The course deals with recent research work on international risk sharing and capital flows, with a special focus on some of the main international finance puzzles (exchange rate volatility puzzle, consumption-real exchange rate anomaly, portfolio home bias puzzle...).

The first part analyzes the risk-sharing properties of standard international business cycles and confront them to the data. Complete and incomplete markets environments are considered.

The second part deals with the international diversification of portfolios. This part provides the main stylized facts on international asset allocation across time, across countries and across assets. It also provides the technical tools to incorporate non-trivial portfolio choices in international macro models.

The last part will deal with recent work on global imbalances, net foreign asset dynamics and international financial adjustment (valuation effects of international portfolios) in international macro models.

Reading List

(* Means compulsory reading)

1) Risk Sharing in International Real Business Cycles


b. Consumption Risk-Sharing and The Quantity Puzzle (Complete and Incomplete Markets)


2) **International Portfolio Diversification**

a. **International Portfolios Puzzles**


Coeurdacier, N. and Rey, H. Home Bias in Open Economy Financial Macroeconomics, 2010, mimeo LBS

b. **The role of Trading Costs and Non-Tradables**


**Obstfeld's Ohlin Lecture: International Risk Sharing and the Cost of Trade**

*Coeurdacier N., “Do trade costs in goods markets lead to home bias in equities?”, Journal of International Economics, 2009


c. **The role of Human Capital**


d. Methodology


Transaction costs versus gains from international risk sharing [if time permits]


**3) Global imbalances and international financial adjustment**

a. Valuation effects in portfolio models

Devereux and Sutherland, 2010, Valuation effects and the dynamics of net external assets, *Journal of International Economics*


Rey, H., Gourinchas P-O, and Govillot, N., 2010, Exorbitant Privilege and Exorbitant Duty, *mimeo LBS*
b. Recent models on global imbalances

