

**Econ 8510/Fall 2007**  
**INTERNATIONAL MACROECONOMICS**  
**(International Economics I)**

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**Class Schedule: MW 11 AM-12:15 PM, Sanford 207**

**COURSE OUTLINE AND REQUIRED READINGS**

*The readings assigned from the textbooks are indexed as follows: The Obstfeld-Rogoff text is "OR", Nelson Mark is "NM", Grossman-Rogoff is "GR", and Turnovsky is "ST." The numbers following the text refers to chapters and/or sections within chapters in each text.*

The following topics will be discussed in this course:

**I. Exchange Rate Dynamics: Some Basic Models**

- a. The Basic Monetary Model (NM 1.1, 1.3, 3; OR 8.2-8.3; GR 33)*
- b. The Mundell-Fleming and Dornbusch Models (NM 8; OR 9.1-9.4)*
- c. The One-sector Model with Micro-foundations (ST 2, 3; OR 1, 2)*

**II. Real Exchange Rates and Relative Prices**

- a. The Purchasing Power Parity Debate (OR 4.1-4.2; NM 7; GR 32)*
- b. Two-sector Dependent Economy Models (ST 4; OR 4)*

**III. Special Topics in International Macroeconomics**

- a. Growth in Open Economies (ST 5; OR 7.1-7.3)*
- b. Two-country Models (ST 6-8)*
- c. Exchange Rate Regimes and Management (OR 9.4)*
- d. Balance-of-Payment Crises (NM 11; OR 8.4; GR 36)*
- e. New Open-economy Macroeconomics (NM 9; OR 10.1)*

## ADDITIONAL READINGS

### I. EXCHANGE RATE DYNAMICS: SOME BASIC MODELS

#### a. *The Basic Monetary Model*

*These articles are the earliest that model the exchange rate in a monetary, rational expectations environment (assuming flexible goods prices):*

Frenkel, Jacob, 1976, A monetary approach to the exchange rate: Doctrinal aspects and empirical evidence, *Scandinavian Journal of Economics* 78, 200-224.

Mussa, Michael, 1976, The exchange rate, the balance of payments, and monetary and fiscal policy under a regime of controlled floating, *Scandinavian Journal of Economics* 78, 229-248.

Lucas, Robert E., 1982, Interest rates and currency prices in a two-country world, *Journal of Monetary Economics* 10, 335-360.

*This paper investigates why we have exchange rates and multiple currencies:*

Kareken, John and Neil Wallace, 1981, The indeterminacy of equilibrium exchange rates, *Quarterly Journal of Economics* 96, 207-222.

*These papers offer some empirical support for the monetary models in the long run:*

Mark, Nelson, 1995, Exchange rates and fundamentals: Evidence on long-horizon predictability, *American Economic Review* 85, 201-218.

Chinn, Menzie and Richard Meese, 1995, Banking on currency forecasts: How predictable is change in money? *Journal of International Economics* 38, 161-178.

Groen, Jan J.J., 2000, The monetary exchange rate model as a long-run phenomenon, *Journal of International Economics* 52, 299-319.

MacDonald, Ronald and Mark P. Taylor, 1993, The monetary approach to the exchange rate: Rational expectations, long-run equilibrium, and forecasting, *International Monetary Fund Staff Papers* 40, 89-107.

MacDonald, Ronald and Mark P. Taylor, 1994, The monetary model of the exchange rate: Long-run relationships, short-run dynamics and how to beat a random walk, *Journal of International Money and Finance* 13, 276-290.

Mark, Nelson, and Donggyu Sul, 2001, Nominal exchange rates and monetary fundamentals: Evidence from a small post-Bretton Woods panel, *Journal of International Economics* 53, 29-52.

Engel, Charles, and Kenneth West, 2005, Exchange Rates and Fundamentals, *Journal of Political Economy*, 113, 485-517.

*This is a survey of empirical work on exchange rates:*

Frankel, Jeffrey A., and Andrew K. Rose, 1995, Empirical research on nominal exchange rates, in Gene Grossman and Kenneth Rogoff, eds., *Handbook of International Economics*, vol. 3.

### **b. The Mundell-Fleming and Dornbusch Models**

*The classic papers:*

Fleming, J. Marcus, 1962, Domestic financial policies under fixed and under floating exchange rates, *IMF Staff Papers* 9, 369-379.

Mundell, Robert A., 1968, Capital Mobility and Stabilization Policy under Fixed and Flexible Exchange Rates. Chapter 18 of *International Economics*, New York: Macmillan, pp. 250-271.

Mundell, Robert, 1964, A reply: Capital mobility and size, *Canadian Journal of Economics and Political Science* 30, 421-431.

Dornbusch, R., 1976, Expectations and Exchange Rate Dynamics. *Journal of Political Economy* 84(6), 1161-76.

Richard Clarida and Jordi Gali. Sources of Real Exchange-Rate Fluctuations: How Important are Nominal Shocks? *Carnegie-Rochester Conference Series on Public Policy*, 41, 1994, pp.1--56.

*Some papers that extended the Dornbusch framework are:*

Mussa, Michael, 1982, A model of exchange rate dynamics, *Journal of Political Economy* 90, 74-104.

Mussa, Michael, 1984, The theory of exchange rate determination, in John F.O. Bilson and Richard C. Marston, eds., *Exchange Rate Theory and Practice* (Chicago).

Obstfeld, Maurice, and Kenneth Rogoff, 1984, Exchange rate dynamics with sluggish prices under alternative price-adjustment rules, *International Economic Review* 25, 159-174.

*Empirical examinations of the Dornbusch model:*

Frankel, Jeffrey, 1979, On the mark: A theory of floating exchange rates based on real interest differentials, *American Economic Review* 69, 610-622.

Meese, Richard, and Kenneth Rogoff, 1983, Empirical exchange rate models of the seventies: Do they fit out of sample? *Journal of International Economics* 14, 3-24.

Engel, Charles and Jeffrey Frankel, 1984, Why interest rates react to money announcements: An explanation from the foreign exchange market, *Journal of Monetary Economics* 13, 31-39.

Meese, Richard, and Kenneth Rogoff, 1988, Was it real? The exchange rate – interest differential relation over the modern floating-rate period, *Journal of Finance* 43, 933-948.

*Empirical evidence on price stickiness:*

Mussa, Michael, 1986, Nominal exchange rate regimes and the behavior of real exchange rates: Evidence and implications, *Carnegie-Rochester Series on Public Policy* 25, 117-214.

Engel, Charles, 1993, Real exchange rates and relative prices: An empirical investigation, *Journal of Monetary Economics* 32, 35-50.

Engel, Charles and John H. Rogers, 1996, How wide is the border? *American Economic Review* 86, 1112-1125.

Engel, Charles, 1999, Accounting for U.S. real exchange rate changes, *Journal of Political Economy* 107, 507-538.

Parsley, David C., and Shang-Jin Wei, 2001, Explaining the border effect: the role of exchange rate variability, shipping costs, and geography, *Journal of International Economics* 55, 29-57.

*Some other empirical papers:*

Campbell, John and Richard Clarida, 1987, The dollar and real interest rates: An empirical investigation, in K. Brunner and A. Meltzer, eds., *Carnegie-Rochester Series on Public Policy* 27: 103-140.

Eichenbaum, Martin, and Charles Evans, 1995, Some empirical evidence on the effects of shocks to monetary policy on exchange rates, *Quarterly Journal of Economics* 110, 975-1009.

Evans, Martin D.D., and Richard K. Lyons, 1999, Order flow and exchange rate dynamics, *NBER working paper* no. 7317, forthcoming, *Journal of Political Economy*.

Engel, Charles, and James D. Hamilton, 1990, Long swings in the dollar: Are they in the data and do markets know it?, *American Economic Review* 80 (1990), 689-713.

Flood, Robert and Andrew Rose, 1995, Fixing exchange rates: A virtual quest for fundamentals, *Journal of Monetary Economics* 36, 3-37.

Frankel, Jeffrey and Kenneth Froot, 1990, Chartists, fundamentalists and the demand for dollars, in A. Courakis and M. Taylor, eds., *Private behavior and government policy in interdependent economies* (Oxford, Clarendon Press).

Lyons, Richard K., 1997, A simultaneous trade model of the foreign exchange hot potato, *Journal of International Economics* 42, 275-298.

### **c. The One-sector Model with Micro-foundations**

Obstfeld, M. and K. Rogoff, "The Intertemporal Approach to the Current Account," in G. Grossman and K Rogoff. eds., *Handbook of International Economics*, Vol 3, 1995.

Sen, P. "Savings, Investment, and the Current Account", Chapter 15 of van der Ploeg.

Schubert, S.F. and S.J. Turnovsky, "The Dynamics of Temporary Policies in a Small Open Economy," *Review of International Economics*, 10, 2002.

Meng, Q. and A. Velasco, 2004, "Market Imperfections and the Instability of Open Economies," *Journal of International Economics* 64, 2004, 503-519.

#### *Applications to Alternative Fiscal Shocks:*

Buiter, W.H., "Fiscal Policy in Open Interdependent Economies," in A. Razin and E. Sadka (eds.) *Economic Policy in Theory and in Practice*, St. Martins Press, New York, 1987.

Sen, P. and S.J. Turnovsky, "Tariffs, Capital Accumulation, and the Current Account in a Small Open Economy," *International Economic Review*, 30, 1989, 811-831.

Gavin, M., "Tariffs and the Current Account: On the Macroeconomics of Commercial Policy," *Journal of Economic Dynamics and Control*, 15, 1991, 27-52.

Sen, P. and S.J. Turnovsky, "Investment Tax Credit in an Open Economy," *Journal of Public Economics*, 42, 1990, 277-309.

*Terms of Trade Shocks:*

Persson, T. and L.E.O. Svensson, "Current Account Dynamics and the Terms of Trade: Harberger-Laursen-Metzler Two Generations Later," *Journal of Political Economy*, 93, 1985, 43-65.

Sen, P. and S.J. Turnovsky, "Deterioration of the Terms of Trade and Capital Accumulation: A Reexamination of the Laursen-Metzler Effect," *Journal of International Economics*, 26, 1989, 227-250.

Svensson, L.E.O., and A. Razin, "The Terms of Trade and the Current Account: the Harberger-Laursen-Metzler Effect," *Journal of Political Economy*, 91, 1983, 97-125.

Serven, L., 1999, "Terms-of-trade shocks and optimal investment: Another look at the Laursen-Metzler effect," *Journal of International Money and Finance* 18, 337-365.

Otto, G., 2003, "Terms of trade shocks and the balance of trade: there is a Harberger-Laursen-Metzler effect," *Journal of International Money and Finance* 22, 155-184.

*Breaking the Key Knife-Edge Condition:*

Obstfeld, M., "Macroeconomic Policy, Exchange Rate Dynamics, and Optimal Asset Accumulation," *Journal of Political Economy*, 89, 1981, 1142-1161.

Bhandari, J.S., N. Haque, and S.J. Turnovsky. "Growth, External Debt, and Sovereign Risk in a Small Open Economy," *IMF Staff Papers*, 37, 1990, 388-417.

Turnovsky, S.J., "Knife-Edge Conditions and the Macrodynamics of Small Open Economies," *Macroeconomic Dynamics*, 6, 2002, 307-335.

Schmitt-Grohé, S. and M. Uribe, "Closing Small Economy Models," *Journal of International Economics*, 61, 2003, 163-185.

## II. REAL EXCHANGE RATES AND RELATIVE PRICES

### ***a. The Purchasing Power Parity Debate***

Asea, Patrick, and Enrique Mendoza, 1994, The Balassa-Samuelson model: a general equilibrium appraisal, *Review of International Economics* 2, 244-267.

De Gregorio, Jose; Alberto Giovannini; and, Thomas Krueger, 1994, The behavior of nontradable goods prices in Europe: evidence and interpretation, *Review of International Economics* 2, 284-305.

*Several other interesting papers can be found in this October 1994 special issue on the Balassa-Samuelson model in the Review of International Economics.*

Dornbusch R., 1987, "Exchange Rates and Prices," *American Economic Review*, March.

Engel, Charles, 1999, Accounting for U.S. real exchange rate changes, *Journal of Political Economy* 107, 507-538.

*This paper has a different view from the two cited above:*

Engel, Charles, 2000, Long run PPP may not hold after all, *Journal of International Economics* 51, 243-273.

Engel, C., and J. Rogers, "Deviations from Purchasing Power Parity: Causes and Welfare Costs," *Journal of International Economics*, 55, 2001.

Froot, Kenneth A., and Kenneth Rogoff, 1995, Perspectives on PPP and long-run real exchange rates, in Gene Grossman and Kenneth Rogoff, eds., *Handbook of International Economics*, vol. 3. Elsevier.

Goldberg, P. and M. Knetter, "Goods Prices and Exchange Rates: What Have We Learned?" *Journal of Economic Literature*, September 1997.

P. Krugman, "Pricing to Market when the Exchange Rate Changes," in S. Arndt and J.

Richardson, eds., *Real-Financial Linkages among Open Economies*. Cambridge: MIT Press, 1987.

R. Marston, "Real Exchange Rates and Productivity Growth in the United States and Japan," in S. Arndt and J. Richardson, eds., *Real-Financial Linkages among Open Economies*. Cambridge: MIT Press, 1987.

Smets, Frank and Raf Wouters, 2002, Openness, Imperfect Exchange Rate Pass-through and Monetary Policy, *Journal of Monetary Economics* 49 (5), 947-981.

M. Obstfeld, "Intertemporal Price Speculation and the Optimal Current-Account Deficit," *Journal of International Money and Finance*, August 1983. ["Reply and Clarification," *JIMF*, February 1996.]

K. Rogoff, "The Purchasing Power Parity Puzzle," *Journal of Economic Literature*, June 1996.

***b. Two-sector Dependent Economy Models***

Swan, T.W., "Economic Control in a Dependent Economy," *Economic Record*, 36, 1960, 51-66.

Brock, P.L. "International Transfers, the Relative Price of Nontraded Goods and the Current Account," *Canadian Journal of Economics*, 1996.

Brock, P.L. and S.J. Turnovsky, "The Dependent Economy Model with both Traded and Nontraded Capital Goods," *Review of International Economics*, 2, 1994, 306-325.

Backus, D. and G. Smith, "Consumption and Real Exchange Rates in Dynamic Exchange Economies with Nontraded Goods," *Journal of International Economics*, 35, 1993, 297-316.

Asea, P. and E. Mendoza, "The Balassa-Samuelson Model: A General Equilibrium Appraisal," *Review of International Economics*, 2, 1994, 244-267.

*Some Extensions to the Two Sector Model:*

Mussa, M. "Dynamic Adjustment in the Heckscher-Ohlin-Samuelson Model," *Journal of Political Economy*, 82, 1978, 1191-1203.

Gavin, M., "Structural Adjustment to a Terms of Trade Disturbance: The Role of Relative Prices," *Journal of International Economics*, 28, 1990, 217-243.

van Wincoop, E., "Structural Adjustment in the Construction Sector," *European Economic Review*, 17, 1993, 177-201.

Brock, P.L. and S.J. Turnovsky, "The Growth and Welfare Consequences of Differential Tariffs," *International Economic Review*, 34, 1993, 306-325.

Steigum, E, and Ø Thøgersen, "Borrow and Adjust: Fiscal Policy and Sectoral Adjustment in an Open Economy," *International Economic Review* 44, 2003.

Morshed, M. and S.J. Turnovsky, "Sectoral Adjustment Costs and Real Exchange Rate Dynamics in a Two-Sector Dependent Economy," *Journal of International Economics* 63, 2004, 147-177.

### **III. SPECIAL TOPICS IN INTERNATIONAL MACROECONOMICS**

#### ***a. Growth in Open Economies***

##### *The Neoclassical Model:*

Barro, R., N.G. Mankiw, and X. Sala-i-Martin, "Capital Mobility in Neoclassical Models of Growth," *American Economic Review*, 85, 1995, 103-115.

Barro, R.J. and X. Sala-i-Martin, *Economic Growth*, 2004, Chapter 3.

##### *Endogenous Growth:*

Baldwin, R.E., and R. Forslid, 1999, Incremental Trade Policy and Endogenous Growth: A q-theory approach, *Journal of Economic Dynamics and Control* 23, 797-822.

Turnovsky, S.J., "Fiscal Policy, Growth, and Macroeconomic Performance in a Small Open Economy," *Journal of International Economics*, 1996, 41-66.

Turnovsky, S.J., "Fiscal Policy and Growth in a Small Open Economy with Elastic Labour Supply," *Canadian Journal of Economics*, 32, 1999, 1191-1214.

van der Ploeg, F., "Budgetary Policies, Foreign Indebtedness, the Stock Market, and Economic Growth," *Oxford Economic Papers*, 1996.

Osang, T, and A. Pereira, "Import Tariffs and Growth in a Small Open Economy," *Journal of Public Economics*, 1996.

Baldwin, R.E. and R. Forslid, "Incremental Trade Policy and Endogenous Growth: A q-theory Approach," *Journal of Economic Dynamics and Control*, 23, 1999, 797-822.

Osang, T, and S.J. Turnovsky, "The Growth and Welfare Effects of Tariffs in a Small Open Economy," *Journal of Development Economics*, 62, 2000, 315-342.

Chatterjee, S., G. Sakoulis, and S.J. Turnovsky, "Unilateral Capital Transfers, Infrastructure Investment, and Economic Growth," *European Economic Review*, 2003.

##### *Non-Scale Growth:*

Eicher, T.S. and S.J. Turnovsky, "International Capital Markets and Non-Scale Growth," *Review of International Economics*, 7, 1999, 171-188.

***b. Two-country Models***

*Equilibrium Determination and Transmission of Shocks:*

Lucas, R.E., "Interest Rates and Currency Prices in a Two-country World," *Journal of Monetary Economics*, 10, 1982, 335-359.

Frenkel, J. and A. Razin, "Government Spending, Debt, and International Economic Interdependence," *Economic Journal*, 95, 1985, 619-636.

Frenkel, J. and A. Razin, "Fiscal Policies in the World Economy," *Journal of Political Economy*, 94, 1986, 564-594.

Frenkel, J.A. and A. Razin, *Fiscal Policies and the World Economy*, MIT Press, Cambridge MA, 1987.

Frenkel, J.A., A. Razin, and E. Sadka, *International Taxation in an Integrated World*, MIT Press, Cambridge MA, 1991.

Devereux, M.B. and S. Shi, "Capital Accumulation and the Current Account in a Two-Country Model," *Journal of International Economics*, 30, 1991, 1-25.

Bianconi, M. and S.J. Turnovsky, "International Effects of Government Expenditure in Interdependent Economies," *Canadian Journal of Economics*, 30, 1997, 57-84.

Razin, A. and E. Sadka, "International Fiscal Policy Coordination and Competition," Chapter 4 in van der Ploeg.

Bovenberg, A.L., "Capital Taxation in the World Economy," Chapter 5 in van der Ploeg.

*Strategic Aspects:*

Hamada, K. "Strategic Aspects of Interdependence," *Economic Studies Quarterly*, 37, 1986, 165-180.

Turnovsky, S.J., "The Gains from Fiscal Cooperation in a Two-Commodity Real Trade Model," *Journal of International Economics*, 25, 1988, 111-127.

Devereux, M.B., "The Terms of Trade and the International Coordination of Fiscal Policy," *Economic Inquiry*, 28, 1991, 720-736.

Buiter, W. and K. Kletzer, "The Welfare Gains of Cooperative and Noncooperative Fiscal Policy," *Journal of Economic Dynamics and Control*, 15, 1991, 215-244.

Ghosh, A., "Strategic Aspects of Public Finance in a World with High Capital Mobility," *Journal of International Economics*, 30, 1991, 229-247.

***c. Exchange Rate Regimes and Management***

*This paper summarizes current exchange-rate arrangements and discusses the sense in which "fixed" exchange rates don't really exist:*

Obstfeld, Maurice, and Kenneth Rogoff, 1995, The mirage of fixed exchange rates, *Journal of Economic Perspectives* 9 (Fall), 73-96.

*Fixed versus Flexible Exchange Rates:*

Flood, R., "Capital Mobility and the Choice of Exchange Rate System," *International Economic Review*, 20, 1979, 401-146.

Helpman, E. and A. Razin, "Towards a Consistent Comparison of Alternative Exchange Rate Regimes," *Canadian Journal of Economics*, 12, 1979, 394-409.

Helpman, E., "An Exploration in the Theory of Exchange-Rate Regimes," *Journal of Political Economy*, 89, 1981, 865-890.

*Exchange Rate Management:*

Boyer, R., "Optimal Foreign Exchange Market Intervention," *Journal of Political Economy*, 86, 1978, 1045-1055.

Eaton, J. and S.J. Turnovsky, "The Forward Exchange Market, Speculation, and Exchange Market Intervention," *Quarterly Journal of Economics*, 99, 1984, 45-69.

Buiter, W. and J. Eaton, "Policy Decentralization and Exchange Rate Management in Interdependent Economies," in J. Bhandari ed., *Exchange Rate Management under Uncertainty*, MIT Press, 1985.

Devereux, M. and C. Engel, 2003, "Monetary Policy in the Open Economy Revisited: Price Setting and Exchange Rate Flexibility," *Review of Economic Studies*, 70.

*International Policy Coordination:*

Buiter, W. and R. Marston (eds.), *International Policy Coordination*, Cambridge University Press, 1985.

Canzoneri, M. and J.A. Gray, "Monetary Policy Games and the Consequence of Non-Cooperative Behavior," *International Economic Review*, 26, 1985, 547-564.

Turnovsky, S.J. and V. d'Orey, "Monetary Policy in Interdependent Economies with Stochastic Disturbances: A Strategic Approach," *Economic Journal*, 96, 1986, 696-721.

Rogoff, K., "Can International Monetary Policy Cooperation be Counterproductive?" *Journal of International Economics*, 18, 1985, 199-217.

Canzoneri, M. and D. Henderson, *Monetary Policy in Interdependent Economies*, MIT Press, 1991.

Gali, J. and T. Monacelli, 2005, "Monetary Policy and Exchange Rate Volatility in a Small Open Economy," *Review of Economic Studies*, 72, 707-734.

Benigno, G. and P. Benigno, 2006, "Designing Target Rules for International Monetary Policy Coordination," *Journal of Monetary Economics*, 53, 473-506.

#### **d. Balance-of-Payment Crises (1<sup>st</sup> and 2<sup>nd</sup> Generation Models)**

*These are the basic readings on balance-of-payments-crises:*

Krugman, Paul, 1979, A model of balance of payment crises, *Journal of Money, Credit and Banking* 11, 311-325.

Flood, Robert P. and Peter M. Garber, 1984, Collapsing exchange rate regimes: Some linear examples, *Journal of International Economics* 17, 1-13.

Obstfeld, Maurice, 1984, Balance of payments crises and devaluation, *Journal of Money, Credit and Banking* 16, 208-217.

Obstfeld, Maurice, 1986, Rational and self-fulfilling balance of payments crises, *American Economic Review* 76, 72-81.

Obstfeld, Maurice, 1996, Models of currency crises with self-fulfilling features, *European Economic Review* 40, 1037-1047.

Eichengreen, Barry and Charles Wyplosz, 1993, The unstable EMS, *Brookings Papers on Economic Activity* 1, 51-124.

*Some other papers:*

Eichengreen, Barry; Andrew Rose; and, Charles Wyplosz, 1996, Contagious currency crises: First tests, *Scandinavian Journal of Economics* 98, 463-484.

Jeanne, Olivier, 1997, Are currency crises self-fulfilling? A test, *Journal of International Economics* 43, pages 263-86

Krugman, Paul, 1996, Are currency crises self-fulfilling?, *NBER Macroeconomics Annual* 1996, 345-378.

Obstfeld, Maurice, 1986, Speculative attack and the external constraint in a maximizing model of the balance of payments, *Canadian Journal of Economics* 19, 1-22.

Sachs, Jeffrey D.; Aaron Tornell; and, Andres Velasco, 1996, The Mexican peso crisis: Sudden death or death foretold?, *Journal of International Economics* 41, 265-283.

### **e. New Open-economy Macroeconomics**

*The paper that started it all:*

Obstfeld, Maurice, and Kenneth Rogoff, 1995, Exchange rate dynamics redux, *Journal of Political Economy* 103, 624-660.

*Other notable contributions:*

Bergin, Paul R., and Robert C. Feenstra, 1999, Pricing to market, staggered contracts, and real exchange rate persistence, *NBER working paper* no. 7026.

Betts, Caroline, and Michael B. Devereux, 1996, The exchange rate in a model of pricing to market, *European Economic Review* 40, 1007-1021.

Betts, Caroline, and Michael B. Devereux, 2000, Exchange rate dynamics in a model of pricing to market, *Journal of International Economics* 50, 215-244.

Chari, V.V., P.J. Kehoe, and E.R. McGrattan, 2003, "Can Sticky Price Models Generate Volatile and Persistent Real Exchange Rates?" *Review of Economic Studies*, 70.

Corsetti, Giancarlo, and Paolo Pesenti, 1997, Welfare and macroeconomic interdependence, *Quarterly Journal of Economics* 106, 421-445.

Devereux, Michael B., and Charles Engel, 2000, Monetary Policy in the open economy revisited: price setting and exchange-rate flexibility, *NBER working paper* no. 7665.

Engel, Charles, 1999, On the foreign exchange risk premium in sticky-price general equilibrium models, in P. Isard, A. Razin and A.K. Rose, eds.,

*International Finance and Financial Crises: Essays in Honor of Robert P. Flood, Jr.* (Boston; Kluwer).

*Some excellent surveys:*

Lane, Philip R., 2001, The new open economy macroeconomics: A survey, *Journal of International Economics* 54, 235-266.

Obstfeld, Maurice, International macroeconomics: beyond the Mundell-Fleming model, *NBER working paper* 8369.

Obstfeld, Maurice, and Kenneth Rogoff, 2000, New directions for stochastic open economy models, *Journal of International Economics* 50, 117-153.