

ECON 8872: International Finance Syllabus

Time: MW 10:30 am

Course Outline

2 International Real Business Cycles

2.1 A Brief Intro to International Macro and Finance

Engel (2001), \Comment: The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?", NBER Macro Annual

Obstfeld and Rogo (2001), \The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?", NBER Macroeconomics Annual

Rabanal, Rubio-Ramirez and Tuesta (2011), \Cointegrated TFP processes and international business cycles"

3 Exchange Rates

3.1 Uncovered Interest Rate Parity (UIP) Puzzle

Fama (1984), \Forward and Spot Exchange Rates", JME

Burnside, Eichenbaum and Rebelo (2008), \Carry Trade: The Gains of Diversification", JEEA

Burnside, Eichenbaum, Kleshchelski, and Rebelo (2010), \Do Peso Problems Explain the Returns to the Carry Trade", RFS

Froot and Frankel (1989), \Forward Discount Bias: Is it an Exchange Risk Premium", QJE

Additional Readings

Engel (2013), \Exchange Rates and Interest Parity", NBER Working Paper 19336

Jorda and Taylor (2012), \The Carry Trade and Fundamentals: Nothing to Fear but FEER itself", JIE

3.2 Variations/ Subtleties of the UIP Puzzle

Chinn (2006) \The (partial) rehabilitation of interest parity in the floating rate era: Longer horizons, alternative expectations, and emerging markets"

Engel (2015), \Exchange Rates, Interest Rates, and the Risk Premium", forthcoming AER

Hassan and Mano (2013) , \Forward and Spot Exchange Rates in a Multi-Currency World", working paper

Additional Readings

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

Burnside, Han, Hirshleifer, and Wang (2013), "Investor Overconfidence and the Forward Premium Puzzle", *REStud*

Ilut (2012), "Ambiguity Aversion: Implications for the Uncovered Interest Rate Parity Puzzle", *A EJ:Macro*

3.5 Convenience Yields

Valchev (2017), "Bond Convenience Yields and Exchange Rate Dynamics", working paper

3.6 Evidence on the UIP Models

Lustig and Verdelhan (2007), "The Cross-Section of Foreign Currency Risk Premia and Consumption Growth Risk", *AER*

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

Burnside (2011), "Carry Trade with Verde[...]", *AER*

Meese and Rogo (1991), "An Empirical Assessment of Non-Linearities in Models of Exchange Rate Determination", REStud

Rossi (2013), "Exchange Rate Predictability", Handbook Chapter

Diebold and Mariano (1995), "Comparing Predictive Accuracy", JBES

Clark and West (2006), "Using out-of-sample mean squared prediction errors to test the martingale difference hypothesis", Journal of Econometrics

Clark and West (2007), "Approximately normal tests for equal predictive accuracy in nested models", Journal of Econometrics

3.8 The Exchange Rate Determination Puzzle (Optional)

Engel and West (2005), "Exchange Rates and Fundamentals", JPE

Evans and Lyons (2002), "Order Flow and Exchange Rate Dynamics", JPE

Bacchetta and van Wincoop (2013), "On the Unstable Relationship Between Exchange Rates and Macroeconomic Fundamentals", JIE

Additional Readings:

Evans and Rime (2011), Micro Approaches to Foreign Exchange Determination, Working Paper (survey paper)

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

4 International Risk-Sharing

4.1 The Backus-Smith Puzzle

Backus and Smith (1993), "Consumption and Real Exchange Rates in Dynamic Economies with Non-Traded Goods", JIE

Corsetti, Dedola and Leduc (2008), "International Risk-Sharing and the Transmission of Productivity Shocks", REStud

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

Burnside and Graveline (2012), "Exchange Rate Determination, Risk Sharing and the Asset Market View", Working Paper

van Nieuwerburgh and Veldkamp (2009), "Information Immobility and the Home Bias Puzzle", *Journal of Finance*

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",