ECON 8872: International Finance
Syllabus

Time: TTh 1:30 pm
Location: Maloney Hall 313

Professor: Rosen Valchev
Office: 396 Maloney Hall
E-mail: valchev@bc.edu
Office Hours: Tuesday 9-10 or by appointment

Course Description
This is the first of a two-part second year, field course sequence for Ph.D. students on International Finance and Macroeconomics. The course will attempt to provide a broad overview of the field, and discuss the classic puzzles and the seminal questions that underpin this literature, but also explore the frontier and some of the most active current areas of research. The goal is two-fold. First, introduce you to the modern models, tools and topics of International Macro and Finance. Second, give you the necessary background on the literature to help you navigate amongst possible dissertation topics. This course omits discussion of certain topics, such as sovereign default, which will be covered in the second semester.

Course Materials
There is no textbook for this course, and we will focus entirely on reading journal articles. However, you might find the following textbooks to be useful background readings for some of the topics:

Ljungqvist and Sargent (2004), Recursive Macroeconomic Theory
Obstfeld and Rogoff (1996), Foundations of International Macroeconomics
Woodford (2003), Interest and Prices: Foundations of a Theory of Monetary Policy

For an extensive list of references we will cover in class, please refer to the Course Outline below.

Course Evaluation
Problem Sets: 30%
Presentations: 40%
Research Proposal: 30%
The goal for this course is to prepare you and help you to do interesting original research in the field. As such we will not have tests, but focus instead on presentation and writing a research proposal.

**Problem Sets:** There will be five problem sets in total that will be graded on a check, check plus and check minus basis.

**Presentation 1:** Each student will pick one paper from the readings list and will give a 30-minute, research presentation to the class. The idea is to simulate the typical experience at a conference presentation, where you need to concisely and clearly communicate the main message of the paper. Two very important pieces of advice on presentations (in general, not just for this class) are

(i) Practicing your slides is incredibly important. The typical rule of thumb should be that you have the slides ready a week before the presentation, and then practice it fully several times. Do not work to make your slides absolutely perfect until the last moment, but instead practice the slides you have.

(ii) Get to the main point quickly. You should communicate the main contributions and message of the paper in the first couple of slides. But do not forget to also motivate the paper first. From the very beginning, tell the audience what is the main question, why they should care about it, and what it is that the paper does.

You should pick which paper you want to present and let me know your choice by the end of our second week of class – **Sunday Sep 13**.

**Presentation 2 (Discussion):** Each student would also do a discussion style presentation, where instead of presenting the main findings of the paper, they will act as a conference discussant. This presentation will be shorter (15 minutes), and on any paper you choose from our reading list.

The role of a discussant is two-fold. First, to summarize quickly (2-3 slides) the paper and help the audience digest its main results. And second (6-7 slides), to provide some detailed feedback to both the author and the audience. This could clearly be constructive criticism, where you point out assumptions that are too strong, or other places the argument seems a bit weak. But keep in mind it needs to be constructive as well – provide some suggestions on how to improve the paper. And lastly, not all your comments need to be critical – if you think the paper actually makes a very good point that the author has not emphasized, you should point it out. The primary goal should be to help the paper get better.

Please choose the paper you want to discuss and communicate back to me by **Sunday Sep 13**.

**Research Proposal:** I would like you to write a short, 5-pages maximum, research proposal that is to be handed in by the official final exam date. Writing both clearly and concisely is
very important and it is good to start practicing early. You should think of this research proposal as an expanded Introduction section of a future paper you are proposing to write.

We will do several iterations on the research proposal. Please submit

1. A title page with an abstract (200 words maximum) by Nov 30.
2. First draft by Dec 7
3. Final Draft

**Students with Disability**

If you have a disability and will be requesting accommodations for this course, please register with either Dr. Kathy Duggan (dugganka@bc.edu), Associate Director, Connors Family Learning Center (learning disabilities or AHD) or Dean Paulette Durrett, (paulette.durrett@bc.edu), Assistant Dean for students with disabilities, (all other disabilities).

Advance notice and appropriate documentation are required for accommodations.

**Course Outline**

1 **International Real Business Cycles**

1.1 **A Brief Intro to International Macro and Finance**


Additional Readings


1.2 **Small Open Economy Models**

1.3 Terms of Trade and SOEs

- Valchev (2015?), “World Prices and Small Open Economies” – draft not complete yet, but we will cover the main points in class
- Kehoe and Ruhl (2008), “Are shocks to the terms of trade shocks to productivity?”, RED

Additional Readings

- Justiniano and Preston (2010), “Can structural small open-economy models account for the influence of foreign disturbances?”, JIE

1.4 Two Country Models: Benchmark Models and Some Issues


1.5 Some solutions


Additional Readings:
2 Exchange Rates

2.1 Uncovered Interest Rate Parity (UIP)

- Burnside, Eichenbaum, Kleshchelski, and Rebelo, “Do Peso Problems Explain the Returns to the Carry Trade”, RFS

Additional Readings


2.2 Variations of the UIP Puzzle

- Bansal and Dahlquist (2000), “The forward premium puzzle: different tales from developed and emerging economies”, JIE
- Chaboud and Wright (2005), “Uncovered Interest Parity: It Works, but not for Long”, JIE

Additional Readings

2.3 Models of the UIP Puzzle

2.3.1 Risk-Premia


Additional Readings

- Backus, Gavazzoni, Telmer and Zin, “Monetary Policy and the Uncovered Interest Parity Puzzle”, working paper

2.4 Deviations from Rational Expectations

- Gourinchas and Tournell (2004), “Exchange Rate Puzzles and Distorted Beliefs”, JIE

Additional Readings

- Ilut (2012), “Ambiguity Aversion: Implications for the Uncovered Interest Rate Parity Puzzle”, AEJ:Macro

2.5 Convenience Yields

2.6 Evidence on the UIP Models

- Burnside 2010, “The Cross-Section of Foreign Currency Risk Premia and Consumption Growth Risk: Comment”, AER

Additional Readings


2.7 Forecasting


Additional Readings:

2.8 The Exchange Rate Determination Puzzle


Additional Readings:

- Berger, Chaboud, Chernenko, Howorka, and Wright (2005), “Order Flow and Exchange Rate Dynamics in Electronic Brokerage System Data”, JIE
- Irrarrazabal, Rime and Valchev (2015?), “A Structural Estimation of Dispersed Information Model of Exchange Rates and Order Flow: What are the main drivers?”, draft (hopefully) coming soon

3 International Risk-Sharing

3.1 The Backus-Smith Puzzle

- Brandt, Cochrane, Santa-Clara, “International Risk-Sharing is Better than You Think, or Exchange Rates are too Smooth”, JME

3.2 The Home Bias Puzzle and Portfolio Underdiversification: Introduction

- Baxter and Jermann (1997), “The International Diversification Puzzle is Worse Than You Think”, AER

Additional Readings


• Kang and Stulz (1997), “Why is There a Home Bias? An Analysis of Foreign Portfolio Equity Ownership in Japan”, JFE

3.3 The Home Bias Puzzle and Portfolio Under diversification: Analysis

• Coeurdacier and Rey (2012), “Home Bias in Open Economy Financial Macroeconomics”, JEL


• van Nieuwerburgh and Veldkamp (2010), “Information Acquisition and Under-Diversification”, REStud


Additional Readings

• Lewis (1999), “Trying to Explain Home Bias in Equities and Consumption”, JEL

• Devereux and Sutherland (2010), “Country Portfolio Dynamics”, JIE


• Pesenti and van Wincoop, “Can Nontradables Generate Substantial Home Bias?”, JMCB

• Heathcote and Perri, “The International Diversification Puzzle is Not as Bad as You Think”,
4 Nominal Models and Monetary Policy in an Open World

- Gali and Monacelli (2005), “Monetary Policy and Exchange Rate Volatility in a Small Open Economy”, REStud
