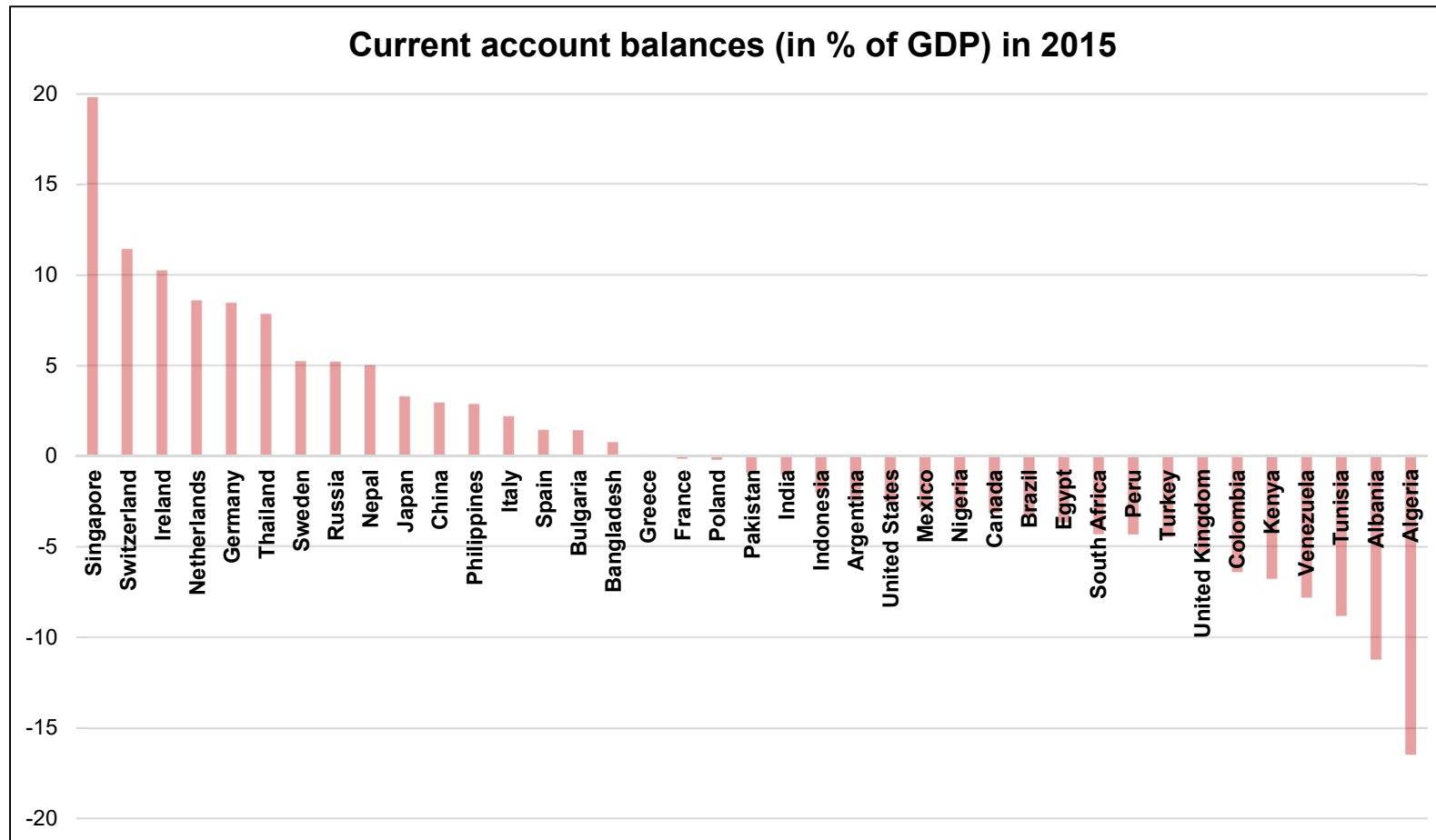
- 1.1. What this lecture is about: **topics and questions**
- 1.2. What this lecture is good for: **goals**
- 1.3. Outlook
- 1.4. Organization

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Topics and Questions



- What is a **current account deficit**, and is it something to worry about?



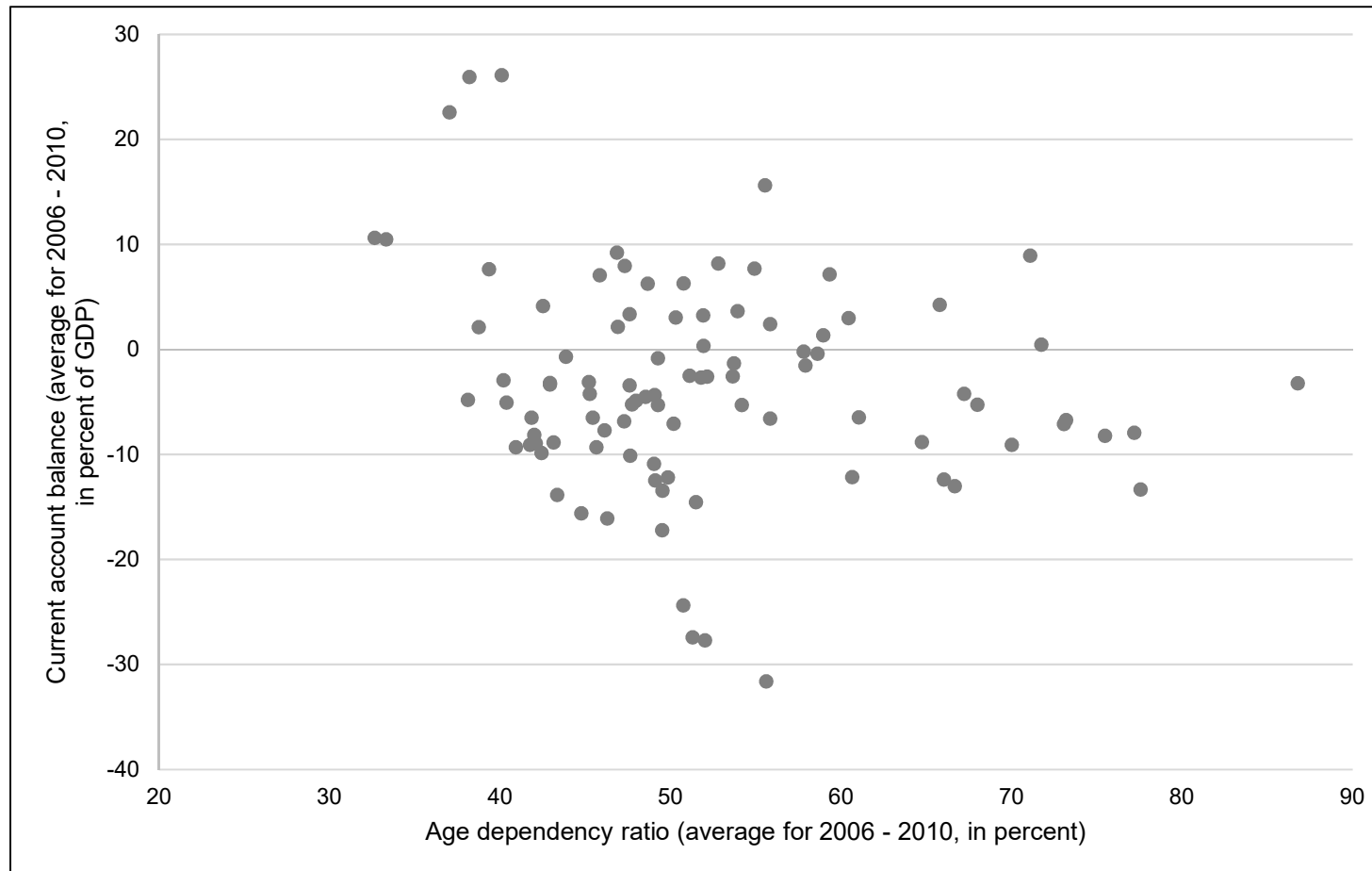
Source: IMF (World Economic Outlook database)

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Topics and Questions



- Does **demographic change** contribute to **global imbalances**?



Source: Harms (2016), using data from the World Bank (World Development Indicators)

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Topics and Questions

- How can/are international investments used to **diversify country-specific risks** ?

Country	Size of Domestic Market in Percent of World Market Capitalization in 2008	Observed Portfolio Share of Domestic Equity (in Percent) in 2008	Degree of Equity Home Bias in 2008
Brazil	1.6	99	0.98
South Korea	1.4	89	0.88
Japan	8.9	73.5	0.71
USA	32.6	77.2	0.66
Euro Area	13.5	57	0.63
United Kingdom	5.1	54.5	0.52
Switzerland	2.3	51	0.50

Source: Harms (2016), based on data from Coeurdacier and Rey (2013)

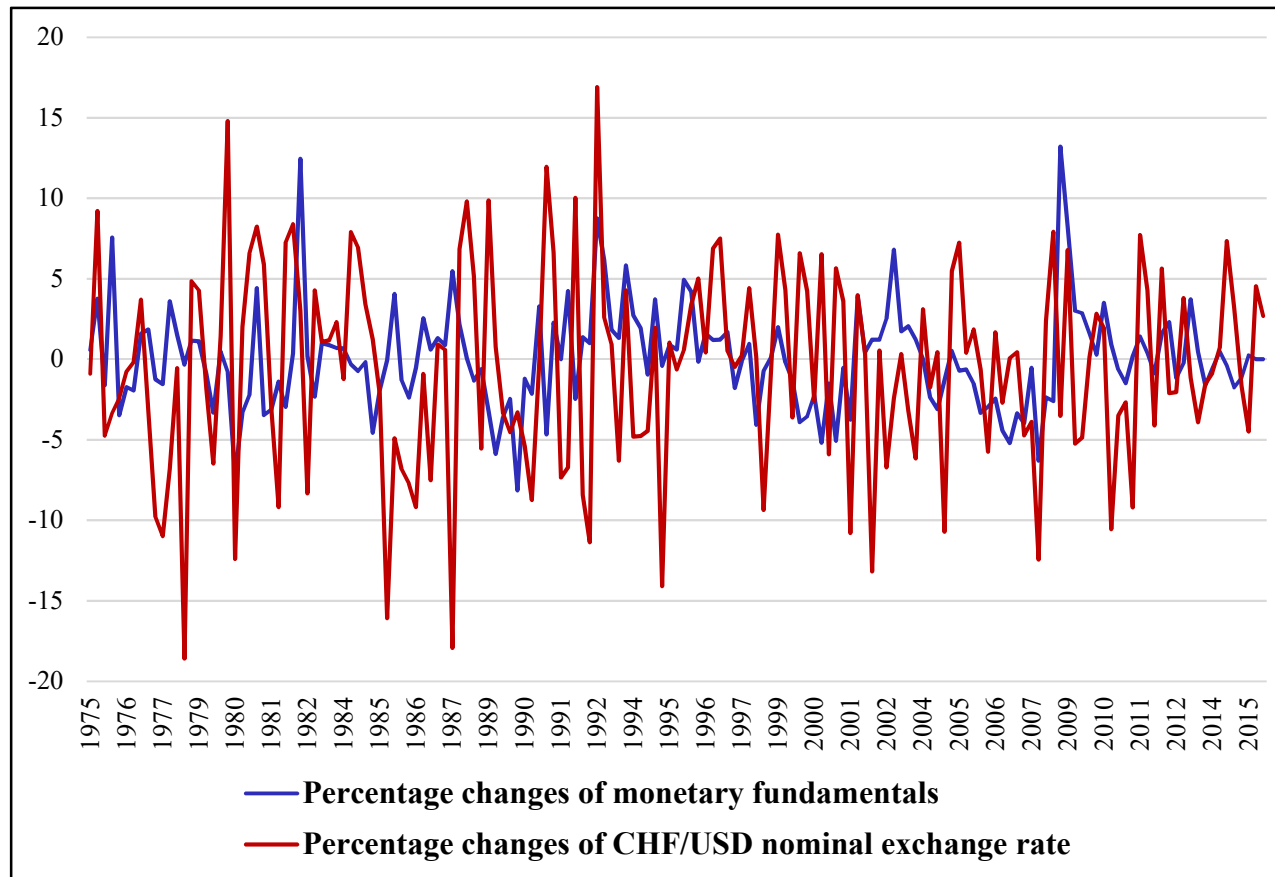
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Topics and Questions



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- How can we explain the **(excess?) volatility of nominal exchange rates?**



Growth rates of the nominal exchange rate and of monetary fundamentals (Switzerland / USA)

Source: Harms (2016), based on IMF (International Financial Statistics)

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Topics and Questions

- Why do 10 US-Dollars **purchase so much more** in Beijing than in Basel?

	BigMac Price in LCU	E [LCU/USD] observed	E ^{PPP} [LCU/USD]	Overvaluation (+) or Undervaluation (-) against the USD
United States	5.28			
Brazil	16.50	3.23	3.13	-3.19
Britain	3.19	0.72	0.60	-16.42
China	20.40	6.43	3.86	-39.93
Euro area	3.95	0.82	0.75	-8.41
Malaysia	9.00	3.95	1.70	-56.89
Norway	49.00	7.85	9.28	18.22
Poland	10.10	3.41	1.91	-43.83
Singapore	5.80	1.32	1.10	-16.94
Sweden	49.10	8.02	9.30	15.97
Switzerland	6.50	0.96	1.23	28.12
Thailand	119.00	31.95	22.54	-29.46
Turkey	10.75	3.80	2.04	-46.46
Ukraine	47.00	28.72	8.90	-69.00

In Beijing, 10 USD purchase
3.15 BigMacs®

In Basel, 10 USD purchase
1.47 BigMacs®

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Goals

- **Having finished this course, students...**
 - should be **data-literate** in the field of international macroeconomics – i.e. they should be able to read and competently interpret a country's balance of payments. They should also be able to retrieve relevant data from accessible sources.
 - should have developed a deep understanding for the (potential) role of **international financial markets** for smoothing consumption, allocating capital, and diversifying country-specific risks.
 - should understand the key forces driving **exchange rate** fluctuations and the economic relevance of such fluctuations.

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Outlook



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- **Topics covered in this course:**
 - Basic concepts: The **balance of payments** and the **exchange rate**
 - **Intertemporal trade**: The basic representative consumer (RC) model
 - **Overlapping generations**, demographic structure, and the current account
 - **Uncertainty** and international diversification
 - Understanding the **nominal exchange rate** and the **real exchange rate**

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Organization



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- **Target audience**
 - Master in International Economics and Public Policy (Module Advanced International Economics I)
 - Master of Management
 - Erasmus and other exchange students
 - Others (also welcome!)

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- **Specialization area (MIEPP), grading, prerequisites:**
 - Specialization Area: International Economics
 - Grading: Written exam (60 minutes) after the end of the lecture period (late July / early August; Re-sit in September) plus (voluntary) submission of take-home problem set.
 - Prerequisites:
 - Basic math (“Math-Review” level) and statistics.
 - Interest in formal modeling of open economies, data and empirical applications (the “real world”).

Note: you can successfully attend “**International Macroeconomics**” *without/before* having attended my (mandatory) course “**International Trade**”, which took place in the winter semester.

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- **A coherent package:**
 - Note:
 - My course **International Macroeconomics** („**Advanced International Economics I**“) ties in nicely with Philip Sauré’s course **International Financial Markets** („**Financial Economics I**“) also offered in this summer semester.
 - Some of the concepts/methods introduced in **International Macroeconomics** (balance of payments accounting, the intertemporal model, the overlapping generations model, models of international diversification, models of the nominal/real exchange rate) will be further developed and taken to particular applications in **International Financial Markets**.
 - We recommend that you attend *both* courses.

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- **Some words on the take-home problem set:**
 - We will define one **take-home problem set** (probably problem set 6 or 7) whose solution you **may (!)** hand in to get it graded. After the deadline for submission, the solution will be discussed in the tutorial.
 - The **deadline for the submission** of the problem set will be announced in advance.
 - If the number of points achieved in this problem set *exceeds* the number of points achieved in the exam, the points of this problem set enter the overall grade with a 25% weight.
 - Handing in a problem set is ***not* mandatory**.

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- **Persons, times and places:**

- Lectures: Philipp Harms
Tutorials: Tobias Gruhle / Jakub Knaze
- Start of lectures: **Friday, April 20, 2018.**

Friday, April 20: 1.00 – 2.45 pm and 3.15 – 5.00 pm,
Room RW 2

Saturday, April 21: 10.00 – 12.00 am, 1.00 – 2.45 pm,
and 3.15 – 5.00 pm, Room HS VII

Thursday, April 26: 12.00 am – 1.45 pm, 2.15 – 3.45 pm,
and 4.15 – 6.00 pm, Room HS VII

Friday, April 27: 8.30 – 10.00 am, 10.15 – 12.00 am,
and 2.00 – 3.45 pm and 4.15 – 6.00 pm,
Room HS VII

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- **Persons, times and places (contd.)**
 - Tutorials will take place on a regular basis – i.e. once a week - during the summer semester. You can choose among two alternatives:
 - Wednesday, 12.15 pm – 1.45 pm, Room RW 4 (Jakub Knaze)
 - Thursday, 10.15 am – 11.45 am, Room RW 5 (Tobias Gruhle)
- **Lecture materials**
 - All **lecture materials** (presentations, course outline and reading list, problem sets, etc.) can be downloaded from **ILIAS** (<http://ilias.uni-mainz.de>, course International Macroeconomics, SoSe 18). The **password** of the course is **IntMacro_18**
 - I recommend that you download the presentations from ILIAS before coming to the first lecture on April 20.

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- **Further information:**

- Homepage: <http://www.international.economics.uni-mainz.de>
- **Office hours:** Monday, 12.00 a.m. – 1 a.m.

(Note: Due my sabbatical in the summer semester 2018, office hours take place on a rather irregular basis and are announced on my homepage.)

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- **Some well-meant advice**
 - Attend **class** on a regular basis and actively participate.
 - Download **lecture material** from **ILIAS**
 - Solve **problem sets** in advance.
 - Download **data** (IMF, World Bank): Access through menu item “Data” on the **Int.Econ. homepage**:

<http://www.international.economics.uni-mainz.de>
 - **Read** (The Economist, The Financial Times, the German business press...) and try to make sense of it.

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- **Literature:**

- **Harms, Philipp (2016): International Macroeconomics, 2nd edition, Mohr Siebeck.**

Link (including dictionary and solution sketches):

http://www.international.economics.uni-mainz.de/274_ENG_HTML.php



- Krugman, Paul R., Maurice Obstfeld, and Marc J. Melitz (2012): International Economics – Theory and Policy, 9th edition, Pearson.
- Obstfeld, Maurice and Kenneth Rogoff (1996): Foundations of International Macroeconomics, MIT Press.

See detailed program and reading list in **ILIAS**.