

International Finance

The objective of this course is to study in depth a few selected topics in international finance. Topics vary year to year. The grade is based on a final exam. All readings below are required.

1. Speculative Attacks

Fiscal imbalance and the timing of speculative attacks. Self-fulfilling crises. Public and private information. The role of large agents.

Flood, R. P. and P. M. Garber, "Collapsing Exchange-Rate Regimes: Some Linear examples," *Journal of International Economics*, 1984.

Obstfeld, M., "Rational and self-fulfilling balance-of-payments crises," *American Economic Review*, 1986.

Broner, F., "Discrete devaluations and multiple equilibria in a first generation model of currency crises," mimeo, CREI and University of Maryland, 2003.

Obstfeld, M., "Models of currency crises with self-fulfilling features," *European Economic Review*, 1996.

Morris, S. and H. S. Shin, "Unique equilibrium in a model of self-fulfilling currency attacks," *American Economic Review*, 1998 (A correction to Theorem 2 of this paper is provided by Frank Heinemann, "Unique equilibrium in a model of self-fulfilling currency attacks: comment," *American Economic Review*, 2000).

Hellwig, C., "Public information, private information, and the multiplicity of equilibria in coordination games," *Journal of Economic Theory*, 2002.

Angeletos, G., C. Hellwig and A. Pavan, "On the dynamics of information, coordination and regime change," mimeo, MIT, UCLA and Northwestern University, 2004.

Corsetti, G. A. Dasgupta, S. Morris and H.S. Shin, "Does one Soros make a difference? A theory of currency crises with small and large traders," *Review of Economic Studies*, 2004.

Angeletos, G., C. Hellwig and A. Pavan, "Coordination and policy traps," mimeo, MIT, UCLA and Northwestern University, 2003.

2. Sovereign Debt, Default and Restructuring

Why do countries repay their debts? Potential inefficiencies associated with foreign borrowing. Contractual vs. statutory approaches to default and debt restructuring.

Bulow, J. and K. Rogoff, "Sovereign debt: is to forgive to forget?" *American Economic Review*, 1989.

Cole, H. and P.J. Kehoe, "Reviving reputation models of international debt," *Federal Reserve Bank of Minneapolis Quarterly Review*, 1997.

Kletzer, K.M. and B.D. Wright, "Sovereign debt as intertemporal barter," *American Economic Review*, 2000.

Wright, M., "Reputations and sovereign risk," mimeo, Stanford, 2002.

Amador, M., "A political economy model of sovereign debt repayment," mimeo, Stanford, 2003.

Hellwig, C. and G. Lorenzoni, "Bubbles and private liquidity" mimeo, UCLA and Princeton, 2003.

Kraay, A., N. Loayza, L. Servén, and J. Ventura, "Country Portfolios," mimeo, CREI-UPF and The World Bank, 2004.

Fernandez, R. and J. Eaton, "Sovereign debt," in G. Grossman and K. Rogoff, eds. Handbook of International Economics, Elsevier, 1995.

Tirole, J., "Inefficient foreign borrowing: a dual-and-common-agency perspective," mimeo, University of Toulouse, 2002.

Rogoff, K. and J. Zettelmeyer, "Bankruptcy proceedings for sovereigns: a history of ideas, 1976-2001" IMF WP/02/133, 2002.

Bolton, P., "Towards a Statutory Approach To Sovereign Debt Restructuring," mimeo, Princeton University, 2002.

3. Aggregate Liquidity

Modeling aggregate liquidity in closed and open economies. Currency and maturity mismatches: origins and consequences.

Diamond, D.W. and P.H. Dybvig, "Bank runs, deposit insurance, and liquidity," *Journal of Political Economy*, 1983.

Allen, F. and D. Gale, "Limited market participation and volatility of asset prices," *American Economic Review*, 1994.

Holmstrom, B. and J. Tirole, "Private and public supply of liquidity," *Journal of Political Economy*, 1998.

Caballero, R. and A. Krishnamurthy, "Excessive dollar debt: financial development and underinsurance," *The Journal of Finance*, 2003.

Caballero, R. and A. Krishnamurthy, "Smoothing sudden stops," *Journal of Economic Theory*, forthcoming.

Aghion, P., P. Bachetta and A. Banerjee, "A corporate balance-sheet approach to currency crises," *Journal of Economic Theory*, forthcoming.

Jeanne, O., "Debt maturity and the international financial architecture," mimeo, IMF, 2003.

Rajan, R.G. and D.W. Diamond, "Banks, short-term debt and financial crises: theory, policy implications and applications," NBER working paper #7764, 2000.

Chamon, M., "Can contingent-bond bids rule out self-fulfilling liquidity crises?" mimeo, Harvard, 2003.

Broner, F., G. Lorenzoni and S. Schmukler, "Why do developing countries borrow short term?" mimeo, CREI and University of Maryland, Princeton and The World Bank, 2004.

4. Asset Price Bubbles

Irrational exuberance and the limits to arbitrage. The theory of rational asset price bubbles. The effects of bubbles on economic growth and international capital flows.

De Long, J.B., A. Shleifer, L.H. Summers, R.J. Waldmann, "Noise trader risk in financial markets," *Journal of Political Economy*, 1990.

Tirole, J., "Asset price bubbles and overlapping generations," *Econometrica*, 1985.

Weil, P., "Confidence and the real value of money in an overlapping-generations model," *Quarterly Journal of Economics*, 1987.

Abel, A.B., N.G. Mankiw, L.H. Summers and R.J. Zeckhauser, "Assessing dynamic efficiency: theory and evidence," *Review of Economic Studies*, 1989.

Grossman, G. and N. Yanagawa, "Asset bubbles and endogenous growth," *Journal of Monetary Economics*, 1993.

Ventura, J., "Economic growth with bubbles," mimeo, CREI-UPF, 2003.

Caballero, R., E. Fahri and M. Hammour, "Speculative growth," mimeo, MIT and Delta, 2004.

Ventura, J., "Bubbles and capital flows," NBER WP9304 and CEPR DP3657, 2002.