This course aims at shedding light on the mechanisms driving global imbalances under a scenario of globalized financial markets. We will first set the basic key concepts and definitions concerning the fundamentals at play. These notions will allow us to discuss the most influential contributes on US external imbalances and the persistent dollar depreciation. We will then introduce a formal framework to analyze the dynamics of open economies in a stochastic environment; lectures will thus focus on RBC models including a specific treatment of external debt dynamics and debt limits. In light of the dramatic effects of balance of payments crises during the 90s, the third part of the course will study the implications of balance sheet effects for emerging vs industrial countries. We will show how the same mechanism can play very different roles. Finally, the course will provide evidence and discussion on globalization, balance of payments dynamics and current trends in international finance.

This course is taught in English and consists of 12 classes of 1.5 hours each. The final grade is based on a written exam. The participation to the class discussion as well as one problem set will be also accounted. Lectures are based on slides that will generally be available online.

Office hours: on Tuesday (12h-13h), by appointment.

Program (preliminary draft)

1 External imbalances and capital flows
   - Current trends
   - Key concepts

2 The debate on US external imbalances and the dollar
   - An historical perspective and an application: the “dark matter”.
   - Sustainability, return differentials and agents’ expectations

3 RBC models and the treatment of external liabilities
   - The standard RBC SOE framework
   - Unit roots and steady-state indeterminacy
   - Financial frictions and output co-movement
   - US evidence and the role of impatience

4 Balance sheet effects in industrial vs emerging countries
   - Third generation currency crisis and the policy stand
   - Valuation effects in industrial countries

5 Globalization and external imbalances
   - Stylized facts and current trends
   - International recessions and financial globalization
Some references

Evidence and discussion on US external imbalances and the dollar


International Monetary Fund (2007), "Exchange rates and the adjustment of external imbalances", World Economic Outlook, Ch. 3., April, Washington D.C..


RBC models with a specific treatment of external debt dynamics.


**Balance sheet effects and currency denomination of debt.**


Krugman, P. (1999), "Analytical afterthoughts on the Asian crisis", MIT mimeo,

**Globalization and external imbalances, evidence and stylized facts.**


International Monetary Fund (2005),”Globalization and external imbalances”, *World Economic Outlook*, Ch. 3., April, Washington D.C..

