

**New Open Economy Macroeconomics:  
Theory and Empirics**

**ORGANIZATION**

**Instructor:** Prof. Yu-chin Chen

**Dates:**

June 15th, 10:15 to 11:45 a.m. and 1:15 to 2:45 p.m.

June 16th, 10:15 to 11:45 a.m. and 1:15 to 2:45 p.m.

June 17th, 09:15 to 11:30 a.m. and 1:00 to 1:45 p.m.

**Room:** ZUE G1 ([Zuerichbergstrasse 18](#), 8032 Zurich)

**E-mail:** yuchin@u.washington.edu

**Course webpage:** <http://depts.washington.edu/oemacro/NOEM>

**COURSE OBJECTIVE**

This course provides a short overview of recent development in the “New Open Economy Macro” (NOEM) literature. This growing body of literature departs from the traditional reduced-form Mundell-Fleming models and addresses open economy issues using dynamic general equilibrium models with nominal rigidities and market imperfections. The micro-foundations explicit in these models provide justifications for the Keynesian assumption of short-run demand determined output and allow more rigorous analysis of the welfare implications of policy actions.

This course starts with a brief survey of representative models developed since the pioneering work of Obstfeld and Rogoff (1995). We will then consider their applications to open economy policy issues, and discuss recent empirical contributions in the area.

The course is intended for Economics Ph.D. students with prior exposure to graduate level macroeconomics. Results from selected papers in the reading list below will be discussed.

**COURSE SCHEDULE AND READING LIST:**

**I. Overview of NOEM and its Basic Elements**

- Obstfeld, Maurice and Kenneth Rogoff, (1995), “Exchange Rate Dynamics Redux,” *Journal of Political Economy*, 103 (3) June, 624-660.
- Obstfeld, Maurice, and Kenneth Rogoff, (1996), Chapter 10, *Foundations of International Macroeconomics*, MIT Press.
- Obstfeld, Maurice and Kenneth Rogoff, (2000), "New Directions in Stochastic Open Economy Models," *Journal of International Economics* 48, 117-153. Also NBER WP 7313.

- Obstfeld, Maurice, and Kenneth Rogoff, (2001) "Risk and Exchange Rates," in Elhanan Helpman and Efraim Sadka (eds.), *Contemporary Economic Policy: Essays in Honor of Assaf Razin*. Cambridge: Cambridge University Press 2002. Also, NBER WP 6694.
- Obstfeld, Maurice and Kenneth Rogoff, (2003), "Six Major Puzzles in International Finance: Is there a common cause? NBER Macro Annual 2002.
- Mark, Nelson, (2001), Chapter 9, *International Macroeconomics and Finance: Theory and Econometric Methods*, Blackwell Publishers.
- Obstfeld, Maurice, (2001), *Mundell-Fleming Lecture: "International Macroeconomics: Beyond the Mundell-Fleming Model"*, *IMF Staff Papers*, Vol. 47 Special Issue.
- Obstfeld, Maurice, (2002), "Exchange Rates and Adjustment: Perspectives from the New Open Economy Macroeconomics," NBER WP 9118.
- Philip Lane, (2001), "The New Open Economy Macroeconomics: A Survey," *Journal of International Economics* 54(2), 235-266.

## II. Stabilization and Policy Analysis

- Bacchetta, Philippe and Eric van Wincoop (2000) "Does Exchange-Rate Stability Increase Trade and Welfare?" *American Economic Review* 90, 1093-1109.
- Clarida, Richard, Jordi Gali, and Mark Gertler, (2001), "Optimal Monetary Policy in Open versus Closed Economies: An Integrated Approach," *American Economic Review Papers and Proceedings* 91 (2), 248-252.
- Corsetti, Giancarlo and Paolo Pesenti, (2001), "Welfare and Macroeconomic Interdependence," *Quarterly Journal of Economics* 116(2), 421-445.
- Corsetti, G. and P. Pesenti, (2005), "The simple geometry of transmission and stabilization in closed and open economies," NBER WP #11341.
- Devereux, Michael, and Charles Engel, (2003), "Monetary Policy in the Open Economy Revisited: Price Setting and Exchange Rate Flexibility," *Review of Economic Studies*, 70.
- Duarte, Margarida, and Maurice Obstfeld, "Monetary Policy in the Open Economy Revisited: The Case for Exchange-Rate Flexibility Restored," manuscript, October 2004.
- Gali, Jordi and Tommaso Monacelli, (2005), "Monetary Policy and Exchange Rate Variability in a Small Open Economy," *Review of Economic Studies*, forthcoming.
- Obstfeld, Maurice and Kenneth Rogoff, (2002), "Global Implications of Self-Oriented National Monetary Rules," *Quarterly Journal of Economics* 117, 503-36.
- Benigno, Pierpaolo (2002) "A Simple Approach to International Monetary Policy Coordination," *Journal of International Economics* 57, 177-196.
- Benigno, Gianluca, and Pierpaolo Benigno, (2003), "Price Stability in Open Economies," *Review of Economic Studies* 70, 743-64.

- Betts, Caroline and Michael B. Devereux (1996) "The Exchange Rate in a Model of Pricing-to-Market," *European Economic Review*, 40 (3-5) April, 1007-1021.
- Betts, Caroline and Michael B. Devereux (2000) "Exchange Rate Dynamics in a Model of Pricing-to-Market," *Journal of International Economics* 50, 215-44.
- Bowman, David, and Brian M. Doyle, (2003) "New Keynesian, Open-Economy Models and Their Implications for Monetary Policy," *International Finance Discussion Papers* 762, Board of Governors of the Federal Reserve System.
- Canzoneri, Matthew B., Robert E. Cumby, and Behzad T. Diba, (2001), "The Need for International Policy Coordination: What's Old, What's New, What's Yet to Come?" manuscript, Georgetown University.
- Oudiz, Giles and Jeffery Sachs (1984) "Macroeconomics Policy Coordination Among the Industrial Countries," *Brookings Papers on Economic Activity* 1, 1-64.
- Senay, Ozge and Alan Sutherland, (2005), "Can Endogenous Changes in Price Flexibility Alter the Relative Welfare Performance of Exchange Rate Regimes?" NBER WP 11092.

### **III. Empirics: From NOEM to Empirical DSGE**

- Bergin, Paul, (2003), "Putting the "New Open Economy Macroeconomics" to a Test , *Journal of International Economics*, 60 (1), 3-34.
- Bergin, Paul, (2004), "How Well Can the New Open Economy Macroeconomics Explain the Exchange Rate and Current Account?" NBER WP 10356.
- Chari, V. V., Patrick J. Kehoe, and Ellen McGrattan, (2002), "Can Sticky Price Models Generate Volatile and Persistent Real Exchange Rates?" *Review of Economic Studies* 69, 533-63.
- Laxton, D. and P. Pesenti, (2003), "Monetary Rules for Small, Open, Emerging Economies," NBER Working Paper 9568.
- Bayoumi, T., D. Laxton, and P. Pesenti, (2004), "Benefits and Spillovers of Greater Competition in Europe: A Macroeconomic Assessment," Federal Reserve Bank of New York, Staff Report 182.
- Lubik, T. and F. Schorfeide, (2005), "A Bayesian Look at the New Open Economy Macroeconomics," mimeo.