

Master in International Economics and Public Policy

International Macroeconomics (Summer semester 2022)

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(This version: **April 18, 2022**)

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 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 real exchange rate.

Organization

- In the **summer semester 2022**, lectures and tutorials will take place **on the JGU campus**. However, caution is still advised. **Rules and regulations** prevailing on campus are published on the **JGU Corona homepage**: <https://en.corona.uni-mainz.de/>.
- **Times and places:**

Lectures: Wednesday, 12.15 – 1.45 pm, room HS II.

Tutorials: Group A: Monday, 2.15 – 3.45 pm, room HS V
Group B: Wednesday, 6.15 – 7.45 pm, room HS I

Note: The tutorial slots of the first weeks will be used for lectures. See the last pages of this document for a **detailed schedule**. The **first lecture** will take place on **April 25, 2022**.

- The **lecture presentations** and **problem sets** (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 JOGUSTiNe** will automatically be assigned to the International Macroeconomics course in **LMS/Moodle**.
- Students will have access to **lecture videos** of the **summer semester 2020**. Note, however, that the final exam will be based on the contents of the summer semester 2022. Thus, we strongly recommend to regularly attend the lectures and tutorials on campus.
- All **changes and news** will be disseminated by email via **LMS/Moodle**. Make sure you regularly check your **students email-address at JGU Mainz**.

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.

Contact:

Prof. Dr. Philipp Harms / Albi Lika / Luca Pennacchio, LsHarms@uni-mainz.de

Preliminary Program and References

(This version: April 18, 2022)

Note: The transparencies used in this course as well as further information are available in **LMS/Moodle**. Recommended readings are given in brackets. See the “References” section for a translation of the acronyms.

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. 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 (2022): „Producer Services and the Current Account“, *Journal of International Money and Finance* 121, 102514.

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 (2021a): 2021 External Sector Report: Divergent Recoveries and Global Imbalances; Available for download at <https://www.imf.org/en/Publications/ESR/Issues/2021/08/02/2021-external-sector-report>.

International Monetary Fund (2021b): EBA Estimates: Analysis of 2020 Current Accounts and Real Effective Exchange Rates ; Available for download at <https://www.imf.org/external/np/res/eba/data/EBAEstimates-2020.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*.

International Macroeconomics, Summer semester 2022

Schedule (This version: April 18, 2022)

	Monday	18.04.2022		Easter Monday		
	Wednesday	20.04.2022		Math Introduction	MIEPP	
L1	Monday	25.04.2022	14.15-15.45	Lecture	HS V	Harms
L2	Wednesday	27.04.2022	12.15-13.45	Lecture	HS II	Harms
L3	Monday	02.05.2022	14.15-15.45	Lecture	HS V	Harms
L4	Wednesday	04.05.2022	12.15-13.45	Lecture	HS II	Harms
TA1	Monday	09.05.2022	14.15-15.45	Tutorial	HS V	Pennacchio
L5	Wednesday	11.05.2022	12.15-13.45	Lecture	HS II	Harms
TB1	Wednesday	11.05.2022	18.15-19.45	Tutorial	HS I	Lika
TA2	Monday	16.05.2022	14.15-15.45	Tutorial	HS V	Pennacchio
L6	Wednesday	18.05.2022	12.15-13.45	Lecture	HS II	Harms
TB2	Wednesday	18.05.2022	18.15-19.45	Tutorial	HS I	Lika
TA3	Monday	23.05.2022	14.15-15.45	Tutorial	HS V	Pennacchio
L7	Wednesday	25.05.2022	12.15-13.45	Lecture	HS II	Harms
TB3	Wednesday	25.05.2022	18.15-19.45	Tutorial	HS I	Lika
TA4	Monday	30.05.2022	14.15-15.45	Tutorial	HS V	Pennacchio
L8	Wednesday	01.06.2022	12.15-13.45	Lecture	HS II	Harms
TB4	Wednesday	01.06.2022	18.15-19.45	Tutorial	HS I	Lika
	Whit Monday	06.06.2022				
	Wednesday	08.06.2022	12.15-13.45	Presentation Harms / BdE	HS II	Harms
L9	Wednesday	08.06.2022	18.15-19.45	Lecture	HS I	Harms
TA5	Monday	13.06.2022	14.15-15.45	Tutorial	HS V	Pennacchio
L10	Wednesday	15.06.2022	12.15-13.45	Lecture	HS II	Harms
TB5	Wednesday	15.06.2022	18.15-19.45	Tutorial	HS I	Lika
TA6	Monday	20.06.2022	14.15-15.45	Tutorial	HS V	Pennacchio
L11	Wednesday	22.06.2022	12.15-13.45	Lecture	HS II	Harms
TB6	Wednesday	22.06.2022	18.15-19.45	Tutorial	HS I	Lika
TA7	Monday	27.06.2022	14.15-15.45	Tutorial	HS V	Pennacchio
L12	Wednesday	29.06.2022	12.15-13.45	Lecture	HS II	Harms
TB7	Wednesday	29.06.2022	18.15-19.45	Tutorial	HS I	Lika

TA8	Monday	04.07.2022	14.15-15.45	Tutorial	HS V	Pennacchio
L13	Wednesday	06.07.2022	12.15-13.45	Lecture	HS II	Harms
TB8	Wednesday	06.07.2022	18.15-19.45	Tutorial	HS I	Lika
TA9	Monday	11.07.2022	14.15-15.45	Tutorial	HS V	Pennacchio
L14	Wednesday	13.07.2022	12.15-13.45	Lecture	HS II	Harms
TB9	Wednesday	13.07.2022	18.15-19.45	Tutorial	HS I	Lika
TA10	Monday	18.07.2022	14.15-15.45	Tutorial	HS V	Pennacchio
L15	Wednesday	20.07.2022	12.15-13.45	Lecture	HS II	Harms (Q&A)
TB10	Wednesday	20.07.2022	18.15-19.45	Tutorial	HS I	Lika