International Macroeconomics

Module 2, 2020-2021

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Course information

Instructor's Office Hours: TBA

TAs: TBA

Course description

The asymmetric role of the dollar in world economy is of great interest to both academic researchers and policymakers today. There are three main ways in which firms disproportionately use the dollar. First, some firms save and borrow in dollars. Second, many firms set their prices in dollars when they sell their goods and services abroad. Third, dollar is often used as a currency of payment.

Each of these dimensions of the use of the dollar can have substantial consequences. When firms disproportionately borrow in dollars, a dollar appreciation can increase real debt burden, reduce aggregate demand, start a recession, and trigger the "global financial cycle". When firms set their prices in dollars, a dollar appreciation can raise prices of imported goods in all other countries, and thus increase world inflation and decrease the global trade volume. When firms make their payments in dollars, the U.S. gets a unique opportunity to impose sanctions on other countries and to substantially raise their transaction costs.

Understanding the exact nature of the advantages provided by the dollar is difficult because all three dimensions reinforce each other. For example, a firm that has heavily borrowed in dollars may prefer to set its prices in dollars as well. Just because it may help to manage the cash flow risks. Or, vice versa, a firm that has found it profitable to set prices in dollars may prefer to borrow also in dollars.

For a soft introduction to the topic you may want to read the first chapter of "How Global Currencies Work" by Eichengreen, Mehl, and Chitu here.

Course requirements, grading, and attendance policies

Class attendance and participation are encouraged, but not required. The course grade will be based on homework assignments (40% of the grade) and a final project (60% of the grade). Homework assignments may include problem sets, questions on some of the assigned papers, and referee reports. In the final project, students will try to replicate and extend a result from one of the papers. Topics for final projects have to be approved by the instructor. The final projects could be completed in teams of up to three people.

Course contents

1. Empirical facts
    1.1. International price system
    1.2. Exorbitant privilege and duty
2. Theories of currency choice
    2.1. Transaction theories
    2.2. Trade theories
    2.3. Financial theories
3. Policy implications
    3.1. Global monetary cycle
    3.2. Global financial cycle

Sample tasks for course evaluation

Write a referee report on the paper "International spillovers and local credit cycles" by Giovanni, J. D., S. Kalemli-Ozcan, M. F. Ulu and Y. S. Baskaya.

Course materials

- Gopinath G. (2015): "The international price system"
- Ilzetzki E., C. M. Reinhart, and K. S. Rogoff (2017): "Exchange arrangements entering the 21st century: Which anchor will hold?"
- Gourinchas P.-O., and H. Rey (2007): "International financial adjustment," Journal of Political Economy, 115(4): 665-703
- Gourinchas P.-O., and H. Rey (2007): "From world banker to world venture capitalist: US external adjustment and the exorbitant privilege," G7 Current Account Imbalances: Sustainability and Adjustment, University of Chicago Press: 11-66
- Gourinchas P.-O., H. Rey, and K. Truempler (2012): "The financial crisis and the geography of wealth transfers," Journal of International Economics, 88(2): 266-283
- Gopinath G., Itskhoki O. and Rigobon R. (2010): "Currency choice and exchange rate pass-through", American Economic Review
- Mukhin D. (2018): "An Equilibrium Model of the International Price System"
- Gopinath, G., and J. Stein (2018): "Banking, trade, and the making of a dominant currency"
- Drenik A., R. Kirpalani, and D. J. Perez (2018): "Currency Choice in Contracts"
- Chahrour, R., and R. Valchev (2017): "International medium of exchange: Privilege and duty"
- Bocola L., and G. Lorenzoni (2017): "Financial crises, dollarization, and lending of last resort in open economies"
- Jiang, Z., A. Krishnamurthy, and H. Lustig (2019): "Dollar Safety and the Global Financial Cycle"
- He Z., A. Krishnamurthy, and K. Milbradt (2017): "A Model of Safe Asset Determination"

- Auer, R., A. Burstein, and S.M. Lein (2018): “Exchange Rates and Prices: Evidence from the 2015 Swiss Franc Appreciation”
- Casas C., F. J. Diez, G. Gopinath, and P.-O. Gourinchas (2018): “Dominant currency paradigm: a new model for small open economies”
- Boz E., G. Gopinath, and M. Plagborg-Moller (2017): “Global trade and the dollar”
- Egorov K. and D. Mukhin (2019): “Optimal Monetary Policy under Dollar Pricing”
- Zhang, T. (2018): “Monetary Policy Spillovers through Invoicing Currencies”
- Rey H. (2015): “Dilemma not trilemma: the global nancial cycle and monetary policy independence”
- Giovanni, J. D., S. Kalemli-Ozcan, M. F. Ulu and Y. S. Baskaya (2017): “International spillovers and local credit cycles”
- Farhi E., and M. Maggiori (2018): “A Model of the International Monetary System,” The Quarterly Journal of Economics, 133(1): 295-355
- Koijen, R. S., & Yogo, M. (2020). Exchange rates and asset prices in a global demand system.
- Gourinchas, P. O., Ray, W., & Vayanos, D. (2019). A Preferred-Habitat Model of Term Premia and Currency Risk.
- Coppola, A., Maggiori, M., Neiman, B., & Schreger, J. (2020). Redrawing the map of global capital flows: The role of cross-border financing and tax havens.
- Itskhoki, O., & Mukhin, D. (2017). Exchange rate disconnect in general equilibrium.
- Gabaix X. and Maggiori M, (2016): “International liquidity and exchange rate dynamics”, Quarterly Journal of Economics.
- Farhi E. and Gabaix X. (2016): “Rare disasters and exchange rates”, Quarterly Journal of Economics.
- Amiti, M., Itskhoki, O., & Konings, J. (2018). Dominant currencies: How firms choose currency invoicing and why it matters.

Academic integrity policy

Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated.