Previous Crei Lectures in Macroeconomics:

- 2018 Gita Gopinath (Harvard University), Dominant Currency Paradigm
- **2016** Mark Aguiar (Princeton University), The Economics of Sovereign Debt and Default
- 2014 Nicholas Bloom (Stanford University), The Macroeconomics of Uncertainty
- **2012** Pol Antràs (Harvard University), Contracts and the Global Organization of Production
- **2010** Francesco Caselli (London School of Economics), Differences in Technologies Across Time and Space
- 2008 Robert Shimer (University of Chicago), Labor Markets and Business Cycles

CREI Lectures in Macroeconomics 2022

Optimal Currency Areas: A Modern View

Iván Werning

Massachusetts Institute of Tecnology



CREI Centre de Recerca en Economia Internacional

Ramon Trias Fargas, 25-27 E-08005 Barcelona

Tel. (34) 93 542 13 88 oadame@crei.cat www.crei.cat



December 12-13-14, 2022 Universitat Pompeu Fabra Campus Ciutadella

CREi 9

Centre de Recerca en Economia Internacional



Universitat Pompeu Fabra Barcelona





CREI Lectures in Macroeconomics

The Centre de Recerca en Economia Internacional (CREI) is a research centre sponsored by Universitat Pompeu Fabra (UPF) and Generalitat de Catalunya. It is located on the main UPF campus in Barcelona.

The CREI Lectures in Macroeconomics is a series of biennial lectures, with support from Princeton University Press. They are given by a "young senior scholar", who has recently made a major, focused contribution to macroeconomics or international economics. The lectures will provide a high-level summary of recent work that has already had a large impact on the profession. Princeton University Press has agreed to publish a series of CREI Lectures in Macroeconomics.

Optimal Currency Areas: A Modern View

These lectures revisit a set of open economy questions and policy tradeoffs originally explored in the classical Optimal Currency Area literature pioneered by Mundell, McKinnon and Kennan. The goal is to obtain a modern macroeconomic treatment and derive new lessons for optimal policy.

Lecture 1 Trilemmas and Dilemmas

The first lecture will focus on the idea that unregulated capital mobility puts limits on exchange rate and monetary policy—there is a trilemma or dilemma. In particular, with a fixed exchange rate or with a common currency, capital controls are optimal. Even when exchange rate and monetary policy are unconstrained, capital controls may also be optimal. We briefly cover the related policy of Foreign Exchange Market interventions.

Lecture 2 Fiscal Unions

This lecture focuses on the desirability of a fiscal union within a monetary union. We attack the problem by considering optimal insurance and deriving how the exchange rate regime affects the optimal design of cross-regional insurance. In a currency union the market equilibrium level of insurance is generally not optimal and the social benefits of insurance outweigh the private benefits. These market failures call for government intervention in the form of fiscal integration. We also discuss other policy instruments such as regional government spending.

Lecture 3 Mobility

Mundell originally argued that mobility reduces the costs of a currency union. This lecture explicitly models mobility choices within a currency union. We study whether mobility should be subsidized. We briefly touch on the related placed-based policies.

Background Papers:

- Fiscal Unions (with E. Farhi), American Economic Review, 107 (12), 2017, 3788-3834.
- A Theory of Macroprudential Policies in the Presence of Nominal Rigidities (with E. Farhi), Econometrica, 84 (5), 2016, 1645-1704
- *Fiscal Multipliers: Liquidity Traps and Currency Unions* (with E. Farhi), in J. B. Taylor and H. Uhlig (eds.), *Handbook of Macroeconomics*, Elsevier, 2016, 2417-2492.
- Dilemma Not Trilemma? Capital Controls and Exchange Rates with Volatile Capital Flows (with E. Farhi), IMF Economic Review, 62 (4), 2014, 569-605.
- Dealing with the Trilemma: Optimal Capital Controls with Fixed Exchange Rates Emmanuel (with E. Farhi), NBER Working Paper, No. 18199, 2012.

Schedule

December 12th, 12:45 – 14:00 Sala Polivalent (24.S018) December 13th, 12:45 – 14:00 Sala Polivalent (24.S018) December 14th, 12:45 – 14:00 Auditori Mercè Rodoreda (23.S05)

Iván Werning

Iván Werning is the Robert M. Solow Professor of Economics in the Economics Department at the Massachusetts Institute of Technology. Born in Buenos Aires, he first studied at Universidad de San Andrés and Universidad di Tella before obtaining his PhD from the University of Chicago. His research focuses on questions of economic policy cutting across the fields of Macroeconomics, Public Finance and International Economics and touching on a wide set of topics such as the optimal design of unemployment insurance, the taxation of inheritances, the optimal taxation of capital and labor, the macroeconomic stabilization through monetary, fiscal and macroprudential policies, or the management of sovereign debt. His research often goes beyond traditional frameworks to incorporate agent heterogeneity and behavioral departures from rationality. He is a member of the American Academy of Arts and Sciences, a fellow of the Econometric Society, and a Research Fellow at the National Bureau of Economic Research. In 2009 The Economist Magazine included him in a list of top young economists. In 2014, he was appointed one of the top 25 economists under 45 by the IMF.