Perspectives on teaching international macroeconomics and finance: is there more consensus in the 2000s?

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Abstract

This paper surveys the current state of teaching in international macroeconomics and finance. After collecting graduate international macroeconomics syllabi taught by international economists in the leading US economics departments between 2001 and 2005, I study whether there is consensus on selected topics and articles in this field. It is shown that there seems more agreement on which topics should be taught and which articles should be deemed most essential.
Perspectives on Teaching International Macroeconomics and Finance: Is There More Consensus in the 2000s?

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1 Introduction

According to the preface in Obstfeld and Rogoff (1996), Professor Alan Deardorff of the University of Michigan conducted a survey on teaching materials for graduate courses in international macroeconomics. In 1990, Deardorff collected reading lists from eight leading economics departments and found that there was strikingly little consensus on what should be taught in this field. It surprised him that only one article appeared on more than half the reading lists. It is also indicated in Obstfeld and Rogoff (1996) that there is no unified approach to the field of international macroeconomics. Teaching materials were found to make no mention of microfoundations, as instruction in open economy macroeconomics had fallen behind the developments of closed economy macroeconomics. Furthermore, in the 1990s, most articles studied in international finance courses were written in the 1960s and 1970s.

It may therefore be of interest to update our knowledge of the current state of this field, one decade on. In this paper, I discuss such questions as: What is the mainstream theme of international macroeconomics now? Is a unified approach applied to the teaching of international macroeconomics? Most importantly, is there consensus on which articles are deemed most essential in the 2000s?

2 Sample

For this study, I collected graduate international macroeconomics syllabi taught by international economists in the leading US economics departments between 2001 and 2005.
There are 36 reading lists in total; a list of instructors, schools, course numbers, and years is presented in Tables 1 and 2. There is no doubt that this is a limited survey. First, all the syllabi were obtained from the Internet. I do not include courses for which syllabi are not available on the Internet or that allow only limited access (when a password is needed). Furthermore, I focus only on US universities. Nevertheless, the sample syllabi should be representative because the international economists whose syllabi I collected are respected in the field of international macroeconomics as well as teaching in leading US research universities.

A first glance at these syllabi suggests an interesting fact about this field: there is as yet no consensus about the title for these courses. A variety of names are used for the course, set out in Table 3. Although the traditional term, “international finance”, is still the most commonly used name for the course, “international macroeconomics”, the second most used name, is becoming increasingly popular. This shift may reflect greater emphasis being placed on the macroeconomic aspects of international economics than on the traditional financial aspects, as this field now focuses on both real and monetary models.

3 Textbooks

I now turn the attention to which textbook is most recommended for these courses. Books are ranked by number of citations and reported in Table 4. As there is no competitive alternative, it is not surprising that Obstfeld and Rogoff (1996) dominates the textbook market a decade since it was published in 1996. This book is cited as required or recommended reading in more than two thirds of the reading lists. The second-ranked book was written by Nelson Mark (2001). Mark (2001) places greater emphasis on empirical study and econometric methods. Therefore, these two books combine perfectly for instructors who seek to balance their lectures between theoretical models and empirical studies. As noted by Charles Engel in his syllabus:

“...[t]he books are complementary. Obstfeld and Rogoff focus more heavily on theory with some discussion of empirical findings, and vice versa in Mark.”

Two books fell into third place. The first is Frenkel and Razin (1996), the first edition of which was published in 1987. This was one of the first books to attempt an investigation of open economy macroeconomics with an intertemporal approach and microfoundations. The focus of this book is, however, limited with regard to fiscal policies such as government spending, budget deficits, and international differences in taxation. The other third-

4 Topics

Most instructors have mentioned in the syllabi that the materials covered in their syllabi provide only limited coverage of international macroeconomics and finance. Hence, the topics chosen by instructors reflect their own preference. This section investigates whether there is any agreement on which topics should be included in the course. As more than two thirds of the instructors use Obstfeld and Rogoff (1996) as their main textbook, the corresponding chapter in Obstfeld and Rogoff (1996) [OR] for a specific topic is also reported. Tables 5 to 8 show the topics that are cited by more than two instructors.

The list of topics chosen raises some interesting points. First, four out of the thirty-five topics appear on more than half of the reading lists: New Open Economy Macroeconomics, Complete Market Models (The Intertemporal Approach to the Current Account), Models of Currency Crises, and Optimizing Monetary Models (Flexible Price Models). This may suggest that there is greater consensus on which topics should be selected in this field than there was a decade ago.

The most commonly taught topic now in international macroeconomics is New Open Economy Macroeconomics (NOEM). Following the seminal paper by Obstfeld and Rogoff (1995), NOEM refers to the growing body of literature that attempts to address open economy issues in a dynamic general equilibrium version of the open economy with nominal rigidities. Grounded in intertemporal optimization and microfoundations, it has become a new paradigm replacing the traditional ad hoc Mundell–Fleming model. Being the second place of the top ranked topics, the topics Complete Market Models and Optimizing Monetary Models cover basic real and monetary optimizing models.

Due to many recent experiences with currency crises in emerging markets, models of currency crises, financial crises, and speculative attacks are once again attracting attention in economics research. Furthermore, almost all important research areas in international macroeconomics are motivated by empirical puzzles. Among these puzzles, the Purchasing Power Parity Puzzle is the one most frequently included in the reading lists.

It is clear from the syllabi that ad hoc models such as the Mundell–Fleming and Dornbusch–Mundell–Fleming models are taught less frequently nowadays. In many cases in the reading lists, they form the background reading in preparation for models with microfoundations. Finally, Target Zone Exchange Rate Models now seem to be outdated. Since the seminal paper by Krugman (1991), target zone models have been widely applied
to explain exchange rate behaviors. There is, however, little empirical evidence supporting target zone models. Hence, the description “a beautiful theory killed by ugly facts” may explain why fewer instructors select this topic for their courses.

In Table 9, I also report other topics that are cited only once in all the reading lists, which may reveal the variety of instructors’ tastes.

5 Articles

Although it is shown that instructors may have achieved more consensus on which topics should be chosen for the course, it is not clear whether there is agreement on which article should be deemed most essential for a specific topic. There is a total of 879 articles on all the reading lists, of which 79% are journal articles and 21% are working papers. Figure 1 plots the distribution of all the readings. More papers (7.96%) were published in 2000 than in any other year. More than two thirds of the papers were published after 1995 (65.64%). Table 10 provides a summary of where these 879 articles were published. About half of the papers were published in one of the following journals: *Journal of International Economics* (9.56%), *American Economic Review* (8.30%), *Journal of Monetary Economics* (7.17%), *Journal of Political Economy* (5.57%), *Quarterly Journal of Economics* (3.87%), *European Economic Review* (3.75%), *Journal of Finance* (2.84%), *IMF Staff Papers* (2.73%), *Journal of International Money and Finance* (2.16%), *Journal of Economic Perspectives* (1.93%), *Journal of Money, Credit and Banking* (1.82%), *Brookings Papers on Economic Activity* (1.82%), and *The Economic Journal* (1.82%).

Finally, the authorship of these readings is reported in Table 11. The most frequently cited author is Maurice Obstfeld, who wrote 46 of the 879 papers (5.23%). The other leading authors are Kenneth Rogoff (4.66%), Lars E.O. Svensson (3.07%), Guillermo Calvo (2.73%), Patrick Kehoe (2.73%), Charles Engel (2.16%), Andres Velasco (2.16%), and Michael Dooley (1.71%).

The 123 most cited papers are reported in Tables 12 to 16.\(^1\) One of the most cited papers is Lucas (1982), which appeared in 22 of the 36 reading lists. Using a cash-in-advance constraint, Lucas (1982) provides a rigorous theoretical framework for exchange rate determination in a flexible-price environment with dynamic general equilibrium analysis. Another candidate for most-cited paper is Backus, Kehoe and Kydland (1992,1995), as Backus et al. (1992) and Backus et al. (1995) are very similar papers. The 1995 paper is an updated and extended version of the 1992 paper; these two papers are cited a total of \((15 + 10) 25\) times. These papers present a two-country real business cycle model with

\(^1\)A complete list is available upon request.
trade, and compare the predictions to the data on correlations of real variables across countries and variance of terms of trade. Although they are simply an open-economy version of real business cycle models, they are not cited only on the topic of *International Real Business Cycles*. Some instructors refer to these two papers when teaching the topics of *Complete Market Models* and *Consumption Correlation Puzzles*. Furthermore, with a complete review of the salient properties of international business cycles, these papers have also been included in the Introduction/Overview of the stylized facts of international business cycles.

Krugman (1979) is the next most cited paper. This is a classical piece of work on currency crises and is well known as the “first-generation model.” Obstfeld and Rogoff (2001) summarizes the six most important puzzles in international macroeconomics and proposes that trade costs may play an important role in explaining the puzzles. Dornbusch (1976) provides a dynamic but deterministic Mundell–Fleming model. It is an old fashioned ad hoc model used to present the so-called overshooting result, which helps to explain how the exchange rate is more volatile than the underlying economic fundamentals.

A very thorough survey of the purchasing power parity puzzle is provided by Rogoff (1996) whereas Engel (1999) is highly influential in explaining the US real exchange rate. Engel (1999) shows that fluctuations in relative prices of nontradable goods contribute almost nothing to fluctuations in the real exchange rate. Obstfeld and Rogoff (1995)’s Redux model has established a foundation for the topic of *New Open Economy Macroeconomics*, while Chari et al. (2002) calibrates a modified Redux model to study real exchange rate volatility and persistency. It is worth noting that although *New Open Economy Macroeconomics* is the most commonly taught topic, Obstfeld and Rogoff (1995) has been cited less frequently, as many instructors use Chapter 10 of the Obstfeld and Rogoff (1996) book as the main reading. Finally, Engel and Rogers (1993) investigates the deviations of the law of one price regarding the border effect. The paper shows empirically with gravity regression that the trade across the US–Canadian border is less than that among the states within the US and Canada.

In summary, there are four articles, Backus et al. (1992)/Backus et al. (1995), Krugman (1979), Dornbusch (1976) and Obstfeld and Rogoff (2001), that appear on more than half the reading lists. This suggests that there is a little more consensus on which readings should be taught in international macroeconomics and finance courses.

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2In the data, outputs are more correlated across countries than consumption: the Backus, Kehoe, and Kydland (1992,1995) model, however, predicts the opposite.
6 Caveats

As mentioned above, this paper is a limited survey and focuses on the graduate courses of international finance in US universities. The results are not universally applicable. For instance, reading lists in the UK would provide a different perspective. A rigorous and long-standing textbook by Paul Hallwood and Ronald MacDonald (Professor of International Finance at University of Glasgow) may receive more citations in UK reading lists. Therefore, it would be of interest in future research to extend the sample by including reading lists from other countries such as Australia, Canada and the UK, and then conduct a cross-country comparison.

Moreover, my focus is on international finance courses taught in departments of economics. Hence, it is not surprising that there is a tendency among lecturers to put greater emphasis on the macroeconomic aspects of international economics rather than the traditional financial aspects. However, the international finance courses taught in business schools, which emphasize the microeconomics of exchange rates and derivative markets, are increasing in volume and sophistication. A worthy topic of further investigation would be to study the discrepancies and commonalities between the two disciplines.

7 Concluding Remarks

This paper investigates the current state of teaching in international macroeconomics and finance. It is shown that regarding the selection of topics and readings in the 2000s, there seems to be substantial agreement on which topics should be taught and which articles are deemed most essential.
Figure 1: The Distribution of Readings
<table>
<thead>
<tr>
<th>Instructor</th>
<th>School</th>
<th>Course Number</th>
<th>Year</th>
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</thead>
<tbody>
<tr>
<td>Aizenman, Joshua</td>
<td>UC-Santa Cruz</td>
<td>Econ 241A</td>
<td>2004</td>
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<tr>
<td>Arellano, Cristina</td>
<td>Minnesota</td>
<td>Econ 8481</td>
<td>2004</td>
</tr>
<tr>
<td>Atkeson, Andrew</td>
<td>UCLA</td>
<td>Econ 282c</td>
<td>2005</td>
</tr>
<tr>
<td>Backus, Dave</td>
<td>NYU</td>
<td>Econ B06.3386.20</td>
<td>2004</td>
</tr>
<tr>
<td>Benigno, Pierpaolo</td>
<td>Columbia</td>
<td>Econ G6809</td>
<td>2005</td>
</tr>
<tr>
<td>Bergin, Paul R.</td>
<td>UC-Davis</td>
<td>Econ 260D</td>
<td>2005</td>
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<tr>
<td>Black, Stanley</td>
<td>UNC-Chapel Hill</td>
<td>Econ 262</td>
<td>2005</td>
</tr>
<tr>
<td>Bohn, Henning</td>
<td>UC-Santa Barbara</td>
<td>Econ 280B</td>
<td>2005</td>
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<tr>
<td>Burstein, Ariel</td>
<td>UCLA</td>
<td>Econ 282</td>
<td>2004</td>
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<tr>
<td>Chang, Roberto</td>
<td>Princeton</td>
<td>Econ 554</td>
<td>2004</td>
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<tr>
<td>Chinn, Menzie D.</td>
<td>Kiel Institut</td>
<td>Econ</td>
<td>2005</td>
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<td>Crucini, Mario J.</td>
<td>Vanderbilt</td>
<td>Econ 317</td>
<td>2004</td>
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<td>Dooley, Michael</td>
<td>UC-Santa Cruz</td>
<td>Econ 241C</td>
<td>2004</td>
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<tr>
<td>Edmond, Chris</td>
<td>Melbourne</td>
<td>Econ 316-632</td>
<td>2004</td>
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<tr>
<td>Engel, Charles</td>
<td>UW-Madison</td>
<td>Econ 872</td>
<td>2005</td>
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<tr>
<td>Evans, Martin</td>
<td>Georgetown</td>
<td>Econ 642</td>
<td>2004</td>
</tr>
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<td>Fitzgerald, Doireann</td>
<td>UC-Santa Cruz</td>
<td>Econ 241B</td>
<td>2005</td>
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<tr>
<td>Hale, Galina</td>
<td>Yale</td>
<td>Econ 724b</td>
<td>2005</td>
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<td>Husted, Steven</td>
<td>Pittsburgh</td>
<td>Econ 2510</td>
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<td>Hutchison, Michael M.</td>
<td>UC-Santa Cruz</td>
<td>Econ 241A</td>
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<tr>
<td>Jermann, Urban</td>
<td>U Penn (Wharton)</td>
<td>Finance 933</td>
<td>2003</td>
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<tr>
<td>(with Bernard Dumas)</td>
<td></td>
<td></td>
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<tr>
<td>Kletzer, Ken</td>
<td>Stanford</td>
<td>Econ 265</td>
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<tr>
<td>Lambertini, Luisa</td>
<td>Boston College</td>
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<tr>
<td>Obstfeld, Maurice</td>
<td>UC-Berkeley</td>
<td>Econ 280c</td>
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Table 2: Reading Lists (Continue)

<table>
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<th>Instructor</th>
<th>School</th>
<th>Course Number</th>
<th>Year</th>
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<td>Perri, Fabrizio</td>
<td>NYU</td>
<td>Econ B06.3386.20</td>
<td>2001</td>
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<tr>
<td>(with Pierpaolo Benigno)</td>
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<td>Peterson, Brian</td>
<td>Indiana</td>
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<td>Razin, Assaf</td>
<td>Cornell</td>
<td>Econ 762</td>
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<td>Rogoff, Kenneth</td>
<td>Harvard</td>
<td>Econ 2530b</td>
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<td>Stockman, Alan C.</td>
<td>Rochester</td>
<td>Econ 510</td>
<td>2002</td>
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<td>Svensson, Lars</td>
<td>Princeton</td>
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<td>2005</td>
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<td>Tesar, Linda</td>
<td>Michigan</td>
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<td>2005</td>
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<td>Tornell, Aaron</td>
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<td>Uribe, Martin</td>
<td>Duke</td>
<td>Econ 366</td>
<td>2005</td>
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<tr>
<td>Vegh, Carlos A</td>
<td>UCLA</td>
<td>Econ 281B</td>
<td>2005</td>
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<tr>
<td>Velasco, Andres</td>
<td>Harvard</td>
<td>ITF 346</td>
<td>2004</td>
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<tr>
<td>Wright, Mark L.J.</td>
<td>Stanford</td>
<td>Econ 265</td>
<td>2003</td>
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Table 3: Course Names

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<th>Course Name</th>
<th>Credits</th>
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<td>International Macroeconomics</td>
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<tr>
<td>Open Economy Macroeconomics</td>
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<tr>
<td>International Macroeconomics and Finance</td>
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</tr>
<tr>
<td>International Monetary Theory and Policy</td>
<td>2</td>
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<tr>
<td>International Monetary Economics</td>
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<td>International Economics</td>
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<tr>
<td>International Monetary Theory</td>
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<td>Exchange Rate Economics</td>
<td>1</td>
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<tr>
<td>Book</td>
<td>Author/Editor</td>
</tr>
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<td>-----------------------------------------------------------</td>
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<tr>
<td>Foundations of International Macroeconomics</td>
<td>M. Obstfeld and K. Rogoff (1996)</td>
</tr>
<tr>
<td>An Introduction to the Theory and Empirical Methods</td>
<td>N. Mark (2001)</td>
</tr>
<tr>
<td>of International Macroeconomics and Finance</td>
<td></td>
</tr>
<tr>
<td>Open Economy Macroeconomics</td>
<td>R. Dornbusch (1980)</td>
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<tr>
<td>Handbook of International Economics (vol. 2)</td>
<td>R. Jones and P. Kenen (1985)</td>
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<tr>
<td>Recursive Macroeconomic Theory</td>
<td>L. Ljungqvist and T. J. Sargent (2000)</td>
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<td>Lectures on Macroeconomics</td>
<td>O. Blanchard and S. Fischer (1989)</td>
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<td>International Economics</td>
<td>R. Mundell (1968)</td>
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<td>International Money and Finance</td>
<td>C. P. Hallwood and R. MacDonald (2000)</td>
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<td>The International Money Market</td>
<td>G. Dufey and I. Giddy (1994)</td>
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<td>Globalization and the International Financial System</td>
<td>P. Isard (2005)</td>
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<td>Open Economy Macroeconomics in Developing Countries</td>
<td>C. A. Vegh (forthcoming)</td>
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<td>Real Exchange Rates, Devaluation, and Adjustment</td>
<td>S. Edwards (1989)</td>
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<td>Interest and Prices</td>
<td>M. Woodford (2003)</td>
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<td>International Finance and Financial Crises:</td>
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<td>Essays in Honor of Robert P. Flood, Jr</td>
<td>P. Isard, A. Razin, and A. Rose (2000)</td>
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<td>International Macroeconomic Dynamics</td>
<td>S. Turnovsky (1997)</td>
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<td>Asset Pricing</td>
<td>J. Cochrane (2001)</td>
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<td>M. Brunnermeier (2001)</td>
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<td>The Microstructure Approach to Exchange Rates</td>
<td>R. K. Lyons (2001)</td>
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<td>New Open Economy Macroeconomics</td>
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<td>Complete Market Models</td>
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<td>The Intertemporal Approach to the Current Account</td>
<td>8.4.2–8.4.3; 8.6; 9.5.4</td>
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<td>Optimizing Models of the Current Account</td>
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<td>Models of Currency Crises</td>
<td>8.4.2–8.4.3; 8.6; 9.5.4</td>
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<td>Speculative Exchange Rate Attacks</td>
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<td>Optimizing Monetary Models (flexible price models)</td>
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<td>The Lucas Model</td>
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<td>Mundell–Fleming (M–F) and Dornbusch-M–F and overshooting</td>
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<td>Incomplete Market Models</td>
<td>5; 6</td>
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<td>Sovereign Debt</td>
<td>6.1</td>
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<tr>
<td>Lending Under Imperfect Enforcement</td>
<td>5; 6</td>
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<td>Sovereign Risk</td>
<td>6.1</td>
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<td>Topic (related topics)</td>
<td>OR Chapter</td>
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<tr>
<td>(9) International Real Business Cycles</td>
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<tr>
<td>(10) The Home Bias Puzzle</td>
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<td>(11) Exchange Rate Regimes</td>
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<td>(12) Consumption Risk Sharing</td>
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<td>Consumption Correlation Puzzle</td>
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<td>(13) Feldstein–Horioka Puzzle</td>
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<tr>
<td>(14) Currency Unions</td>
<td>9.1–9.4</td>
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<td>(15) Financial Globalization</td>
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<td>New and Older Views on International Adjustment</td>
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<td>Financial Integration, Globalization, and World Income</td>
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<td>International Financial Architecture</td>
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<td>Topic (related topics)</td>
<td>OR Chapter</td>
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<td>(16) Exchange Rate Target Zones</td>
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<td>(17) Fiscal Policy in the Open Economy</td>
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<td>Monetary-Fiscal Interactions in Open Economies</td>
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<td>Tax Policy and the Current Account</td>
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<td>(18) Capital Flows, Debt Maturity and Banks</td>
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<td>Asymmetric information/ Capital flows</td>
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<td>(19) International Macroeconomic Policy Coordination and Exchange Rates</td>
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<td>International Monetary Policy Cooperation</td>
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<td>(20) Liquidity Models</td>
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<td>Monetary Models with Limited Participation</td>
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<td>(21) Uncovered Interest Parity Puzzle</td>
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<td>(22) Stabilization Policies</td>
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<tr>
<td>(23) Capital Controls</td>
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<td>OR Chapter</td>
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<td>--------------------------------------------------------------------------------------</td>
<td>------------</td>
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<tr>
<td>(24) The Exchange Rate Disconnect Puzzle</td>
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<td>(25) Nontraded Goods and the Real Exchange Rate</td>
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Table 11: Author List

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<td>Assaf Razin</td>
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<td>Alan Stockman</td>
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### Table 12: Most Cited Articles

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<td>Lewis (1999)</td>
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<td>An Interpretation of Recent Research on Exchange Rate Target Zones</td>
<td>Journal of Economic Perspectives</td>
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References


