

International Economics Development Economics

Academic year 2019-2020

Advanced International Macroeconomics B: International Policy: Constraints, Changing Effectiveness, and New Tools

EI091 - Printemps - 3 ECTS

Tuesday 10h15 - 12h00

Course Description

This course provides a graduate-level treatment of policy in international economics, with a focus on recent developments. It first reviews assess the drivers of the low level of interest rates in advanced (mostly) economies, as well as the impact of the rising global demand for safe assets. The course then presents the workhorse model of monetary policy design in open economies. It then moves to recent extensions of the model, namely the partial transmission of exchange rates to prices (with a discussion of the dominant role of some currencies), the presence of financial frictions, and the challenge from a lower bound on the interest rate. It concludes with a review of the evidence of effectiveness of unconventional monetary policies. Evaluation will be in the form of a presentation of a paper from the syllabus and a critical literature of one of the topics. The first part of the course consists of lectures. The second part consists of presentations of papers from the reading list (with the option to propose a paper not on the list that you would be particularly interested in presenting). You will need a working knowledge of macroeconomic at the level of Obstfeld and Rogoff's Foundations in International Economics.

> PROFESSOR

[Cédric Tille](#)

[Office hours](#)

> ASSISTANT

[Office hours](#)

Syllabus

Evaluation

The evaluation consists of the presentations of a paper from the reading list (40% of grade), a short review of one of the topics (40% of grade) and participation in the classwide discussion (20% of grade). Each presentation lasts 30 minutes and goes over the main points of the paper. Each student will make one presentation. Preferences should be indicated by the end of the third week, and I will then put together the schedule ensuring an even coverage of topics.

Each student will also write a short review at the end of the course on a topic of her/his choice. The review should be a concise (5-6 pages) discussion of the recent advances in a topic, identifying what has been learnt and what are the remaining challenges. This review can form the basis of the literature review of your MPT or one of your chapters.

1) Safe assets

- Bacchetta, Philippe, and Kenza Benhima (2015). "The Demand for Liquid Assets, Corporate Saving, and Global Imbalances", *Journal of the European Economic Association* 13, pp. 1101-1135.
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- Brunnermeier, Markus, and Linyang Huang (2018). "A Global Safe Asset for and from Emerging Market Economies", NBER working paper 25373.
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- Brunnermeier, Markus, Sam Langfield, Marco Pagano, Ricardo Reis, Stijn Van Nieuwerburgh, and Dimitri Vayanos (2016). "The Sovereign-Bank Diabolic Loop and ESBies", *American Economic Review* 106(5), pp. 508-12.
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- Brunnermeier, Markus, Sam Langfield, Marco Pagano, Ricardo Reis, Stijn Van Nieuwerburgh, and Dimitri Vayanos (2016). "ESBies: Safety in the tranches", European Systemic Risk Board WP 21
<https://www.esrb.europa.eu/pub/pdf/wp/esrbwp21.en.pdf>
- Caballero, Ricardo, Emmanuel Farhi, and Pierre-Olivier Gourinchas (2017). "The Safe Assets Shortage Conundrum", *Journal of Economic Perspectives* 31(3), pp. 29-46.
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- Caballero, Ricardo, Emmanuel Farhi, and Pierre-Olivier Gourinchas (2016). "Safe Asset Scarcity and Aggregate Demand", NBER Working Paper No. 22044.
<http://www.nber.org/papers/w22044>
- Caballero, Ricardo, and Emmanuel Farhi (2014). "The Safety Trap", NBER Working Paper No. 19927.
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- Gourinchas, Pierre-Olivier, and Olivier Jeanne (2013). "Global Safe Assets", BIS Working Paper 399.
<http://www.bis.org/publ/work399.htm>
- Gourinchas, Pierre-Olivier, and Hélène Rey (2016). "Real Interest Rates, Imbalances and the Curse of Regional Safe Asset Providers at the Zero Lower Bound", NBER Working Paper 22618.
<http://www.nber.org/papers/w22618>
- IMF (2012). "Safe Assets: Financial System Cornerstone?", *Global Financial Stability Report*, chapter 3,
<http://www.imf.org/External/Pubs/FT/GFSR/2012/01/pdf/c3.pdf>
- He, Zhiguo, Arvind Krishnamurthy, and Konstantin Milbradt (2019). "A Model of Safe Asset Determination", *American Economic Review* 109(4), pp. 1230-1262.
<https://www.aeaweb.org/articles/pdf/doi/10.1257/aer.20160216>

Jiang, Zhengang, Arvind Krishnamurthy, and Hanno Lustig (2018). "Foreign Safe Asset Demand and the Dollar Exchange Rate", NBER working paper 24439.
<http://www.nber.org/papers/w24439>

2) Low interest rates

2.1) Patterns

Bean, Charles, Christian Broda, Takatoshi Ito, and Randall Kroszner (2015). "Low for Long? Causes and Consequences of Persistently Low Interest Rates", Geneva report of the world economy 17.
http://cepr.org/sites/default/files/geneva_reports/GenevaP266.pdf

Del Negro, Marco, Domeniconi Giannone, Marc Giannoni, and Andrea Tambalotti (2019). "Global Trends in Interest Rates", *Journal of International Economics* 118, pp. 248-262
<https://www.sciencedirect.com/science/article/pii/S0022199618302927/pdf?md5=8f7d2797e1f2d1b382a4036c11477317&pid=1-s2.0-S0022199618302927-main.pdf>

Holston, Kathryn, Thomas Laubach, and John Williams (2018). "Measuring the Natural Rate of Interest: International Trends and Determinants" *Journal of International Economics* 108(S), pp. S59-75.
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International Monetary Fund (2014). "Perspectives on Global Real Interest Rate", *World Economic Outlook* chapter 3.
<http://www.imf.org/external/pubs/ft/weo/2014/01/pdf/c3.pdf>

Laubach, Thomas, and John Williams (2015). "Measuring the Natural Rate of Interest Redux" Federal Reserve Bank of San Francisco Working Paper 2015-16.
<http://www.frbsf.org/economic-research/publications/working-papers/wp2015-16.pdf>

Pescatori, Andrea, and Jarkko Turunen (2016). "Lower for Longer: Neutral Rate in the U.S.", *IMF Economic Review* 64, pp. 708-731.
<https://www.imf.org/external/pubs/ft/wp/2015/wp15135.pdf>

2.2) Possible causes

Borio, Claudio, Piti Disyatat, Mikael Juselius, and Mathias Drehmann (2017). "Monetary Policy, the Financial Cycle, and Ultra-Low Interest Rates", *International Journal of Central Banking*, 13 (3) pp. 55-89. Discussion by Marc Giannoni.
<http://www.ijcb.org/journal/ijcb17q3a2.htm>
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Eggertsson, Gauti, and Neil Mehrotra (2014) "A Model of Secular Stagnation" NBER Working Paper No. 20574.
<http://www.nber.org/papers/w20574>

Favero, Carlo, Arie E. Gozluklu, and Haoxi Yang (2016). "Demographics and the Behavior of Interest Rates", *IMF Economic Review* 64, pp. 732-776.
<https://www.imf.org/external/np/seminars/eng/2015/secularstag/pdf/Gozluklu.pdf>

Gagnon, Etienne, Benjamin Johannsen, and David Lopez-Salido (2016). "Understanding the New Normal: The Role of Demographics", Finance and Economics Discussion Series Divisions of Research & Statistics and Monetary Affairs 2016-080.

- <https://www.federalreserve.gov/econresdata/feds/2016/files/2016080pap.pdf>
- Gordon, Robert (2015). "Secular Stagnation: A Supply-Side View", *American Economic Review* 105(5), pp. 54-59.
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- Gourinchas, Pierre-Olivier, and Hélène Rey (2019). "Global real rates: a secular approach", BIS working paper 793.
<https://www.bis.org/publ/work793.htm>
- Gruber, Joseph, and Steven Kamin (2016). "The Corporate Saving Glut and Falloff of Investment Spending in OECD Economies", *IMF Economic Review* 64, pp. 777-799.
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- Lo, Stephanie, and Kenneth Rogoff (2016). "Secular stagnation, debt overhang and other rationales for sluggish growth, six years on", BIS working paper 482.
<http://www.bis.org/publ/work482.pdf>
- Lukasz, Rachel, and Thomas Smith (2017). "Are Low Real Interest Rates Here to Stay?", *International Journal of Central Banking*, 13 (3) pp. 1-42. Discussion by Pierre-Olivier Gourinchas.
<http://www.ijcb.org/journal/ijcb17q3a1.htm>
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- Marx, Magali, Benoit Mojon, and François Velde (2019). "Why have interest rates fallen far below the return on capital", BIS working paper 794.
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2.3) Consequences

- Basten, Christoph, and Mike Mariathasan (2018). "How Banks Respond to Negative Interest Rates: Evidence from the Swiss Exemption Threshold". CESifo working paper 6901
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- Brei, Michael, Claudio Borio, and Leonardo Gambacorta (2019). "Bank intermediation activity in a low interest rate environment", BIS working paper 807.
<https://www.bis.org/publ/work807.htm>
- International Monetary Fund (2019). "Institutional Investors: Falling Rates, Rising Risks", *Global Financial Stability Report*, chapter 3.
<https://www.imf.org/~/media/Files/Publications/GFSR/2019/October/English/ch3.ashx?la=en>
- Lopez, Jose, Andrew Rose, and Mark Spiegel (2018). "Why Have Negative Nominal Interest Rates Had Such a Small Effect on Bank Performance? Cross Country Evidence", NBER working paper 25004.
<http://www.nber.org/papers/w25004>
- Schepens, Glenn (2018). "Bank lending under negative policy rates", *IMF research bulletin* 43.
<https://www.ecb.europa.eu/pub/economic-research/resbull/2018/html/ecb.rb180213.en.html>

3) Macroeconomic policy in the crisis

3.1) Key patterns of the global and euro crises

- Berger, Helge, Giovanni Dell'Ariccia, and Maurice Obstfeld (2019). "Revisiting the Economic Case for Fiscal Union in the Euro Area", *IMF Economic Review* 67(3) pp. 657-683.
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<https://www.aeaweb.org/articles/pdf/doi/10.1257/jep.23.1.77>
- Duffie, Darrell (2019). "Prone to Fail: The Pre-crisis Financial System", *Journal of Economic Perspectives* 33(1) pp. 81-106.
<https://www.aeaweb.org/articles/pdf/doi/10.1257/jep.33.1.81>
- Lane, Philip (2019). "Macrofinancial Stability and the Euro", *IMF Economic Review* 67(3) pp. 424-442.
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- O'Rourke, Kevin, and Alan Taylor (2013). "Cross of Euros", *Journal of Economic Perspectives* 27(3), pp 167-192.
http://www.aeaweb.org/atypon.php?return_to=/doi/pdfplus/10.1257/jep.27.3.167
- Shambaugh, Jay (2012). "The Euro's Three Crises", *Brookings Papers on Economic Activity*, pp. 157-231.
<http://www.brookings.edu/about/projects/bpea/papers/2012/euros-three-crises-shambaugh>

3.2) The standard model of international policy

- Corsetti, Giancarlo, Luca Dedola, and Sylvain Leduc (2010). "Optimal monetary policy in open economies", in *Handbook of Monetary Economics*.
<https://sites.google.com/site/giancarlocorsetti/main/handbook-codele.pdf?attredirects=0>
- Corsetti, Giancarlo and Paolo Pesenti (2007) "The simple geometry of transmission and stabilization in closed and open economy", NBER International Seminar on Macroeconomics 2007
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3.3) Selected recent developments in policy models

- Banerjee, Ryan, Michael Devereux, and Giovanni Lombardo (2016). "Self-oriented monetary policy, global financial markets and excess volatility of international capital flows", *Journal of International Money and Finance* 68, pp. 275-297.
<https://www.sciencedirect.com/science/article/pii/S0261560616000310>
- Benigno, Pierpaolo, Gauti Eggertsson, and Federica Romei (2014) "Dynamic Debt Deleveraging and Optimal Monetary Policy" NBER Working Paper No. 20556.
<http://www.nber.org/papers/w20556>
- Corsetti, Giancarlo, Eleonora Mavroeidi, Gregory Thwaites, and Martin Wolf (2019). "Step away from the zero lower bound: Small open economies in a world of secular stagnation", *Journal of International Economics* 116, pp. 88-102

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<https://www.sciencedirect.com/science/article/pii/S0261560615001096>

Senay, Ozge, and Alan Sutherland (2019). "Optimal monetary policy, exchange rate misalignments and incomplete financial markets", *Journal of International Economics* 117, pp. 196-208
<https://www.sciencedirect.com/science/article/pii/S0022199618304471/pdf?md5=fda7f1e9b29734e2dc47e18d78b754ae&pid=1-s2.0-S0022199618304471-main.pdf>

3.4) Unconventional monetary policies: patterns

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<https://www.brookings.edu/blog/ben-bernanke/2020/01/04/the-new-tools-of-monetary-policy/>

Dell'Ariccia, Giovanni, Pau Rabanal, and Damiano Sandri (2018) "Unconventional Monetary Policies in the Euro Area, Japan, and the United Kingdom", *Journal of Economic Perspectives* 32(4), pp. 147-172.
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Haldane, Andrew, Matt Roberts-Sklar, Tomasz Wieladek, and Chris Young (2016). "QE: the Story so far", *CEPR Discussion Paper* 11691.
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<https://www.aeaweb.org/articles/pdf/doi/10.1257/jep.32.4.121>

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<http://www.brookings.edu/~media/research/files/papers/2014/01/16-monetary-policy-zero-lower-bound/16-monetary-policy-zero-lower-bound-williams.pdf>

3.5) Unconventional monetary policies: domestic and international impact

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3.6) Financial vs. monetary stability

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4) Dominant currencies

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