

## Open Economy Macroeconomics (6 ECTS) FU Berlin, Summer term 2024

### Content

In this course we study key issues of open-economy business cycles through the lens of the New Keynesian model. The focus is on model development. We put forward and solve a two-country version of the canonical New Keynesian model, with a particular emphasis on closed-form solutions. Numerical solutions are also considered, but briefly. We study a number of special cases, including but not limited to the small-open economy w/ and w/o complete information, and a heterogenous agents version (HANK<sup>2</sup>). In terms of substance matter, we are particularly concerned with exchange rate dynamics and monetary and fiscal policy. We also discuss recent empirical work in light of theory and basic econometric tools.

**Literature.** There is no textbook which covers the material in the class. References to recent papers will be provided during lectures.

### Structure, requirements and grading

- Week of April 8-12: 9 Lectures (see below) and 2 classes
- Take home exam (50%): April 15-17. Students (in groups of up to 3 students) solve small analytical exercise and run basic model simulation.
- Student presentation (50%): May 23, 2pm - 6pm; Students present a research idea, motivate it with data, and present a (small) extension of the models introduced in the lectures.

### Lectures

1. The New Keynesian two-country model: Framework
2. The New Keynesian two-country model: Solution
3. The small-open economy as a limiting case
4. Monetary policy and exchange rate dynamics
5. Fiscal multipliers and the exchange rate regime
6. Cross-country spillovers
7. Dominant currency pricing
8. HANK<sup>2</sup>
9. Financial frictions