

Master in International Economics and Public Policy

International Macroeconomics (Summer semester 2021)

Contents/Organization/Program/References/Recommended Schedule

(This version: **March 29, 2021**)

Contents

In this course, students learn to competently read and interpret countries' balance of payments and international investment positions, to use dynamic models of open economies in order to understand the direction and volume of international capital flows, and to interpret fluctuations of the nominal and the real exchange rate. Moreover, they learn to confront theoretical hypotheses with the data and to apply their insights and findings in discussions about economic policy issues. The course starts with a detailed (and facts-oriented) introduction to balance-of-payments accounting, then turns to an in-depth analysis of the current account and international capital flows, and eventually explains movements of the nominal and the real exchange rate.

Organization

Basics:

- Due to the current **Corona pandemic**, this course will take place in **online mode**.
- All students registered for the course will have access to **lecture and tutorial notes** as well as **lecture and tutorial videos**. The final exam will be based on the contents covered by this material.
- In addition, we will offer **question & answer (Q&A) meetings** during the semester.
- Finally, students can sign up for the "**international macro intense**" track. If they do, they will form groups and regularly work on small assignments, which we will discuss on a regular basis. While participation in these groups is voluntary, it is strongly recommended.
- The final exam will be organized as a **take-home exam**.

Specifics:

- The **lecture and tutorial presentations** (in pdf format) can be downloaded from the **LMS/Moodle platform** at JGU Mainz (<https://lms.uni-mainz.de/moodle>). Those students **who have registered for the course in JOGUSStiNe** will automatically be assigned to the International Macroeconomics course in **LMS/Moodle**.
- The **lecture and tutorial videos** will walk you through the presentations and solutions to the problem sets. You will be able to see the presentations, listen to our comments, and watch us write notes into those presentations. You can find the link through which you can access those videos in our course on the LMS/Moodle platform.

All these materials will be uploaded into our course on the LMS/Moodle platform at the start of the semester. The **schedule** (see the last page of this document) suggests which weeks should be devoted to the study of different chapters and problem sets. We strongly recommend to follow this schedule.

- All **changes and news** will be disseminated by email via **LMS/Moodle**. Make sure you regularly check your **students email-address at JGU Mainz**.
- While watching the **videos**, make use of the possibility to comment on them and to **ask questions**. You have to click on the „**Diskussion**“ button and to register into the system, using your JGU username and password (Sorry about the whole thing being in German! Of course, comments and questions may – and should! – be in English). Once you have inserted a comment, don't forget to press the „Enter/Return“ key. Of course, you can also send us your questions and comments via email (LsHarms@uni-mainz.de).
- We will collect these questions and answer them in the context of **Q&A meetings** using **MS Teams**. This will allow us to see each other on a regular basis (albeit virtually). The **prospective dates** of the Q&A meetings are given in the **schedule** (see the last page of this document). You can participate in those meetings via the link given in course on the LMS/Moodle platform.

“International Macro Intense”

- After our first meeting on MS Teams (April 21, 2021), students can sign up for the “**international macro intense**” track. Those who do, will form **groups** (with group size depending on participation) who will regularly present solutions to small (data-related or theoretical) **assignments**. These presentations are planned to take some 20 minutes per group.

- The **prospective dates** of the **group presentations** are given in the **schedule** (see the last page of this document). The assignments will be made available to the groups at least one week before the respective meeting.
- Group presentations will *not* be relevant for the **final grade**. However, we strongly recommend that students seize this opportunity to delve into the material and to interact with us and the rest of the group.

Audience:

For students attending the **M. Sc. in International Economics and Public Policy**, this course is part of the elective **modules in the specialization area International Economics**. It is also open to foreign students (e.g. in the context of the Erasmus program) and to students attending the M.Sc. programs in Management or Finance & Accounting.

How to proceed:

- Register for the course in **JOGUSTiNe**, which is a prerequisite to be assigned to the **International Macroeconomics course in LMS/Moodle**.
- Make sure you regularly check your **JGU students email address** to which relevant information will be sent.
- Join our team (International Macroeconomics – Prof. Harms – MIEPP – SuSe 2021) in **Microsoft Teams**. Note: All JGU students have access to Microsoft Teams via their students account. The code for our team will be sent out to students who registered for the course in Jogustine. Please check your **students email-address at JGU Mainz**.

Contact:

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Preliminary Program and References

(This version: March 24, 2021)

Note: The transparencies used in this course as well as further information are available in **LMS/Moodle**. Recommended readings are given in brackets.

1. Introduction

2. The Balance of Payments: A Review

- 2.1. Motivation
- 2.2. The balance of payments: concepts, definitions, numbers (**PhH 2.1**)
- 2.3. The net international investment position (**PhH 2.2.1 – 2.2.3**)
- 2.4. Savings, investment, and the current account (**PhH 2.2.4 – 2.2.5**)
- 2.5. Summary and outlook

3. Intertemporal Trade: The Basic Representative-Consumer Model

- 3.1. Motivating the Intertemporal Approach: Savings, investment, and the current account (**PhH 2.3**, K/O 12)
- 3.2. The basic RC model of a SMOPEC with an exogenous income (**PhH 3.2, PhH 3.7**; O/R 1.1, 2.1)
- 3.3. The basic RC model with endogenous output and investment (**PhH 3.4, PhH 3.7**; O/R 2.1, 2.2)
- 3.4. Summary and outlook

4. Demographic Structure and the Current Account

- 4.1. The overlapping generations (OLG) model (**PhH 4.2**, O/R 3.1, 3.2)
- 4.2. Demographic structure and the current account (**PhH 4.2**; O/R 3.1, 3.2)
- 4.3. The IMF's external balance assessment (**PhH 7.6.4**, Cubeddu et al. 2019, IMF 2020a, 2020b)
- 4.4. Summary and outlook

5. Uncertainty and International Diversification

- 5.1. Introducing uncertainty
- 5.2. Precautionary saving and the current account (**PhH 4.5.3**; O/R 2.3.6)
- 5.3. International portfolio choice (**PhH 4.5.4, 4.5.6**; O/R 5.1, 5.2)
- 5.4. Interpreting asset prices (**PhH 4.5.5, 4.5.7**; O/R 5.1, 5.2;)
- 5.5. Summary and outlook

6. The Exchange Rate

- 6.1. Motivation
- 6.2. Basic concepts and definitions (**PhH 7.2, PhH 8.3**)
- 6.3. The real exchange rate and purchasing power parity (**PhH 7.3**)
- 6.4. Fundamental determinants of the real exchange rate (**PhH 7.4 – 7.6**, K/O16)
- 6.5. Interest parity conditions (**PhH 8.3**)
- 6.6. The monetary model of the exchange rate (**PhH 8.4**; O/R 8.2; NM 3.2, 3.3; CvM 21, 24, 26)
- 6.7. The Dornbusch „overshooting“ model (**PhH 8.5**; O/R 9.2; NM 8.2)
- 6.8. Summary and outlook

References

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

Coutinho, L. A. Turrini and S. Zeugner (2018): “Methodologies for the Assessment of Current Account Benchmarks”, *European Commission Discussion Paper No. 086*.

Cubeddu, L. M., Krogstrup, S., Adler, G., Rabanal, P., Dao, M. C., Hannan, S. A., Juvenal, L, Li, N., Buitron, C. O., Rebillard, C., Garcia-Macia, D., Jones, C., Rodriguez, J, Chang, K. S., Gautam, D., Wang, Z. (2019): “The External Balance Assessment Methodology: 2018 Update”, *IMF Working Paper No. 19/65*.

Gruhle, T. and P. Harms (2019): „Producer Services and the Current Account“, *Johannes Gutenberg University Mainz, Gutenberg School of Management and Economics & Research Unit ‘Interdisciplinary Public Policy’ Discussion Paper Number 1906*.

International Monetary Fund/IMF (2011): *Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual*, available at <http://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm>

International Monetary Fund (2020a): 2020 External Sector Report: Global Imbalances and the COVID-19 Crisis; Available for download at <https://www.imf.org/en/Publications/ESR/Issues/2020/07/28/2020-external-sector-report>.

International Monetary Fund (2020b): EBA Estimates: Analysis of 2019 Current Accounts and Real Effective Exchange Rates ; Available for download at <https://www.imf.org/external/np/res/eba/data/EBAEstimates-2019.pdf>

Krugman, Paul, Maurice Obstfeld, and Marc Melitz (2014): *International Economics – Theory and Policy*, 10th edition. Boston (Addison Wesley). **(K/O)**
(Previous editions are also fine for our purposes.)

Van Marrewijk, Charles (2007): *International Economics – Theory, Application and Policy*, OUP. **(CvM)**

Obstfeld, Maurice and Kenneth Rogoff (1996): *Foundations of International Macroeconomics*, MIT Press. **(O/R)**

Phillips, S., Catão, L., Ricci, L. A., Bems, R., Das, M., Di Giovanni, J., Unsal, F. Castillo, M., Lee, J., Rodriguez, J., Vargas, M. M. (2013): “The external balance assessment (EBA) methodology” *IMF Working Paper No. 13/272*.

Schedule

(Possibly subject to changes. This version: **March 29, 2021**)

Week starting on	Lecture chapter to be studied	Problem set to be studied	Dates Q&A meetings	Topics Q&A meetings	Dates student presentations	Topics student presentations
19.04.2021	02-BoP	1	21.04.2021	Introduction and Instructions		
26.04.2021	02-BoP	2			28.04.2021	Kick-off
03.05.2021	03-Intertemp Trade					
10.05.2021	03-Intertemp Trade	3			12.05.2021	02-BoP
17.05.2021	03-Intertemp Trade	4				
24.05.2021	04-Demographics		26.05.2021	02-BoP / 03-Intertemp Trade		
31.05.2021	04-Demographics	5 (voluntary)			02.06.2021	03-Intertemp Trade
07.06.2021	05-Diversification	6				
14.06.2021	05-Diversification	7			16.06.2021	04-Demographics
21.06.2021	06-Exchange Rates		23.06.2021	04-Demographics / 05-Diversification		
28.06.2021	06-Exchange Rates	8			29.06.2021	05-Diversification
05.07.2021	06-Exchange Rates		07.07.2021	06-Exchange Rates		
12.07.2021	06-Exchange Rates	mock exam			14.07.2021	06-Exchange Rates

Note: Q&A meetings as well as student presentations will usually take place on the *Wednesday afternoons* indicated by the above schedule (between 4.15 and 5.45 pm). As an *exception*, the student presentations in the last week of June will take place on Tuesday, **June 29, 2021**, between 4.15 and 5.45 pm.