

# Empirical Topics in International Trade and Finance

New Economic School, Module TBA, 2020-2021

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## Course Information

Course Website: [my.nes.ru](http://my.nes.ru)

Instructor's Office Hours: by appointment

Class Time: TBA

TA Section: TBA

## Course Description

In this course, we'll cover in more depth some classic topics in International Economics including the Balassa-Samuelson model, empirical determinants of exchange rates, including an investigation into the empirical determinants of cryptocurrency exchange rates, and Dutch Disease – a crucially important topic for Russia. We'll also look at the impact of exchange rate regimes on trade, the gravity model of international trade, and the impact of the Rise of China, the impact of sanctions on Russia, and the Trump Trade War. The overwhelming focus of the course will be on well-identified empirical work in International Economics, complemented with a smaller dose of theory. There will also be two “bonus” lectures: one on Entrepreneurship, where I'll summarize teachings from books like “the Lean Startup” and “the Mom Test”, and on raising Venture Capital money. And the second entitled “So, You Want to be a Trader?” about trading for those interested in launching a trading career. (Note that I also been fortunate to have made 7 figures as a trader, and the misfortune to have given some of that back as an entrepreneur;).

## Course Requirements, Grading, and Attendance Policies

The course will consist of one final test, one referee report type assignment, one empirical homework, and one presentation of a paper on the syllabus (which students may choose). The course grade will be determined 55% from the test, 15% for the referee report, 15% for the empirical assignment and 15%

for the class presentation, and bonus points for class attendance and participation. It is expected that students attend class having read the materials assigned for that class, and that students participate in the class discussion. Also note that, in general, the slides will not be sufficient to prepare for the test. The empirical assignment and the referee report will be graded in part on how independent and creative your work appears. For the class presentation you will ideally present a paper from the syllabus, or perhaps a paper you chose related to the class contents (approved in advance). If your thesis fits the topic of the course, you can potentially present that as well. Typically, if you do a reasonably competent job on your own presentation, and show up and pay attention for your classmates presentations, then you will get a 5 on this assignment. The best presenter will get a 5+, while if you skip all of your classmates presentations, or come obviously unprepared for your own, you'll be looking at a lower grade.

## Required Textbooks and Materials

There is no required textbook. The bulk of the course consists of papers.

## Assignments

1. Empirical Homework on Exchange Rates & Cryptocurrencies (due 3rd-4th week; 15% of grade)
2. Referee Report (due 5th-6th week; 15% of grade)
3. Presentation (TBA – 1-2 students per week generally, presenting a paper on the syllabus or your thesis if relevant to course material 15%).
4. Final Test (55%)

## Course Materials

This course is based more on articles than particular textbooks. The required readings contain \*stars and the suggested readings do not. Lastly, I will be working to improve this syllabus as the course goes along.

## Topics and Readings

1. The Balassa-Samuelson Model, Theory and Empirics (2 lectures)

Obstfeld and Rogoff, Chapter 4

Feenstra, Inklaar and Timmer, [“The Next Generation of the Penn World Tables”](#), (only the short section

on Balassa-Samuelson is required, p. 23-33, and the last half of this should be read the most carefully).  
Campbell, Douglas, 2015 (only read the introduction, Section 3.1, and Section 5), "[Measurement Matters: Productivity-Adjusted Weighted Average Relative Price Indexes](#)", Journal of International Money and Finance, 2016.

Hassan, Fadi, "The Price of Development: The Penn-Balassa-Samuelson Effect Revisited" (2016).

Taylor, Bergin, and Glick (JME, 2006)

## 2.A. Exchange Rate Determinates (2-3 lectures)

\*Engel, Charles (2014), Exchange Rates and Interest Parity (only read the beginning, 453-465)

Andersen, Bollerslev, Diebold, Vega, "[Micro Effects of Macro Announcements: Real-Time Price Discovery in Foreign Exchange](#)"

Yu-chin Chen, Kenneth Rogoff, Barbara Rossi, "[Can Exchange Rates Forecast Commodity Prices?](#)", QJE, 2010.

Domenico Ferraro, Kenneth S. Rogoff, Barbara Rossi, "[Can Oil Prices Forecast Exchange Rates?](#)", QJE, 2010.

Bork, Kaltwasser, and Sercu (2014), "[Do Exchange Rates Really Help Forecasting Commodity Prices?](#)"

## 2.B. The Uncovered Interest Parity Puzzle

\*Swedroe, July 13, 2015. [The Truth About the Carry Trade](#) (short news article summarizing some of the academic literature).

Menkoff, Sarno, Schmeling & Schrimpf, 2012, [Carry Trades and Global Foreign Exchange Volatility](#)

Burnside, Eichenbaum, Rebelo, 2011, [Carry Trade and Momentum in Currency Markets](#)

Jordà Ò, Taylor AM. 2009. [The carry trade and fundamentals: Nothing to fear but FEER itself](#)

Avdjiev, Stefan, Wenxin Du, Cathérine Koch, and Hyun Song Shin. 2019. "The Dollar, Bank Leverage, and Deviations from Covered Interest Parity." American Economic Review: Insights, 1 (2): 193-208.

Isard, 2006, [Uncovered Interest Parity](#)

## 2.C. Cryptocurrencies

\*Liu, Tsyvinski, Wu 2019 "[Common Risk Factors in Cryptocurrencies](#)"

\*Liu, Tsyvinski 2018 "[Risks and Returns of Cryptocurrencies](#)"

Harde, Harvey, Reule, 2019, "[Understanding Cryptocurrencies](#)"

[“What Keeps Stable-coins Stable?”](#) (2020)

Akilbaeva, 2023, [The Uncovered Interest Parity Puzzle in the CryptoCurrency Market](#)

[“The impact of Tether grants on Bitcoin”](#) (2020)

Griffin, Shams (2020) [“Is Bitcoin Really Untethered?”](#)

### 3. The Resource Curse, RERs and Economic Growth (Ch. 7 of Obstfeld-Rogoff)

\*Rodrik, Dani, [“The Real Exchange Rate and Economic Growth”](#)

\*Smith, Brock, [“Dutch Disease and the Oil Boom and Bust”](#) (published version on my.nes)

### 4. The Gravity Model, with Applications to Exchange Rate Regimes and Trade (2 lectures)

\*Head, Mayer, 2013 ["What Separates Us? Sources of Resistance to Globalization"](#)

\*Rose, Andrew and Reuven Glick, ["Does a Currency Union Affect Trade? The Time Series Evidence"](#)

Klein and Shambaugh, [“Fixed Exchange Rates and Trade”](#)

Campbell, Douglas L., (2012), [“Estimating the Impact of Currency Unions on Trade: Solving the Glick and Rose Puzzle , \(ungated version\)](#)

Campbell, Douglas, (2010) [“History, Culture, and Trade: A Dynamic Gravity Approach”](#).

\*Rose, Andrew and Reuven Glick, [“Currency Unions and Trade: A Post-EMU Reassessment”](#)

Barro and Tenreyro.

Campbell, Douglas L. and Aleksandr Chentsov, (2021) [“Breaking Badly: The Currency Union Effect on Trade”](#)

### 5. The Rise of the People’s Republic of China

\*Acemoglu et al. (2014) [“Import Competition and the Great Employment Sag of the 2000s”](#) ; VoxEU Ebook, [“Secular stagnation: Facts, causes, and cures”](#)

\*Autor, Dorn, Hanson, 2013, [“The China Syndrome: Local Labor Market Effects of Import Competition in the United States”](#)

\*Schott, Pierce, 2015, [“The Surprisingly Swift Decline in American Manufacturing Employment”](#)

Bloom, Draca, Van Reenen, 2016, [“Trade Induced Technical Change? The Impact of Chinese Imports on Innovation, IT and Productivity”](#)

Campbell & Mau, 2020, [Trade Induced Technological Change: Did Chinese Competition Increase Inno-](#)

vation in Europe? \*Dauth, Findeisen, Suedekum, 2014, “The Rise of the East and Far East: German Labor Markets and Trade Integration”

David H. Autor, David Dorn, Gordon H. Hanson #21906 (ITI LS) “The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade”

## 6. Impact of Real Exchange Rate Movements on the Real Economy

Campbell, Douglas L. “Relative Prices, Hysteresis, and the Decline of American Manufacturing”

Campbell, Douglas L. Guest Contribution: “The Cause of Secular Stagnation? Relative Prices, Trade, and the People’s Republic of China” ; Campbell, Douglas L. “On the Causes of Secular Stagnation: China, Relative Prices, and the Collapse of Manufacturing” ;

Chen, Milesi-Ferretti, and Tressel, “External Imbalances in the Euro Area”

## 7. The Impact of FTAs; US-China Trade War

\*Romalis 2007, [NAFTA’s and CUSFTA’s Impact on International Trade](#)

Greenland, Ion, Lopesti, Schott, [Using Equity Market Reactions to Infer Exposure to Trade Liberalization](#)

Kong, Weinstein, 2020, [“The Effect of the U.S.-China Trade War on U.S. Investment”](#)

\*Fajgelbaum, Goldberg, Kennedy, Khandelwal, 2020, [“The Return to Protectionism”](#)

Tariff Passthrough at the Border and at the Store: Evidence from US Trade Policy [“The Return to Protectionism”](#)

Cavallo, Gopinath, Neiman, and Tang [“Tariff Passthrough at the Border and at the Store: Evidence from US Trade Policy”](#)

## 8.A Sanctions and the Trade War, (2014)

\*Crozet and Hinz, [Friendly Fire: The Trade Impact of the Russia Sanctions and Counter-Sanctions](#)

Hinz, 2022, [Bearing the Cost of Politics: Consumer Prices and Welfare in Russia](#)

Korovkin, Vasily, and Alexey Makarin. 2023. [Conflict and Intergroup Trade: Evidence from the 2014 Russia-Ukraine Crisis](#)

Hinz Chowdhry, Hinz, Kamin and Wanner, 2022, [Brothers in arms: The value of coalitions in sanctions regimes](#)

Mario Larch, Serge Shikher, Constantinos Syropoulos, Yoto V. Yotov, 2023, [Quantifying the impact of economic sanctions on international trade in the energy and mining sectors](#)

8.B Sanctions and the Trade War, (2022)

Itskhoki and Mukhin, 2022 [Sanctions and the Exchange Rate](#)

Babina, Hilgenstock, Itskhoki, Mironov, Ribakova, 2023, [Assessing the Impact of International Sanctions on Russian Oil Exports](#)

9. Prediction / Psychology of a Trader

\*Kaunitz, Zhong, Kreiner, 2017 [“Beating the Bookies with their Own Numbers: And How the Online Sports Betting Market is Rigged”](#) ;

Tetlock & Gardner, 2016, [“Superforecasting: The Art and Science of Prediction”](#)

Thinking, Fast and Slow; Random Walk Down Wall Street; Superforecasting; Intelligent investor, Ch 8; Benjamin Graham; Deep Value: Why Activist Investors and Other Contrarians Battle for Control of Losing Corporations ; When Genius Failed; Big Short; [“Liar’s Poker”](#); Moneyball; Fortune’s Formula; How to Get Rich (Felix Denis); [“Jim Simons \(RenTech\) interview”](#)

10. Entrepreneurship (if time allows)

The Mom Test; The Lean Startup; From Zero to One (Peter Theil)

## Description of Course Methodology

While this course is intended to be somewhat more relaxed than Macro 6, with just one pure writing assignment, there will be a focus on empirics, with several empirical exercises. It is also expected that students come to class prepared and participate in the class discussion of research.

## Sample Tasks for Course Evaluation

One assignment, as mentioned above, will be for students to write a referee report on a paper. Another assignment will be for students to replicate and extend an empirical paper from the literature. A short

answer question for the final exam might be something like: “Discuss the strengths and weaknesses of the Brock Smith paper on Dutch Disease.” A theoretical question might be to have students prove the key Balassa-Samuelson result that the price level will be a function of the ratio between tradable and non-tradable sector productivities.

## Academic Integrity Policy

Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated. The home writing assignment is not meant to be a collaborative exercise – think of it as a take-home exam. Having said that, if you do discuss with a classmate, there is no way for me to police this. If you cut and paste from a colleagues essay, then you likely be kicked out of NES (do not do that!). If your essay merely happens to make all the same points as your friend’s essay, but with no direct copying, then you’ll probably just both receive low marks, and I’ll be disappointed in you. On a theory homework, however, if you are stuck, you are permitted and even encouraged to get help from classmates or the TA. However, you must write up your own solutions.