NORTHEASTERN UNIVERSITY

J.L. Kellogg
Graduate School of Management

FINANCE E20 – SEMINAR IN INTERNATIONAL FINANCE

WINTER 2000

PROFESSOR SERGIO REBELO

Classroom:
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COURSE DESCRIPTION

This course provides a selective discussion of tools, models, and empirical issues in International Finance. Topics covered include theory and evidence regarding exchange rate determination, the dynamics of the real exchange rate, the forward premium puzzle, exchange rate based stabilizations, speculative attacks on fixed exchange rate regimes, and optimal hedging of foreign exchange exposure.

TEXTBOOK

The textbook for the course is Foundations of International Macroeconomics, by Maurice Obstfeld and Kenneth Rogoff, MIT Press, 1996. We will also use some chapters from Robert Barro and Xavier Sala-i-Martin’s Economic Growth, McGraw-Hill, 1995.

EVALUATION

To be discussed in class.
COURSE OUTLINE

1. Optimal Control (Review and Examples)


2. Dynamic Programming in Continuous Time (Review and Examples)


3. Small Open Economy Models

<table>
<thead>
<tr>
<th>Model Type</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Model</td>
<td>Barro and Sala-i-Martin, Chapter 3.1</td>
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<td>Adjustment Costs:</td>
<td>Barro and Sala-i-Martin, Chapter 3.5</td>
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</table>
4. Exchange Rate Models

4.1 Flexible Price Models

Obstfeld-Rogoff Chapter 8

4.2 Models with Nominal Rigidities

Obstfeld-Rogoff Chapter 9

4.3 Empirical Evidence


5. International Parity Conditions

5.1 Purchasing Power Parity

Obstfeld-Rogoff Chapter 4 and 10 (pp. 711-712)
Engel, Charles “Accounting for U.S. Real Exchange Rate Changes,” *Journal of Political Economy*, 107:

5.1.1. Non-linear Aspects of PPP

Wei, Shang-Jin and David Parsley “Purchasing Power Dis-Parity during the Floating Rate Period: Exchange Rate Volatility, Trade Barriers and Other Culprits,” mimeo, Harvard University.


O’Connell, Paul and Shang-Jin Wei “The Bigger They Are, the Harder They Fall: How Price Differences between U.S. Cities are Arbitraged,” unpublished, Harvard University, 1997.


5.2 Interest Rate Parity


6. Fixed Exchange Rate Regimes

6.1 Exchange-Rate-Based Stabilization


6.2 Speculative Attacks


7. Intertemporal Trade Models

Obstfeld-Rogoff Chapter 1-3


8. Exchange Rate Hedging


9. Optimal Currency Areas


10. Target Zones


11. International Risk Sharing


12. Home Country Bias in Portfolios

Tesar, Linda and Ingrid Werner “International Equity Transactions and U.S. Portfolio Choice,” in J.


13. Technical Trading Models


14. Sovereign Debt and Emerging Markets


