

**Econ 521**  
**International Economics**  
**Bilkent University**

Selin Sayek Böke

**Office:** A117

**Office Hours:** TBA

**Class time:** Tuesday 15:40-17:10

Friday 14:00-15:30

**Classroom:** A 227

***General Information***

This course provides an overview of recent key topics in international finance and open economy macroeconomics as well as trade, heterogeneous firms and the international organization of production. The course is intended for second and third year graduate students in the Economics department. All of the first year graduate courses are prerequisites.

**Background Texts:**

- *Foundations of International Macroeconomics*, by Maurice Obstfeld and Kenneth Rogoff, MIT Press, 1996.  
(OR)
- *Advanced International Trade*, by Robert Feenstra, Princeton, N.J.: Princeton University Press, 2004.
- *Multinational Firms in the World Economy*, by Barba Navaretti, G. and A. Venables. Princeton, NJ: Princeton U. Press, 2004.

**Readings:** All readings can be accessed online.

**Requirements:**

- Paper presentation (%30): Every week 2 students will present a paper from the syllabus. The students can prepare for the presentation together, keeping in mind that each of these students have to present. You should see me a week in advance of your presentation to go over your questions and issues regarding the presentation. The logistical details for the presentation schedule will be finalized before October 7, 2011.
- Research proposal (%40): The research proposal should critically assess the literature on a particular topic in international finance/trade and provide an outline of future work that would make an original contribution to that area. The paper may not be jointly submitted for this course and another graduate course. You should plan to meet with me fairly early in the semester to identify your topic and you should select your topic prior to the bayram break. The research proposals will be presented during the last two weeks of class. Plan to summarize your proposal in 15–20 minutes. The full research proposal should be handed in at the time of your presentation. The structure of the research proposal will follow the research proposal framework of TUBITAK.
- In-class quizzes (%25): Every week there will be an in-class quiz regarding that week's lecture and also student presentations.
- In-class discussions (5%): You will be rewarded for active participation in the discussions following student presentations.

## Topics

### I. Introduction to Open Economy Macroeconomics

OR, chapters 1, 2, 3, 5

Obstfeld, Maurice and Kenneth Rogoff, "The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?" in Ben Bernanke and Kenneth Rogoff (eds.), *NBER Macroeconomics Annual 2000* (Cambridge: MIT Press), pp. 339-390 (Comments 390-412).

Obstfeld, Maurice and Kenneth Rogoff, "New Directions for Stochastic Open Economy Models," *Journal of International Economics*, 2000, 117-154.

Obstfeld, Maurice, and Alan Taylor (2002), "Globalization and Capital Markets," NBER WP 8846 (published as a book in 2005).

Backus, D., P. Kehoe and F. E. Kydland. "International Real Business Cycles." *Journal of Political Economy* 100(4) (1992): 745-775.

Aguiar, M. and G. Gopinath. "Emerging Market Business Cycles: The Cycle is the Trend." *Journal of Political Economy* 115(1) (2007): 69-102.

Neumeyer, P.A. and F. Perri, "Business Cycles in Emerging Markets: The Role of Interest Rates," *Journal of Monetary Economics*, 2005.

Mendoza, E. "Real Business Cycles in a Small Open Economy." *American Economic Review* 81(4) (1991): 797-818.

### II. Quantity Puzzles: International Non-Diversification, Feldstein-Horioka

Feldstein, M., and C. Horioka (1980) "Domestic Savings and International Capital Flows," *Economic Journal* 90 (358) June, 314-329.

Baxter, Marianne and Mario Crucini (1993) "Explaining Saving-Investment Correlations," *American Economic Review*, 83 (3) June, 416-36.

Cole, H. and M. Obstfeld, "Commodity Trade and International Risk Sharing: How much do Financial Markets Matter?" *Journal of Monetary Economics* 28 (1) (1991): 3-24.

Perri, F & J. Heathcote. "The International Diversification Puzzle is not as bad as you think " University of Minnesota Working Paper (2009).

Backus, D.K. and G.W. Smith. "Consumption and Real Exchange Rates in Dynamic Economies with Non-Traded goods." *Journal of International Economics* 35(3-4) (1993): 297-316.

Corsetti, G., L. Dedola and S. Leduc. "International Risk Sharing and the Transmission of Productivity Shocks." *Review of Economic Studies* 75 (2008): 443-473.

Coeurdacier N. and P-O. Gourinchas " When Bonds Matter: Home Bias in Goods and Assets." London Business School Working Paper (2009).

Cedric, T. and E. Van Wincoop. "International Capital Flows" *Journal of International Economics*, forthcoming (2008).

Bai, Y. and J. Zhang. "Solving The Feldstein-Horioka Puzzle with Financial Friction." *Econometrica*, forthcoming (2009)

Baxter, M. and U. Jermann. "The International diversification puzzle is worse than you think." *American Economic Review* 87(1) (1997): 170-180.

Tesar, L. "Savings, Investment and International Capital Flows", *Journal of International Economics* (1991).

### **III. New Perspectives on Capital Flows**

Cabellero, R., E. Farhi and P.-O. Gourinchas. "An Equilibrium Model of Global Imbalances and Low Interest Rates," *American Economic Review* 98(1) (2008)

Mendoza, E., V. Quadrini and J. V. Rios-Rull. "Financial Integration, Financial Deepness and Global Imbalances." *Journal of Political Economy* 117(3) (2009): 371-416.

Antras, P. and R. Caballero "Trade and Capital Flows: A Financial Frictions Perspective." *Journal of Political Economy* 117 (4) (2009): 701-744.

Kraay, A and J. Ventura. "Current Accounts in Debtor and Creditor Countries", *Quarterly Journal of Economics* 115(4) (2000): 1137-1166.

Prasad E. and R. Rajan. "A pragmatic approach to Capital Account liberalization." *Journal of Economic Perspectives* 22(3) (2008): 149–172.

Carroll, C. and O. Jeanne. "A Tractable Model of Precautionary Reserves, Net Foreign Assets or Sovereign Wealth Fund." Johns Hopkins University Working Paper (2009).

### **IV. Capital Flows to Emerging Markets**

Robert E. Lucas, (1990), "Why Doesn't Capital Flow from Rich to Poor Countries," *American Economic Review* 88, pp. 92-96.

Laura Alfaro, Sebnem Kalemli-Ozcan, Vadym Volosovych (2008) "Why Doesn't Capital Flow from Rich to Poor Countries? An Empirical Investigation," *Review of Economics and Statistics*.

Reinhart, Carmen and Kenneth Rogoff (2004), "Serial Default and the "Paradox" of rich to poor Capital Flows," *American Economic Review*.

Caselli, Francesco, and Jim Feyrer (2005), "The Marginal Product of Capital," *Quarterly Journal of Economics*.

Lane, Philip and Gian Maria Milesi-Ferretti (2000), "The External Wealth of Nations: Measure of Foreign Assets and Liabilities for Industrial and Developing Countries," *Journal of International Economics*.

### **V. Core Trade Models**

#### **A. Factor endowments – Heckscher-Ohlin-Samuelson Model: Theory and Empirical Relevance**

Jones, R., 1965, " The Structure of Simple General Equilibrium Models," *Journal of Political Economy* 73: 557-572.

Feenstra, R. 2004. *Advanced International Trade*, Princeton, N.J.: Princeton University Press, Chapter 1.

Debaere, P., (2003), "Relative Factor Abundance and Trade," *Journal of Political Economy*, 111: 589-609.

Trefler, D., 1995. " The Case of the Missing Trade and Other Mysteries," *American Economic Review* (December), 1029-46.

Davis, D. and D. Weinstein, 2001, " An Account of Global Factor Trade," *American Economic Review* (December): 1423-1453.

Feenstra, R. 2004. *Advanced International Trade*, Princeton, N.J.: Princeton University Press, Chapter 2.

Fitzgerald, D. and J. Hallak (2004), "Specialization, Accumulation, and Development," *Journal of International Economics*, 64: 277-302.

Bernard, A., B. Jensen, and P. Schott (2006), "Survival of the Best Fit: Exposure to Low-Wage Countries and the (Uneven) Growth of U.S. Manufacturing Plants," *Journal of International Economics*, 68: 219-237.

### **B. Technology differences – Ricardian Trade Theory**

Dornbusch, R. S. Fisher, and P. Samuelson, 1977. " Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods," *American Economic Review*, 823-39.

Eaton, J. and S Kortum, 2002. " Technology, Geography, and Trade," *Econometrica*.

Costinot, A. and I. Komunjer (2008), "What Goods Do Countries Trade? A Structural Ricardian Model," mimeo.

Fieler, A.C. (2007), "Non-Homotheticity and Bilateral Trade: Evidence and a Quantitative Explanation," mimeo.

### **C. Monopolistic Competition with Representative Agent**

Krugman, P. (1980), "Scale Economies, Product Differentiation, and the Pattern of Trade," *American Economic Review*, 70: 950-959.

Romalis, J. (2004), "Factor Proportions and the Structure of Commodity Trade," *American Economic Review*, 94: 67-97.

Krugman, P. (1979), "Increasing Returns, Monopolistic Competition, and International Trade," *Journal of International Economics*, 9: 469-479.

Davis, D. (1998), "The Home Market, Trade, and Industrial Structure," *American Economic Review*, 88: 1264-1276.

### **D. Trade with Heterogenous Agents**

Melitz, M. (2003), "The Impact of Trade on Intra-industry Reallocations and Aggregate Industry Productivity," *Econometrica*, 71, 1695-1725.

Bernard, A., J. Eaton, J. B. Jensen, and S. Kortum (2003), "Plants and Productivity in International Trade," *American Economic Review*, 93: 1268-1290.

Bernard, A., S. Redding, and P. Schott (2007), "Comparative Advantage and Heterogeneous Firms," *Review of Economics Studies*, 74: 31-66.

Bernard, A., S. Redding, and P. Schott (2009), "Multi-Product Firms and Trade Liberalization," mimeo.

Arkolakis, C. (2008), "Market Penetration Costs and the New Consumers Margin in International Trade, mimeo.

Kugler, M. and E. Verhoogen (2008), "The Quality-Complementarity Hypothesis: Theory and Evidence from Colombia, mimeo.

Hallak, J. and J. Sivadasan (2009), "Firms' Export Quality and Quality Constraints," mimeo.

Manova, K. (2008), "Credit Constraints, Heterogeneous Firms, and International Trade," mimeo

## **VI. Product Quality**

Fajgelbaum, P., G. Grossman, and E. Helpman (2009), "Income Distribution, Product Quality, and International Trade, mimeo.

Schott, P. (2004), "Across-Product versus Within-Product Specialization in International Trade," *Quarterly Journal of Economics*, 119: 647-678.

Hummels, D and P. Klenow (2005), "The Variety and Quality of a Nation's Exports," *American Economic Review*, 95: 704-723.

Hallak, J. (2006), "Product Quality and the Direction of Trade," *Journal of International Economics*, 68: 238-265.

Vernon, R. (1966), "International Investment and International Trade in the Product Cycle," *Quarterly Journal of Economics*, 80, 190-207.

Hallak, J. and P. Schott (2010), "Estimating Cross-Country Differences in Product Quality", mimeo.

## **VIII. Multinational Enterprises and Fragmentation of Production**

Barba Navaretti, G. and A. Venables. 2004. *Multinational Firms in the World Economy*, Princeton, NJ: Princeton U. Press. Chapters 1-8.

Markusen, J. and A. Venables. 1998. "Multinational Firms and New Trade Theory," *Journal of International Economics* (December) 183-204.

Yi, Kei-Mu. 2003. "Can Vertical Specialization Explain the Growth of World Trade?" *Journal of Political Economy*. (February) 111(1) pp. 52-102.

Antras, P., L. Garicano and E. Rossi-Hansberg. 2006. "Offshoring in a Knowledge Economy," *Quarterly Journal of Economics*. 121(1) pp. 31-78.

Helpman, E., M. Melitz and S. Yeaple. 2004. "Export versus FDI with Heterogeneous Firms," *American Economic Review* (March) 300-316.

Markusen, J. 1995. "The Boundaries of the International Enterprise," *Journal of Economic Perspectives* (Spring) pp. 169-189.

Grossman, G. and E. Helpman, 2002. "Integration versus Outsourcing in Industry Equilibrium," *Quarterly Journal of Economics*, vol.117, no.1, pp, 85-120.

Antras, P., 2003. "Firms, Contracts and Trade Structure," *Quarterly Journal of Economics* 118(4), pp. 1375-1418.

Antras, P. and E. Helpman, 2004. "Global Sourcing," *Journal of Political Economy*, Vol. 112, No. 3, pp. 552-580.

Brainard, L. 1997. "An Empirical Assessment of the Proximity-Concentration Tradeoff Between Multinational Sales and Trade," *American Economic Review*. pp. 520-44.

Carr, D., J. Markusen and K. Maskus. 2001. "Estimating the Knowledge Capital Model of the Multinational Enterprise," *American Economic Review*, pp. 693-708.

## **IX. The outsourcing controversy**

Amiti and Wei, "Fear of Service Outsourcing: Is It Justified?," NBER WP, 2004

Amiti, Mary and Shang-Jin Wei, 2004, "Service Outsourcing, Productivity and Employment," IMF Working Paper, *forthcoming*.

Baldwin, R. 2006. "Globalisation: The Great Unbundling(s)," mimeo.

Grossman G. and E. Rossi-Hansberg, "Task Trade between Similar Countries", *mimeo*.

Grossman G. and E. Rossi-Hansberg, "Trading Tasks: A Simple Theory of Offshoring", *American Economic Review*.

Grossman, G. and E. Helpman. 2002. "Integration versus Outsourcing in Industry Equilibrium," *Quarterly Journal of Economics*.

Grossman, G. and E. Helpman. 2003. "Outsourcing in a Global Economy," *Review of Economic Studies*.

Rodriguez-Clare, A. 2009. "Offshoring in a Ricardian World," *American Economic Journal: Macroeconomics*.