



LSE-PKU Summer School 2018

LPS-EC209 | China and the World Economy: International Monetary Economics

Course Outline Instructor

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Course Summary

This course studies topics in open-economy macroeconomics and international finance. Topics include Exchange Rates, Current Account Imbalances, Inflation, Sovereign Debt, and Open Economy Macroeconomics. The course will include economic theory as well as several applications. The topics and related case studies are listed in the course overview section below.

Course Text Book

Main textbook: Feenstra and Taylor's *International Macroeconomics*, 3rd edition
Other references:

Krugman and Obstfeld's *International Economics: Theory and Policy* 10th edition
Reinhart and Rogoff's *This time is different*

Prerequisites

A university-level introductory course in Economics (e.g. Principles of Economics). Students should be familiar with intermediate microeconomics. Macroeconomics is not required, but would be useful. I will cover the key macroeconomic concepts in class, but in a manner that brings us to international applications quickly. The main overlap with macro will concern national income accounting and short-run macroeconomic stabilization (using an open economy version of “IS-LM”).

Assessment

Midterm Essay: 50% Final Exam: 50%

Course Overview and Tentative Reading List

Readings are listed below and additional readings will be sent by the teaching assistant closer to the beginning of the course. I try to incorporate current events and will post related newspaper and magazine articles throughout the semester. The textbook for the course is Feenstra and Taylor’s *International Macroeconomics*, 3rd edition (FT below). This is the macro half of their international economics textbook (excluding the trade chapters), and so if you have the full version, add 11 to the chapter numbers below. Using the 2nd edition is also acceptable. An alternative textbook is the popular Krugman and Obstfeld text (with Melitz in the latest edition). If you have that textbook already, it will cover much of the same material and can be used instead if you are comfortable with switching notation or alternative diagrammatic representations of the same concepts. Other international textbooks typically cover the core material in a similar way. The text is meant to complement the class notes. You will not be responsible for material in the text that we do not cover in class, and, similarly, you will be responsible for material covered in the class lectures that is not in the textbook. All other readings will be sent by the teaching assistant. Another recommended book is

“This Time is Different,” by Reinhart and Rogoff (RR below). The “Additional Readings” are optional, and are listed for those who want to learn more about a topic. These are topics that will be covered in the course with a (rough) outline of the time line:

Lecture 1: Nominal Exchange Rates Part I-Parity Conditions with case studies on USD against other currencies as well as Chinese RMB against other currencies FT chapter 2 and section 2 of chapter 11

Additional readings:

(1) Burnside, Craig (2012): <http://www.nber.org/papers/w17278> “Carry Trades and Risk” (2) Brunnermeier, Markus, Nagel, Stefan, and Lasse Pedersen. 2008. http://www.princeton.edu/~markus/research/papers/carry_trades_currency_crashes.pdf “Carry Trades and Currency Crashes.” National Bureau of Economic Research.

Lecture 2: Real Exchange Rates with case studies on Hyperinflation in U.S., Germany and Republic of China

FT chapter 3 and section 1 of chapter 11

Additional readings:

(1) Rogoff, Kenneth (1996) "The Purchasing Power Parity Puzzle," *Journal of Economic Literature*, 34, pp. 647-668. Link: <http://www.jstor.org/stable/2729217>

Lecture 3: Nominal Exchange Rates Part II- Money, Inflation and Equilibrium with case studies on economic crises and high inflation in Mexico and Argentina FT Chapter 4

Lecture 4: Current Account Deficits and the Balance of Payments with case studies on empirical evidence from China and U.S...

FT Chapter 5

Additional Readings

(1) Maurice Obstfeld 2012 <http://www.nber.org/papers/w17877> Does the Current Account Still Matter? NBER wp 17877.

(2) Obstfeld, Maurice, and Kenneth Rogoff (2005) "Global Current Account Imbalances and Exchange Rate Adjustment," *Brookings Papers on Economic*

Activity, No. 1 (2005), pp. 67-123. Link: <http://www.jstor.org/stable/3805083>.

Lecture 5: Gains from Financial Globalization with case studies on economic miracles in Japan and South Korea

FT Chapter 6

Additional Readings

(1) Obstfeld, Maurice and Kenneth Rogoff. 2004. http://elsa.berkeley.edu/~obstfeld/NBER_final.pdf "The Unsustainable US Current Account Position Revisited}." Working Paper

(2) Bernanke, Ben. March 2005. <http://www.federalreserve.gov/boarddocs/speeches/2005/200503102/> "The Global Saving Glut and the U.S. Current Account Deficit}." *Sandridge Lecture, Virginia Association of Economics*}.

Lecture 6: Growth and International Capital Markets with case studies from Acemoglu's *Why Nations Fail* book.

Additional Readings

(1) Daron Acemoglu, Simon Johnson, and James A. Robinson The Colonial Origins of Comparative Development: An Empirical Investigation *American Economic Review*, 91, December 2001: pp. 1369-1401.

Lecture 7: Open Economy Macroeconomics with case studies on fiscal and monetary policy shocks in China

FT Chapter 7

Lecture 8: Exchange Rate Regimes and Currency Crises with case studies on currencies of European Union Member countries and U.K before and after Euro FT

Chapter 8 and 9, and RR Chapter 12

Lecture 9: Debt Crises with case studies on debt and economic crises of Latin American countries

FT Chapter 9 and section 3 of Chapter 11, and RR Chapter 4 and 6

Lecture 10: The Euro and the recent crisis with case studies on the history of the European Central Bank and debt crises in PIGS countries

FT Chapter 10

(1) Martin Feldstein, 2013. <http://www.nber.org/papers/w18672> "Coordination in the European Union", NBER wp 18672