This part of the course is focused on the role of financial markets and shocks to the capital account in international macro.

In topics 1 and 2 we’ll go over some basic tools used to think about the sources of trade in financial assets across countries and about the real consequences of international capital flows in economies with nominal rigidities. The models in topic 2 allow us to think about the role of monetary policy in stabilizing the effects of capital flows, about how monetary policy is affected by the exchange rate regime, and about other policy tools (fiscal policy, capital controls, currency interventions).

In topics 3 to 6 we’ll cover a variety of current research work that builds and expands on the material in topics 1 and 2.

1 Basic forces driving the current account

1.1 Intertemporal trade


1.2 Portfolio adjustment


1.3 Current account and relative prices

- Guido Lorenzoni. Do tariffs reduce the current account deficit? Working paper, Northwestern University, 2019
2 Nominal rigidities and monetary policy in open economies

2.1 Adjustment to external shocks under fixed and flexible exchange rates

• Emmanuel Farhi and Ivan Werning. Dealing with the trilemma: Optimal capital controls with fixed exchange rates. mimeo MIT
• Stephanie Schmitt-Grohe and Martin Uribe. Downward nominal wage rigidity, currency pegs, and involuntary unemployment. mimeo Columbia
• Sebastian Fanelli. Monetary policy, capital controls, and international portfolios. Working paper, MIT, 2017

2.2 Sudden stops and dollar liabilities


2.3 Dilemmas/trilemmas for emerging economies

• Maurice Obstfeld, Jonathan D Ostry, and Mahvash S Qureshi. A tie that binds: Revisiting the trilemma in emerging market economies. Review of Economics and Statistics, (0), 2017

3 Currency interventions

4 The role of the dollar and financial architecture

5 Banking and financial shocks

6 Panics and financial stability
• Luigi Bocola and Guido Lorenzoni. Financial crises, dollarization, and lending of last resort in open economies. Technical report, Northwestern, 2018
7 Sovereign debt and fiscal space


- Guido Lorenzoni and Ivan Werning. Slow moving debt crises. mimeo, 2013

- Luigi Bocola. The pass-through of sovereign risk. 2014