

Preliminary Syllabus (February 1, 2020)

## **ECO622 International Finance I, 2020 Spring**

Venue: PSE 124

Time: Monday and Wednesday 10:30am-12:00pm

Lecturer: Tomoo Kikuchi, [tomookikuchi@korea.ac.kr](mailto:tomookikuchi@korea.ac.kr), Woodang Hall 520

For consultation, please make an appointment by email.

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**The aim** of this course is to study nonlinear dynamic models to understand how financial market globalization affects convergence of incomes across countries. The course is divided into three parts. In part I we begin by a brief overview of the history and institutions of the international monetary system as well as basic concepts such as convergence and nonlinear dynamic system. In part II we study various multi-country overlapping generation models, in which multiple steady states, poverty traps, endogenous cycles, and symmetry breaking emerge when financial markets are integrated. In part III we discuss empirical works that study the structure of international capital flows (international financial integration) and how it affects growth.

**The objective** of this course is to learn the state-of-the-art theory (overlapping generations models), know its limitations to understanding international capital flows, and present policy recommendations logically and systematically.

There is **no textbook** for this course. You are required to actively participate in class where we discuss theoretical and empirical papers.

This course is for graduate students who would like to specialize in international macroeconomics.

There are **four requirements** for this course: your active and informed class participation (20%); your class presentation (10%); your paper (30%); and your exam (40%).

1. Class participation (20%)  
Before coming to class, you must familiarize yourselves with the keywords of the week and upload your **weekly comments** (max 600 words) **every Friday** for a paper to be discussed in class (week 5-15) on **Blackboard**.
2. Class presentation (10%)  
You must choose one paper (from week 9 to week 15), make an appointment with me to get feedback on your slides and upload **your slides** (15-20 pages) on **Blackboard** **before your presentation in class** (20 minutes).
3. Paper (30%)  
You must write **a policy paper (max 3000 words)** containing analysis that leads to a policy recommendation. Your topic must be related to materials covered in class. Neither extensive econometric analysis nor original theoretical contribution is required. Submit your paper on **Blackboard by June 15**.
4. Exam (40%)  
The exam will be on theoretical concepts and solutions covered in part II.

## Weekly Plan

### Part I: Basics (week 1-3)

1. Motivation, basic concepts and tools (Mar 2, 4)
2. History, institutions and convergence (Mar 9, 11)
3. Nonlinear dynamic system (Mar 16, 18)

### Part II: Theory (week 4-7)

4. Financial market globalization and symmetry-breaking (Mar 23, 25)
5. Financial market globalization, poverty traps, and endogenous cycles (Mar 30, Apr 1)
6. Financial market globalization, poverty traps, and endogenous cycles (Apr 6, 8)
7. Review (Apr 13), **No lecture, Legislative election (Apr 15)**
8. Midterm exam (Apr 20), **No lecture (Apr 22)**

### Part III: Empirical studies

9. Elusive gains from international financial integration (Apr 27, 29)
10. Why doesn't capital flow from rich to poor countries? (May 4, 6)
11. Why doesn't capital flow from rich to poor countries? (May 11, 13)
12. Why doesn't capital flow from rich to poor countries? (May 18, 20)
13. Financial development and international capital (May 25, 27)
14. Financial development and international capital (Jun 1, 3)
15. Foreign assets and liabilities (Jun 8, 10)
16. Final exam (June 15)

## Weekly References

### Part I: Basics

Motivation, basic concepts and tools (week 1)

- Frank, Andre Gunder. *ReOrient: Global Economy in the Asian Age*. University of California Press, 1998.
- Eichengreen, Barry. *Global Imbalances and the Lessons of Bretton Woods*. MIT Press, 2010.
- Feldstein, Martin, and Charles Horioka. "Domestic saving and international capital flows." *The Economic Journal* 90.358 (1980): 314-329.
- Lucas, Robert E. "Why doesn't capital flow from rich to poor countries?" *The American Economic Review* 80.2 (1990): 92-96.

History, institutions and convergence (week 2)

- Galor, Oded. "Convergence? Inferences from theoretical models." *The Economic Journal* (1996): 1056-1069.
- Quah, Danny T. "Empirics for growth and distribution: stratification, polarization, and convergence clubs." *Journal of Economic Growth* 2, no. 1 (1997): 27-59.
- Sala-i-Martin, Xavier. "The world distribution of income: falling poverty and... convergence, period." *The Quarterly Journal of Economics* 121, no. 2 (2006): 351-397.

Nonlinear dynamic system (week 3)

- Galor, Oded. *Discrete Dynamical Systems*. Springer Science & Business Media, 2007.

### Part II: Theoretical models

Financial market globalization and symmetry-breaking (week 4)

- Matsuyama, Kiminori. "Financial market globalization, symmetry-breaking, and endogenous inequality of nations." *Econometrica* 72.3 (2004): 853-884.

Financial market globalization, poverty traps, and endogenous cycles (week 5-7)

- Kikuchi, Tomoo, and John Stachurski. "Endogenous inequality and fluctuations in a two-country model." *Journal of Economic Theory* 144.4 (2009): 1560-1571.
- Kikuchi, Tomoo. "International asset market, nonconvergence, and endogenous fluctuations." *Journal of Economic Theory* 139.1 (2008): 310-334.
- Kikuchi, Tomoo, and George Vachadze. "Financial liberalization: Poverty trap or chaos." *Journal of Mathematical Economics* 59 (2015): 1-9.
- Kikuchi, Tomoo, John Stachurski, and George Vachadze. "Volatile capital flows and financial integration: The role of moral hazard." *Journal of Economic Theory* 176 (2018): 170-192.

Midterm exam (week 8)

### Part III: Empirical studies

The elusive gains from international financial integration (week 9)

- Gourinchas, Pierre-Olivier, and Olivier Jeanne. "The elusive gains from international financial integration." *The Review of Economic Studies* 73.3 (2006): 715-741.

Why doesn't capital flow from rich to poor countries? (Week 10-12)

- Alfaro, Laura, Sebnem Kalemli-Ozcan, and Vadym Volosovych. "Why doesn't capital flow from rich to poor countries? An empirical investigation." *The Review of Economics and Statistics* 90.2 (2008): 347-368.
- Alfaro, Laura, Sebnem Kalemli-Ozcan, and Vadym Volosovych. "Sovereigns, upstream capital flows, and global imbalances." *Journal of the European Economic Association* 12.5 (2014): 1240-1284.
- Gourinchas, Pierre-Olivier, and Olivier Jeanne. "Capital flows to developing countries: The allocation puzzle." *Review of Economic Studies* 80.4 (2013): 1484-1515.

Financial development and international capital flows (week 13-14)

- Alfaro, Laura, et al. "FDI and economic growth: the role of local financial markets." *Journal of International Economics* 64.1 (2004): 89-112.
- Gozzi, Juan Carlos, Ross Levine, Maria Soledad Martinez Peria, and Sergio L. Schmukler. "How firms use corporate bond markets under financial globalization." *Journal of Banking & Finance* 58 (2015): 532-551.

Foreign assets and liabilities (week 15)

- Lane, Philip R., and Gian Maria Milesi-Ferretti. "The external wealth of nations mark II: Revised and extended estimates of foreign assets and liabilities, 1970–2004." *Journal of International Economics* 73.2 (2007): 223-250.

Final exam (week 16)