

Open Economy Macroeconomics

Academic Year: **2020/2021**

2nd Semester

Level of curricular unit: Undergraduate (1st cycle, as defined in the Framework of Qualifications for the European Higher Education Area)

Instructor(s):

Pedro Teles

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Both lecturer and TA will set weekly office hours.

Biography:

Pedro Teles is a Full Professor at Catolica-Lisbon SBE. He is also an Advisor at the Bank of Portugal and a Research Fellow of the CEPR. He holds a PhD in Economics (The University of Chicago) and an undergraduate degree in Economics (UCP). He was a Senior Economist in the Research Department at the Federal Reserve Bank of Chicago between 2001 and 2004, and has taught in the Ph.D. programs at Universitat Pompeu Fabra and University College London. His work has been published in the American Economic Review, Review of Economic Studies, Review of Economic Dynamics, Journal of Economic Theory, Journal of Political Economy, Journal of Monetary Economics, Economic Journal.

Course overview and objectives:

We will be covering the main topics of international macroeconomics. We will start by studying an intertemporal model where we will be covering balance of payments accounting and the dynamics of the trade balance, current account, savings and investment in the open economy. We will study interest rate parities as conditions for capital mobility. We will extend the model to include non-tradeable goods and study the dynamics of the real exchange rate. We will consider the relevance of nominal rigidities. We will study the determination of nominal exchange rates and discuss the relevance of the Quantity Theory of Money. We will cover the basics of optimal stabilization policy.

A fully consistent framework will be used where most of the issues will be addressed. The framework is a simplification of the real business cycle, dynamic general equilibrium model. This simplification is possible because the issues that are treated are the ones of the small open economy, so that the real business cycle model can be solved in a simple way.

Objectives: (1) To provide an understanding of the main macroeconomic issues in the open economy at an intermediate level. (2) To provide the ability to analyze formally simple, but fully consistent, macroeconomic models.

Course Content:

1. The open economy: Savings and investment in the open economy. The current account and the balance of payments.
 - a. A model of a small open economy.
 - b. National accounts for the open economy.
 - c. The balance of payments as a budget constraint.
 - d. Response of the open economy to real shocks.

2. Parities: Interest rates and purchasing power.

3. Nontradeable goods and competitiveness
 - a. A model with nontradeable goods
 - b. Real exchange rates and competitiveness.
 - c. The Dutch disease.
 - d. Debt, and sectorial adjustment.
 - e. Nominal rigidities and unemployment. A fiscal devaluation.

4. Money and exchange rates
 - a. A nominal model for the open economy. Nominal exchange rates.
 - c. The Quantity Theory of Money and the short run effects of monetary policy
 - d. Nominal rigidities and stabilization policy

Required background:

Knowledge of Intermediate Microeconomics and Calculus (constrained optimization)

Grading:

Problem sets will be handed out roughly every week. A week later, there will be a quiz (with probability 0.5) on a small part of the problem set. The other problems will also be solved in the TA sessions.

The grade is based on the quizzes (15%), a midterm exam (35%), and an end-term exam (50%) including all the material. There will be a minimum passing grade on the end-term exam.

Bibliography:

Stephanie Schmitt-Grohe, Martin Uribe and Michael Woodford, International Macroeconomics, unpublished manuscript, Columbia University, October 2015

<http://www.columbia.edu/~mu2166/UIM/>

J. Frankel, "Quantifying International Capital Mobility in the 1980's," in D. Das, ed., *International Finance*, Routledge, 1993.

King R. And S. Rebelo, *Resuscitating Business Cycles* in *Handbook of Macroeconomics*, edited by John B. Taylor and Michael Woodford, Volume 1, Part C, Pages 1231-1745 (1999)

Lucas, R., 1988, "What Economists Do," Address to the 411th Convocation, University of Chicago.

Lucas, R., 1996, "Nobel Lecture: Monetary Neutrality," *Journal of Political Economy* 4, 104, 661-682.

Class notes and copies of the articles will be made available.

Miscellaneous information:

Students are expected to apply the material presented in the lectures to new problems. For this purpose, roughly every week they are expected to solve a set of problems of which some will be subject to evaluation. Only after those quizzes, the solution of the problems will be presented.

Code of conduct and ethics:

Católica Lisbon School of Business and Economics is a community of individuals with diverse backgrounds and interests who share certain fundamental goals. A crucial element to achieve these goals is the creation and maintenance of an atmosphere contributing to learning and personal growth for everyone in the community. The success of CATÓLICA-LISBON in attaining its goals and in maintaining its reputation of academic excellence depends on the willingness of its members, both collectively and individually, to meet their responsibilities.

Along with all the other members of our community, students are expected to follow professional standards and CATÓLICA-LISBON standards of Academic Integrity. Some details should be mentioned here: Please arrive on time for class with uninterrupted attendance for the duration of the class. Signing attendance sheet for anyone else in the class constitutes fraud and a violation of the CLSBE code of conduct. Use of computers and other electronic devices during the class is not allowed, unless expressly requested by the instructor of the course. Students who persistently act in a disruptive and disrespectful manner during the class session may be invited to leave.

Students are expected to behave at all times according to the fundamental principles of academic integrity, including honesty, trust, fairness, respect, and responsibility. In particular,

- a) In **individual graded assignments** of any type, students may not collaborate with others or use any materials without explicit permission from the instructor of the course;
- b) In **group assignments and reports**, all students listed as authors should have performed a substantial amount of work for that assignment;
- c) It is dishonest to fabricate or falsify data in experiments, surveys, papers, reports or other circumstances; fabricate source material in a bibliography or "works cited" list; or provide false information in other documents in connection with academic efforts;
- d) **Plagiarizing**, i.e. "to steal and pass off the ideas or words of another as one's own and or to use another's production without crediting the source" (Merriam-Webster Dictionary) is an Academic Integrity breach. It can be avoided by using proper methods of documentation and acknowledgement. Visit this guide for additional resources on how to avoid plagiarism in your written submissions <http://en.writecheck.com/plagiarism-guide>

- e) In **exams** students must not receive or provide any unauthorized assistance. During an examination, students may use only material and items authorized by the faculty. Use of smartwatches or other communication devices is not permitted during the exam.

Academic integrity breaches will be dealt with in accordance with the school's code of Academic Integrity:
<https://www.clsbe.lisboa.ucp.pt/system/files/assets/files/academicintegritycode.pdf>
