Kiel Institut für Weltwirthschaft
Advanced Studies in International Economic Policy Research
Spring 2005

Menzie D. Chinn

Exchange Rate Economics
Syllabus
(revised)

1. INTRODUCTION

This is a Ph.D. level course exchange rate economics, with a focus on theoretical and empirical concerns. Specific topics include: purchasing power parity and interest rate parity; money and exchange rate determination; new open economy macroeconomics and exchange rates; empirics and forecasting.

The instructor is Professor of Public Affairs and Economics at the University of Wisconsin-Madison, and a Research Associate of the NBER's International Finance and Macro program. From 2000-2001, he served as senior economist for international finance on the President's Council of Economic Advisers. He can be contacted at: mchinn@lafollette.wisc.edu and further information can be obtained at: http://www.ssc.wisc.edu/~mchinn/ .

2. SCHEDULE AND READINGS

Most of these readings – aside from the textbook readings – will be available from the WWW and from the course website: http://www.ssc.wisc.edu/~mchinn/kielcourse.html . Additional readings will be assigned.

LECTURE	DATES	TOPICS
1	7.3	Introduction to financial markets; basic parity concepts
2	8.3	Monetary models of exchange rates
3	9.3	Bubbles, portfolio balance models
4	10.3	Equilibrium Models; New open economy macroeconomics models
5	11.3	Empirics, forecasting, policy

KEY: * required; r recommended.

Lecture 1. Financial Markets and Parity Conditions

* BIS, 2004, *Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity in April 2004: Preliminary global results*, (BIS: Basle, September).

* Gabriel Galati and Michael Melvin, 2004, "Why has FX trading surged? Explaining the 2004 triennial survey," *BIS Quarterly Review* (BIS: Basle, December): 67-74.

* Alan Taylor, 2004, "The Purchasing Power Parity Debate," *Journal of Economic Perspectives.*

* Menzie Chinn and Guy Meredith, 2004, "Monetary Policy and Long Horizon Uncovered Interest Parity," *IMF Staff Papers 51*(3) (November): 409-430.

r Menzie Chinn and Eiji Fujii, 2001, "*Fin de Siècle* Real Interest Parity," *Journal of International Financial Markets, Institutions and Money* 11(3/4) (Sept.): 289-308.

Menzie Chinn, 2005, "The Rehabilitation of Interest Rate Parity: Longer Horizons, Alternative Expectations and Emerging Markets," *mimeo* (January 2005).

Lecture 2. Monetary Models of the Exchange Rate

* Nelson Mark, 2001, *International Macroeconomics and Finance* (Blackwell) Chapter 3.

* Rudiger Dornbusch, 1976, "Expectations and Exchange Rate Dynamics," *Journal of Political Economy* 84: 1161-76.

r Maurice Obstfeld and Kenneth Rogoff, 1996, *Foundations of International Macroeconomics* (MIT Press), Chapter 9.1-9.2.

Lecture 3. Bubbles and Portfolio Balance Models

r Maurice Obstfeld and Kenneth Rogoff, 1996, *Foundations of International Macroeconomics* (MIT Press), Application 8.3 "Testing for speculative bubbles".

Meese, Richard, 1986, "Testing for Bubbles in Exchange Markets: A Case of Sparkling Rates," *Journal of Political Economy* 94(2): 345-373.

r Maurice Obstfeld and Kenneth Rogoff, 1996, *Foundations of International Macroeconomics* (MIT Press), Chapter 5.1-5.4.

* Pierre-Olivier Gourinchas and Helene Rey, 2005, "International Financial Adjustment," mimeo (February).

* Lane, Phillip R. and Gian Milesi-Ferretti, 2005, "Financial Globalization

and Exchange Rates," IMF Working Paper 05/03 (January).

4. Equilibrium Models and the New Open Economy Macroeconomics

* Alan Stockman, 1987, "The Equilibrium Approach to Exchange Rates," *Federal Reserve Bank of Richmond Economic Review*. 73(2) (March/April): 12-30.

***** Robert Lucas, 1982, "Interest Rates and Currency Prices in a Two-Country World." *Journal of Monetary Economics* 10(3): 335-359.

r Maurice Obstfeld and Kenneth Rogoff, 1996, *Foundations of International Macroeconomics* (MIT Press), Chapter 10

* Jeffrey Frankel and Andrew Rose, 1994, "A Survey of Empirical Research on Nominal Exchange Rates." In Gene Grossman and Kenneth Rogoff (editors) *Handbook of International Economics*, Volume 3 (North-Holland, 1995).

5. Empirics, Forecasting and Policy

* Cheung, Yin-Wong, Menzie Chinn, and Antonio Garcia Pascual, forthcoming, "Empirical Exchange Rate Models of the Nineties: Are Any Fit to Survive?" *Journal of International Money and Finance*. Also *NBER Working Paper* #9393 (December 2002).

Cheung, Yin-Wong, Menzie Chinn, and Antonio Garcia Pascual, 2005, "Recent Exchange Rate Models: In-Sample Fit and Out-of-Sample Performance," in Paul DeGrauwe (editor), *Exchange Rate Modelling: Where Do We Stand*? (Cambridge: MIT Press for CESIfo).

r Chinn, Menzie and Richard Meese, 1995, "Banking on Currency Forecasts: How Predictable Is Change in Money?" *Journal of International Economics 38*(1/2): 161-178.

Nelson Mark, 1995, "Exchange Rates and Fundamentals: Evidence on Long-Horizon Predictability," *American Economic Review* 85(1): 201-218.

* Nelson Mark and Donggyu Sul, 2001, "Nominal Exchange Rates and Monetary Fundamentals: Evidence from a Small post-Bretton Woods Panel," *Journal of International Economics 53*(1): 29-52.

* Charles Engel and Kenneth D. West, forthcoming, "Exchange Rates and Fundamentals," *Journal of Political Economy*.

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