

Macroeconomic Theory in Open Economies II
AEB 7240
University of Florida
Academic Term: Spring 2023

Class Number: UFL.AEB7240.00001.2022-01-UF-0
Class Periods: Tuesday: Period 4 (10:40 AM - 11:30 AM)
Thursday: Period 4 - 5 (10:40 AM - 12:35 PM)
Location: Room [MCCB1108](#); Thursday: Room [MCCB1108](#)
Final Exam: 5/04/2023 @ 5:30 PM - 7:30 PM
All classes in Room [MCCB1108](#) or on Zoom Meeting ID 3522562825

Instructor:

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Office Hours: Tuesday, 11: 35 PM - 12:35 PM; Thursday, 12:40 PM -1:40 PM and by appointment, Zoom address: 3522562825.

Please text desire for meeting during office hours one day in advance to (352) 256-2825 giving name, class, and topic wished to be discussed or text asking for an appointment at another time.

Course Description: Essential elements of macroeconomic theory and policy in world of interdependent nations. Lectures, student discussions, and problem sets are designed to give students an advanced background in the essential elements of macroeconomic theory and policy in open economies.

Prerequisites: Calculus and intermediate macroeconomics are helpful.

Course Objective: To enable students to read and comprehend current economic literature in the area of open macroeconomics and to give students the necessary foundation to continue self-study and to begin research in this area.

Methods by which students will be evaluated and grading system

Two mid-term exam	40%
Final exam	40%
Problem sets/ Class presentations	<u>20%</u>
	100%

Grading Policy

Percent	Grade	Grade Points
93-100%	A	4.00
92-90%	A-	3.67
87-89%	B+	3.33
83-86%	B	3.00
80-82%	B-	2.67
77-79%	C+	2.33
73-76%	C	2.00
70-72%	C-	1.67
67-69%	D+	1.33

63-66%	D	1.00
60-62%	D-	0.67
Below 60%	E	0.00

Attendance Policy

Students are expected to prepare for class meetings by completing assigned readings and problem sets. Students are encouraged to attend all classes. Frequent absences will reflect negatively on class participation evaluation.

Make-up policy

No make-up mid-term exams will be administered. If a student misses a mid-term exam, the student must do an original research paper of 30 pages minimum on a topic acceptable to the instructor in order to receive a grade in lieu of the mid-term grade. A final exam must be taken in order to receive the final grade.

Textbooks

Required

- Friedman, M. and A. J. Schwartz. *The Great Contraction, 1929-1933*, new edition. Trenton, NJ: Princeton University Press, 2008, Paper.

Main texts providing the framework for the course:

- Stevenson, A., V. Muscatelli and M. Gregory. *Macroeconomic Theory and Stabilisation Policy*. London: Philip Allen, 1988.
- Dornbusch, R. *Open Economy Macroeconomics*. New York: Basic Books, Inc., 1980.
- Argy, V. *International Macroeconomics: Theory and Policy*. London: Routledge, 1994:

Intermediate macroeconomics text for foundation

- Mishkin, Frederic S. *Macroeconomics: Policy and Practice, 2nd Edition*. New York: Pearson, 2015. ISBN 10: 0-13-342431-6 and ISBN-13: 978-0-13-342431-7. You will need access to a copy of the textbook.

Useful Text

Mankiw, N. Gregory. *Macroeconomics, 9th edition*. Worth Publishers/McMillan Education, 2016. ISBN: 978-1-4641-48289-1.

Mankiw, N. Gregory. *Macroeconomics, 10th edition*. Worth Publishers/McMillan Education, 2019. ISBN: 1259663043 and ISBN-13: 9781259663048.

Dornbush, Rudiger, Stanley Fischer, and Richard Startz. *Macroeconomics, 13th Edition*. New York: McGraw Hill, 2018. ISBN-13: 978-1259290633 ISBN-10: 1259290638.

Abel, Andrew B., Ben Bernanke, and Dean Croushore. *Macroeconomics, 9th Edition*. Pearson Education, Inc., 2017. ISBN-13: 978-0134167398 ISBN-10: 0134167392

Course Outline and Reading Guide

I have provided chapter references for the basic course textbooks as well as several others in the following outline. You should be able to use these chapter references to select alternative chapters from any other texts you may choose to pursue. * indicates required reading and @ indicates recommended background reading. If in doubt, see me.

1. Aggregate Demand and IS: LM
 - A. *Stevenson et al., Chapter 1: 1-16.
 - B. @Mishkin Chapter 1, 9, and 3, pp. 50-68.
 - C. Crystal and Price, Chapter 1, pp. 1-14.
 - D. Romer, Chapter 5.1, 5.2, 5.4.

2. Aggregate Supply and the Neoclassical synthesis
 - A. *Stevenson et al., chapter 2, pp. 26-50.
 - B. @Mishkin Chapter 11: 287-295.
 - C. Romer, Chapter 5.4.
 - D. Chrystal and Price, chapter 1, pp. 15-21, and chapter 2.

3. Aggregate Supply and New Classical Macroeconomics
 - A. *Stevenson et al., Chapter 3.
 - B. *Mishkin Chapter 11: 281-287; Mishkin Chapter 21: 573-577; Appendix to Chapter 22.
 - C. Romer, Chapter 5.5, 5.6, and chapter 6, Parts A & B.
 - D. Crystal and Price, Chapter 3, 4, and 7.
 - E. Peel, D. "New Classical Macroeconomics, " Chapter 3 in Greenaway.
 - F. Fischer, S. "Recent Developments in Macroeconomics," *The Economic Journal*, June 1988, Sections H and HI, P. 301-315.
 - G. Blanchard and Fisher, Chapter 7 (relevant sections).
 - H. Lucas, R. E., Jr., and L. A. Rapping. "Real Wages, Employment, and Inflation." *Journal of Political Economy* 77 (1969):721-754.
 - I. Lucas, R. E., Jr. "Some International Evidence on Output-Inflation Tradeoffs." *American Economic Review* 63 (1973): 326-334.
 - J. Lucas, R. E., Jr. "An Equilibrium Model of the Business Cycle." *Journal of Political Economy* 83 (1975):1113-1144.
 - K. Lucas, R. E., Jr. "Methods and Problems in Business Cycle Theory." *Journal of Money, Credit and Banking* 12 (1980): 696-715.
 - L. Sargent, T. J. and N. Wallace. "Rational Expectations, the Optimal Monetary Instrument, and the Optimal Money Supply Rule." *Journal of Political Economy* 83 (1975): 241-254.
 - M. Sargent, T. J. "The Observational Equivalence of Natural and Unnatural rate Theories of Macroeconomics." *Journal of Political Economy* 84 (1976): 631-640.
 - N. Barro, R. J. "Unanticipated Money, Output, and the Price Level in the United States." *Journal of Political Economy* 86 (1978): 549-580.

4. The Labor Market, Employment, and Unemployment
 - A. *Miskin Chapter 20

5. New Keynesian Model of Aggregate Supply
 - A. *Stevenson et al., Chapter 4.
 - B. *Fischer, Stanley. "Long-Term Contracts, Rational Expectations, and the Optimal Money Supply Rule." [The Journal of Political Economy](#), Vol. 85, No. 1 (Feb., 1977), pp. 191-205.
 - C. *Mishkin Chapter 22: 601-608; 607-615.
 - D. Romer, Chapter 6, Part C, Chapter 10.
 - E. Crystal and Price, Chapter 5.
 - F. Blanchard and Fisher, Chapter 8.
 - G. Fischer, S. "Recent Developments in Macroeconomics," *The Economic Journal*, June 1988, Section IV, pp. 315-325.

- H. *Blanchard, O. and L. F. Katz. "What We Know and Do Not Know about the Natural rate of Unemployment." *Journal of Economic Perspectives* 11, 1 (1997): 51-72.
- I. *Clarida, R., J. Gali, and M. Gertler. "The Science of Monetary Policy: A New Keynesian Perspective." *Journal of Economic Literature* 37 (1999), pages 161-1707.
- J. *Greenwald, B. and J. Stiglitz. "New and Old Keynesians," *Journal of Economic Perspectives* 7 (1993): 23-44.
- K. *Galbraith, J. K. "Time to Ditch the NAIRU." *Journal of Economic Perspectives* 11,1 (1997): 98-103.
- L. *Gordon, R. "The Time-Varying NAIRU and Its Implications for Economic Policy." *Journal of Economic Perspectives* 11 (1997): 11-32.
- M. *Gordon, R. "What is New Keynesian Economics?" *Journal of Economic Literature* 28 (1990), pages 1135-1163.
- N. King, R. G. "Will the New Keynesian Macroeconomics Resurrect the IS: LM Model?" *Journal of Economic Perspectives* 3 (1993): 67-82.
- O. Rogerson, R. "Theory Ahead of Language in the Economics of Unemployment." *Journal of Economic Perspectives* 11, 1 (1997): 73-92.
- P. Stiglitz, J. "Reflections on the Natural Rate Hypothesis." *Journal of Economic Perspectives* 11,1 (1997): 3-10.
- Q. Tobin, J. "Price Flexibility and Output Stability: An Old Keynesian View." *Journal of Economic Perspectives* 7 (1993): 45-66.
6. Real Business Cycles
- A. *Mankiw, N. G. "Real Business Cycles: A New Keynesian Perspective," *Journal of Economic Perspectives* 3 (1989): 79-90.
- B. *Plosser, Charles I. "Understanding Real Business Cycles." *Journal of Economic Perspectives* 3 (1989): 51-77.
- C. *Mishkin Chapter 22: 597-601; 607-615.
7. Saving and Investment in Closed and Open Economies
- A. *Mishkin Chapter 4 plus appendix.
8. Balance of Payments Concepts, Income Determination, and the Trade Balance
- A. *Dornbusch, *Open Macroeconomics*, Chapters 1-3.
- B. Gandolfo, Chapters 13, 14.
- C. Husted and Melvin, Chapter 12.
9. Exchange Rates and the Balance of Payments: The Elasticity Approach
- A. *Dornbusch, *Open Macroeconomics*, Chapter 4.
- B. *Argy, Chapter 12.
- C. Pilbeam, Chapter 2 and 3.
- D. Harberger, Arnold C. "Currency Depreciation, Income, and the Balance of Trade." *Journal of Political Economy* 58, No. I (Feb. 1950): 47-60. Reprinted in Caves and Johnson (1968): 341-58.
- E. Husted and Melvin, Chapter 13-17.
10. Open Macroeconomics, Mundell-Fleming
- A. *Dornbusch, *Open Macroeconomics*, Chapter 10.
- B. *Argy, Chapter 6-8.
- C. *Stevenson et al., Chapter 7, pp. 211-233, and chapter 8, pp. 265-28 1.
- D. Romer, Chapter 5.3.
- E. Pilbeam, chapter 2 and 4.
- F. Chrystal and Price, Chapter 6, pp. 93-98.

11. Open Macroeconomics, Mundell-Fleming, cont.
 - A. *Dornbusch, *Open Macroeconomics*, Chapter I 1, Section 1.
 - B. *Argy, Chapter 13-15.
 - C. *Stevenson et al., chapter 8, pp. 257-265.
 - D. Romer, Chapter 5.3.
 - E. Pilbeam, chapter 5, 7, pp. 165-186, and chapter 8.

12. The Monetary Approach to the Balance of Payments
 - A. *Dornbusch, *Open Macroeconomics*, Chapter 7.
 - B. *Argy, Chapter 17.
 - C. *Stevenson et al., Chapter 7, pp. 234-245.
 - D. Pilbeam, chapter 5, 7, pp. 165-186, and chapter 8.
 - E. Chrystal and Price, Chapter 6, pp. 98-101.
 - F. *Dornbusch, Rudiger. "Devaluation, Money, and Nontraded Goods." *American Economic Review* 63, No. 5 (Dec. 1973): 871-83. Also in Frenkel and Johnson (eds.), *The Monetary Approach: 168-86*, and in ERI.
 - G. Frenkel, Jacob A. and Harry G. Johnson. "The Monetary Approach to the Balance of Payments: Essential Concepts and Historical Origins." In Frenkel, J.A. and H.G. Johnson (eds.) *The Monetary Approach to the Balance of Payments*.
 - H. Johnson, Harry G. "Towards a General Theory of the Balance of Payments." In his *International Trade and Economic Growth*. Cambridge: Harvard University Press, 1961: 153-68. Reprinted in Caves and Johnson (1968): 374-88 and in Frenkel and Johnson (1976): 46-63.
 - I. Johnson, Harry G. "The Monetary Approach to Balance of Payments Theory." In Frenkel, J.A. and Johnson, H.G. (eds.) *The Monetary Approach to the Balance of Payments*. London: Allen & Unwin, and Toronto: University of Toronto Press, 1976.
 - J. Connolly, Michael and Taylor, Dean. "Testing the Monetary Approach to Devaluation in Developing Countries." *Journal of Political Economy* 84, No. 4 (Aug. 1976): 849-60.
 - K. Magee, Stephen P. "The Empirical Evidence on the Monetary Approach to the Balance of Payments and Exchange Rates." *American Economic Review* 66 (May 1976): 163-70.
 - L. Husted and Melvin, Chapter 18.

13. The Determination of Exchange Rates: The Monetary Approach
 - A. *Argy, Chapter 17.
 - B. *Stevenson et al., Chapter 8, pp. 265-274.
 - C. Pilbeam, chapter 5, 7, pp. 165-186, and chapter 8.
 - D. Chrystal and Price, Chapter 6, pp. 101 - 104.
 - E. Bailey & McMahon, Chapter 3, sec. 3.1, 3.2, 3.3; 8.2, 8.3.
 - F. Dornbusch, R. "Purchasing Power Parity." In ERI, pp. 265-79.
 - G. Dornbusch, Rudiger, *Dollars, Debts, and Deficits*, chapter 2.
 - H. Frenkel, J.A., "A Monetary Approach to the Exchange Rate: Doctrinal Aspects and Empirical Evidence," in Frenkel and Johnson (eds.), *The Economics of Exchange Rates*: 1-25.
 - I. Dornbusch, Rudiger. "The Theory of Flexible Exchange Rate Regimes and Macroeconomic Policy." *Scandinavian Journal of Economics* 78, No. 2 (May 1976): 255-75. Reprinted in Frenkel, J. A., and H. G. Johnson (eds.) *The Economics of Exchange Rates: Selected Studies*. Also in ERI.
 - J. Dornbusch, Rudiger. "Capital Mobility, Flexible Exchange Rates and Macroeconomic Equilibrium." In Claassen, E. and Salin, P (eds.) *Recent Issues in International Monetary Economics*. Amsterdam: North-Holland, 1976. Pp. 29-48. Also in ERI.
 - K. Hodrick, R.J., "An Empirical Analysis of the Monetary Approach to the Determination of the Exchange Rate," in Frenkel and Johnson (eds.), *The Economics of Exchange Rates*: 97-116.
 - L. Husted and Melvin, Chapter 18.

14. Sticky Prices and Exchange Rate Dynamics

- A. *Dornbusch, *Open Macroeconomics*, Chapter I 1, Section 11.
- B. *Argy, Chapter 18.
- C. *Stevenson et al., Chapter 8, pp. 274-281.
- D. Romer, Chapter 5.3.
- E. Pilbeam, chapter 5, 7, pp. 165-186, and chapter 8.
- F. Chrystal and Price, Chapter 6, pp. 104-110.
- G. Bailey & McMahon, Chapter 3.4.
- H. Husted and Melvin, Chapter 18.
- I. *Dornbusch, R., "Expectations and Exchange Rate Dynamics," *Journal of Political Economy* 84 (1976):1161-76. Also in ERI.
- J. Dornbusch, R. "Exchange Rates and Prices." *American Economic Review* 77 (March 1987)-93-106. Also in ERI,
- K. Frankel, Jacob and C.A. Rodriguez, "Exchange Rate Dynamics and the Overshooting Hypothesis", *RAF Staff Papers* (March 1982): 1-30.
- L. Obstfeld, M. and A. C. Stockman, "Exchange Rate Dynamics", in Jones and Kenen (eds.), *Handbook of International Economics* vol. II, (1985).
- M. Obstfeld, M. and K. Rogoff, "Exchange Rate Dynamics with Sluggish Prices under Alternative Price Adjustment Rates", *International Economic Review* (February 1984): 159-74.

15. Portfolio Theory of Exchange Rates

- A. *Dornbusch, *Open Macroeconomics*, Chapter 13.
- B. *Argy, Chapter 10 and 19.
- C. *Stevenson et al., Chapter 7, pp. 245-256, and chapter 8, 281-296.
- D. Pilbeam, chapter 5, 7, pp. 165-186, and chapter 8.
- E. Chrystal and Price, Chapter 6, pp. 110-113.
- F. Husted and Melvin, Chapter 18.

16. Design of Macroeconomic Policies

- A. *Stevenson et al., Chapter 9.
- B. *Argy, Chapter 34 and 35.
- C. Romer, Chapter 9.
- D. Husted and Melvin, Chapter 20.

17. International Interdependence and Policy Coordination

- A. *Stevenson et al., Chapter 10.
- B. *Argy, Chapter 45.
- C. Romer, Chapter 4.
- D. Chrystal and Price, Chapter 9.

18. Economic Growth

- A. Dornbusch, *Open Macroeconomics*, Chapter 14.
- B. Barro, R. J. and X. Sala-I-Martin. *Economic Growth*. New York: McGraw-Mil, Inc., 1995.
- C. Romer, Chapter 1-3.

19. External Debt

- A. Cohen, D. "Growth and External Debt." In Van der Ploeg, Frederick, ed. *The Handbook of International Macroeconomics*. Oxford: Basil Blackwell Ltd., 1994.

Supplemental reading texts for theory:

- Chrystal, K. A. and S. Price. *Controversies in Macroeconomics*, 3rd ed. London: Harvester Wheatsheaf, 1994.
- Dornbusch, Rudiger. *Exchange Rates and Inflation*. Cambridge, MA: MIT Press, 1988. (Referred to as ERI).
- Frankel, Jeffrey A. *On Exchange Rates*. Cambridge, MA: MIT Press, 1993.
- Greenaway, D. (ed.). *Current Issues in Macroeconomics*. New York: Macmillan, 1989.
- Husted, Steven and Michael Melvin. *International Economics*, 6th ed. Boston: Pearson Addison-Wesley, 2002.
- Romer, David. *Advanced Macroeconomics*. McGraw-Hill Higher Education, 2000.

Supplemental texts for policy

- Dominiquiz, K. and J. Frankel. *Does Exchange Rate Intervention Work?* Washington, D.C.: Institute for International Economics, 1993.
- Dornbusch, Rudiger. *Dollars, Debts, and Deficits*. MIT Press, 1986. (Cited as DDD).
- Dornbusch, R. and Steve Marcus, ed. *International Money and Debt. Challenges for the World Economy*. San Francisco: ICS Press, 1991. (Cited as D&M)
- Dornbusch, R. and E.C.C.H. Holmes, ed. *The Open Economy: Tools for Policy Makers in Developing Countries*. Oxford University Press, 1988. (Referred to as D&H)
- Frenkel, Jacob A. and Assaf Razin. *Fiscal Policies and the World Economy*, 2nd ed. Cambridge, MA: MIT Press, 1992.

Other Useful Texts

There are many other intermediate and advanced texts in macroeconomics and international finance that may be of use to you; a small selection follows. You will find that the texts generally have different emphases, so choose carefully.

General Macroeconomics

- Barro, R. J. *Macroeconomics*. John Willey, 1993.
- Branson, W. H. *Macroeconomic Theory and Policy*, 3rd ed. Harper and Row, 1989.
- Burda, M. and C. Wyplosz. *Macroeconomics: A European Text*. Oxford: Oxford Press, 1993.
- Carlin, W. and D. Soskice. *Macroeconomics and the Wage Bargain*. Oxford: Oxford Press, 1990.
- Cuthbertson, K. and M. Taylor. *Macroeconomic Systems*. Basil Blackwell, 1987.
- Dornbusch, R. and S. Fischer. *Macroeconomics*, 6th ed. McGraw-Hill, 1994.
- Gordon, R. J. *Macroeconomics*, 6th, ed. Harper Collins, 1993.
- Hoover, K. D. *The New Classical Macroeconomics*, Blackwell, 1988.
- Leslie, D. *Advanced Macroeconomics*. McGraw Hill, 1993.
- Parkin, M. and R. Bade. *Modern Macroeconomics*. Philip Allan, 1988.

Open Macroeconomics or International Finance

- Baillie, Richard and Patrick McMahon. *The Foreign Exchange Market: Theory and Econometric Evidence*. Cambridge, England: Cambridge University Press, 1989. (Referred to as B & M).
- Caves, Richard E. and Johnson, Harry G. (eds.), *Readings in International Economics*. Homewood, IL: Irwin, 1968.
- Dornbusch, Rudiger and Frenkel, Jacob A. (eds.), *International Economic Policy: Theory and Evidence*. Baltimore: Johns Hopkins University Press, 1979.
- Frenkel, Jacob A. and Johnson, Harry G. (eds.) *The Monetary Approach to the Balance of Payments*. London: Allen and Urwin and Toronto: University of Toronto Press, 1976. Paperback edition, 1977.

- Frenkel, Jacob A. and Johnson, Harry G. (eds.) *The Economics of Exchange Rates. Selected Studies*. Reading, Mass.: Addison Wesley, 1978.
- Gandolfo, Giancarlo. *International Economics II*. New York-. Springer-Verlag, 1987.
- Isard, P. *Exchange Rate Economics*. Cambridge University Press, 1995.
- Jones, Ronald W. and Peter B. Kenen. *Handbook of International Economics, Volume 2*. Amsterdam: Elsevier Science Publishers B.V. (North-Holland), 1985.
- Krugman, Paul R. *Currencies and Crises*. Cambridge, MA: MIT Press, 1993.
- Mundell, Robert A. *International Economics*. New York: Macmillan, London: Collier-Macmillan, 1968.
- Mundell, Robert A. *Monetary Theory*. Pacific Palisades, CA: Goodyear Publishing Co., 1971.
- Van der Ploeg, Frederick, ed. *The Handbook of International Macroeconomics*. Oxford: Basil Blackwell Ltd., 1994.

Economic Growth

- Barro, R. J. and X. Sala-I-Martin. *Economic Growth*. New York: McGraw-Hill, Inc., 1995.