

PUBPOL542: INTERNATIONAL FINANCIAL POLICY
Gerald R. Ford School of Public Policy, University of Michigan
Winter 2011 Course Information and Reading Assignments

ADMINISTRATIVE INFORMATION:

Schedule: M/W 1:00-2:30
Location: Weill 1220
Instructor: Kathryn Dominguez
Office Hours: Fridays from 2-4pm in 3306 Weill. Phone: 764-9498;
Email address: kathrynd@umich.edu
Webpage: <http://www-personal.umich.edu/~kathrynd/index.html>
Grading: Assignments: 10%; Group Project 20%; Mid Term: 30%; Final Exam: 40%

COURSE DESCRIPTION:

This course provides an overview of international financial economics, developing analytic tools and concepts that can be used to analyze world economic policy debates. It covers the international implications of macroeconomic policies, international monetary arrangements and institutions, and stabilization programs for developing countries.

The course will be structured around the tools (models) of open economy macroeconomics, using primarily graphs, and occasionally equations. However, motivation for these tools, and examples of their use will always be taken from current and recent real-world macroeconomics events and conditions.

COURSE PREREQUISITES:

PUBPOL555 or Economics 401 (Intermediate Microeconomics); PUBPOL 556 or Economics 402 (Intermediate Macroeconomics); or the equivalents, and graduate standing.

COURSE REQUIREMENTS:

Assignments: There are four problem sets and a group project. The problem sets involve both short essays and solving problems. You are strongly urged to form study-groups to work on these assignments.

The group project will be an assessment of the recent macroeconomic performance and current macroeconomic problems in a particular country. See handout in our CTools site for more detailed information regarding the group project. Students who are concurrently taking PUBPOL556 need only do one group project for both classes.

Midterm Exam: There will be an in-class (closed-book and closed-notes) Midterm exam. It will cover the first half of the course. I will distribute three questions the week before the Midterm; the Midterm will consist of one of these questions and one "new" question.

Final Exam: There will be an in-class (closed-book and closed-notes) Final exam. It will cover the full course, though with emphasis on the material covered in second half of the course. I will distribute three questions the week before the Final, the Final exam will consist of one of these questions and one "new" question.

Class Participation: Participation in class discussions is highly recommended.

If you believe you need an accommodation for a disability, please let me know at your earliest convenience. Some aspects of this course may be modified to facilitate your participation and progress. As soon as you make me aware of your needs, we can work with the Office of Services for Students with Disabilities to help us determine appropriate accommodations. I will treat any information you provide as private and confidential.

COURSE READINGS: The main *required* textbook for this class is:

Krugman, Paul and Maurice Obstfeld, International Economics: Theory and Policy, eighth edition, Addison-Wesley Publishers: 2009.

The textbook is available for purchase at Ulrich's Bookstore (549 East University Avenue) under our course number. Students may use earlier editions of the textbook (though be aware that chapter numbering may have changed across editions). All required readings (with the exception of the Krugman and Obstfeld textbook) are available off the web. Assignments, some of the readings, and this reading list can be downloaded from our course CTools site.

In addition to the listed course readings (attached), students are urged to stay up-to-date with current events in international financial markets. Subscription forms for special student rates for home delivery of the WSJ, FT and Economist are available online at:

WSJ: https://users1.wsj.com/wsjreg/do/loadStudentReg?call=R_ST_EDU&KEY_EXT_CODE=75HTB

The London Financial Times: http://news.ft.com/Education/Portal/welcome_students.html

The Economist: <https://www.economistacademic.com/index.cfm?action=sso>

There are a number of excellent blog sites that provide up-to-the minute macro and financial news and analysis, among my favorites:

<http://delong.typepad.com/>

<http://gregmankiw.blogspot.com/>

<http://macroblog.typepad.com/macroblog/>

<http://www.econbrowser.com/>

<http://macromarketmusings.blogspot.com/>

<http://www.rgemonitor.com/>

<http://www.forexblog.org/category/central-banks>

The WSJ's 2010 "best economics blog" list is at: <http://blogs.wsj.com/source/2010/12/30/the-best-economics-blogs/>

For links to articles from the Web on the Recent Financial Crisis:

http://www-personal.umich.edu/~kathrynd/WebLinks_FinancialCrisis.doc

ADDITIONAL COURSE MATERIAL:

Other textbooks on international economics you may wish to consult are given below:

Caves, R., J. Frankel and R. Jones, World Trade and Payments, Harper Collins.

Husted, S. and M. Melvin, International Economics, Addison-Wesley Publishers.

Salvatore, D. International Economics, Prentice Hall.

Yarbrough, B. and Yarbrough, R., The World Economy: Trade and Finance, The Dryden Press.

Students who have had little or no macroeconomic training may want to read/skim the following Fed publication on open-market operations: <http://www.ny.frb.org/aboutthefed/fedpoint/fed32.html>. The Federal Reserve Bank of New York also provides brief notes (termed Fedpoints) on a number of the topics we will cover in class – these are available at the following address: <http://www.ny.frb.org/aboutthefed/fedpoints.html>

SUPPLEMENTARY (not required) READINGS:

Dominguez K. and J. Frankel, Does Foreign Exchange Intervention Work? Washington, D.C.: Institute for International Economics, 1993.

Dornbusch, R., Policymaking in the Open Economy, EDI Series in Economic Development, Oxford University Press for the World Bank, 1993.

Krugman, P., Pop Internationalism, The MIT Press, 1996.

PUBPOL542 day-to-day schedule

Class	Date	Topic	Reading	Issued	Collected
1	1/5	Introduction	ch.1		
2	1/10	Comparative Advantage	ch. 2&3*		
3	1/12	Accounting Issues – the BOP	ch.12*		
4	1/19	The Foreign Exchange Market	ch.13*	Prob 1	
5	1/24	International Interest Parity	ch.13*		
6	1/26	Banks and Monetary Policy	*		Prob 1
7	1/31	Money and Exchange Rates	ch.14*		
8	2/2	Inflation and Exchange Rates	ch.14*	Prob 2	
9	2/7	Purchasing Power Parity	ch.15*		
10	2/9	A Long-Run Model of Exchange Rates	ch.15*		Prob 2
11	2/14	Exchange Rates and The Current Account	ch.16*		
12	2/16	Effects of Monetary and Fiscal Policy	ch.16*	Midterm Qs	
13	2/21	Midterm Review			
14	2/23	Midterm Exam			
15	3/7	Fixed Exchange Rates and Intervention	ch.17*		
16	3/9	International Monetary History	ch.18*	Prob 3	group project info
17	3/14	International Institutions	ch.18*		
18	3/16	Fixed versus Flexible Exchange Rates	ch.19*		Prob 3
19	3/21	Macroeconomic Policy Coordination	ch.19*		
20	3/23	Currency Unions	ch.20*	Prob 4	
21	3/28	International Capital Markets	ch.21*		
22	3/30	International Financial Crises	ch.21*		Prob 4
23	4/4	Developing Country Issues I	ch.22*		
24	4/6	Developing Country Issues II	ch.22*		
25	4/11	Project Presentations 1		Final Exam Qs	Project
26	4/13	Project Presentations 2			
27	4/18	Final Exam			

All chapters listed under “readings” are in the Krugman and Obstfeld textbook. An asterisk * denotes that additional readings for this topic are listed on the next page.

Additional Readings available off the web to supplement the required readings listed on page 3:

Class 1: Introduction

Class 2: Comparative Advantage

- "Going Global: How Trade is Good for You," The Economist, December 6, 2001
- "Comparative Advantage: Finding Your Niche," The Economist, Feb 27th 2003
- "Liberating Trade", The Economist, May 13th 2004
- "Trade's Bounty", The Economist, Dec 2nd 2004
- "Globalization: More Pain Than Gain," The Economist, Sep 14, 2006.
- "Globalization: Small is Beautiful," The Economist, Oct 24, 2007.
- "Beyond Doha," The Economist, October 9, 2008
- "The Battle of Smoot-Hawley," The Economist, Dec 18th 2008
- "World Trade: Barriers to Entry," The Economist, Dec 18th 2008

P. Goldberg and N. Pavcnik, "Distributional Effects of Globalization in Developing Countries," *Journal of Economic Literature*, March 2007, 39-82.

Class 3: Accounting Issues – the BOP

- "The Shadow Economy Black Hole," The Economist, August 28, 1999
- "Figures to Fret About," The Economist, July 11, 1998
- "War of the Worlds," The Economist, May 27, 2000
- "The Informal Economy: In the Shadows", The Economist, June 17th 2004
- "Measuring Economies: Grossly Distorted Picture," The Economist, February 9, 2006
- "A Topsy Turvy World: Emerging Economies and the US Current Account Deficit," The Economist, September 14, 2006.
- "An Old Chinese Myth," The Economist, January 3, 2008
- "Remittances," The Economist, January 3, 2008
- "China's Incredible Shrinking Surplus," The Economist, Sep 3, 2009
- "Measuring What Matters," The Economist, Sep 17, 2009
- "Global Imbalances," The Economist, Oct 22, 2009
- "The Recovery in Trade," The Economist, Aug 5, 2010

Class 4: The Foreign Exchange Market

- "Foreign Exchange Settlement," The Economist, November 14, 2002
- "The Future of the Dollar: The Passing of the Buck?", The Economist, Dec 2nd 2004
- "Foreign-Exchange Trading: Free for All", The Economist, Dec 9th 2004
- "Currency Competition," The Economist, September 29, 2005
- "Yen and Yang," The Economist, Sep 28, 2006.
- "Losing Faith in the Greenback," The Economist, Nov 29, 2007
- "Resilient Dollar," The Economist, Oct 2, 2008
- "Sinking Sterling," The Economist, Dec 18, 2008
- "Dollar Depreciation: Denial or Acceptance?" The Economist, Oct 22, 2009
- "The Yuan-dollar Exchange Rate," The Economist, Nov 4, 2010

Goldberg, Linda, "Is the International Role of the Dollar Changing," FRBNY Current Issues, vol 16, 1, January 2010. http://www.newyorkfed.org/research/current_issues/ci16-1.pdf

Class 5: International Interest Parity

“Interest Rates: Unnaturally Low”, The Economist, Sep 30th 2004

“Traffic Lights on the Blink? Global Economic Adjustment”, The Economist, August 18, 2005

“Unnatural Causes of Debt,” The Economist, Sep 14, 2006.

“Crash and Carry,” The Economist, Dec 10, 2009

“The Federal Reserve: Ground Zero” The Economist, Dec 18th 2008

Frankel, Jeffrey, “Getting Carried Away: How the Carry Trade and Its Potential Unwinding Can Explain Movements in International Financial Markets,” Milken Institute Review, November 19, 2007

<http://ksghome.harvard.edu/~jfrankel/CarryTradeNov19-2007.pdf>

Cavallo, Michele, “Interest Rates, Carry Trades, and Exchange Rate Movements,” FRBSF Economic Letter, 2006-31, Nov 17, 2006 <http://www.frbsf.org/publications/economics/letter/2006/el2006-31.pdf>

Class 6: Banks and Monetary Policy

“Monopoly Power over Money,” The Economist, November 27, 1999

“Central Banks in Concert,” The Economist, December 13, 2007

“A Monetary Malaise,” The Economist, October 9, 2008

“Down the Slipway: Quantitative Easing,” The Economist, Nov. 4, 2010

U.S. Monetary Policy: Part 1: How Is The Fed Structured And What Are Its Policy Tools? FRBSF Economic Letter, 2004-01, Jan 16, 2004.

<http://www.frbsf.org/publications/economics/letter/2004/el2004-01.pdf>

Rudebusch, G., “The Fed’s Exit Strategy for Monetary Policy” FRBSF Economic Letter, June 14, 2010.

<http://www.frbsf.org/publications/economics/letter/2010/el2010-18.html>

Class 7: Money and Exchange Rates

U.S. Monetary Policy: Part 3: How Does Monetary Policy Affect The U.S. Economy?

FRBSF Economic Letter, 2004-03, Jan 30, 2004.

<http://www.frbsf.org/publications/economics/letter/2004/el2004-03.pdf>

Cecchetti, Stephen, “Crisis and Responses: The Federal Reserve and the Financial Crisis of 2007-2008,” Journal of Economic Perspectives, V.23, 1, Winter 2009

“The Crisis and the Policy Response,” Fed Chairman, Ben Bernanke, Speech Jan 13, 2009,

<http://www.federalreserve.gov/newsevents/speech/bernanke20090113a.htm>

FRB: Credit and Liquidity Programs and the Balance Sheet:

<http://www.federalreserve.gov/monetarypolicy/bst.htm>

The Treasury-Federal Reserve Accord:

http://www.richmondfed.org/publications/research/special_reports/treasury_fed_accord/

Class 8: Inflation and Exchange Rates

“Measuring Inflation: Costs Of Living”, The Economist, June 3rd 2004

“Inflation: A Foreign Affair”, The Economist, October 20, 2005

“Irving Fisher: Out of Keynes’s Shadow,” The Economist, February 12, 2009

Class 9: Purchasing Power Parity

Pakko, M. and P. Pollard, "For Here or To Go? Purchasing Power Parity and the Big Mac," Review, Federal Reserve Bank of St. Louis, January-February, 1996, pp. 3-17.
<http://www.stls.frb.org/docs/publications/review/96/01/9601mp.pdf>

"Measuring Economies: Garbage In, Garbage Out", The Economist, May 27th 2004
"PPP: Food for Thought", The Economist, May 27, 2004
"Recalculating China's GDP," The Economist, Dec 19, 2007
"Big Mac Index," The Economist, October 14, 2010

Class 10: A Long-Run Model of Exchange Rates

"The Dollar and the World Economy," The Economist, December 19, 2007

Class 11: Exchange Rates and the Current Account

Mann, C., "Perspectives on the U.S. Current Account Deficit and Sustainability", Journal of Economic Perspectives, 16, 3, Summer 2002, 131-152.

Higgins, M. and Klitgaard, T., "Viewing the Current Account Deficit as a Capital Inflow," Current Issues in Economics and Finance, Dec 1998, v.4 no.13, pp 1-6.
http://www.newyorkfed.org/research/current_issues/ci4-13.pdf

"The Dollar: The Wolf at the Door", The Economist, Oct 28th 2004
"US Imbalances: A Series of Fortunate Events", The Economist, November 25, 2004
"Europe: Virtue Unrewarded," The Economist, Nov 18, 2004
"Asian Currencies: A Need for Flexibility", The Economist, Nov 25th 2004
"Forever Free: Can America go on Borrowing Abroad Indefinitely", The Economist, Sep 22, 2005
"Global Imbalances," The Economist, Jan 22, 2009
"China's Export Prospects," The Economist, Jan 7, 2010

Class 12: Effects of Monetary and Fiscal Policy

"A Stimulating Debate: How Should Fiscal Policy Be Used to Support a Slumping Economy?" The Economist, October 25, 2001.
"America's Economy: Aspirin not Morphine", The Economist, January 3, 2008
"Is Government Spending Too Easy an Answer?", Greg Mankiw, NYT, January 10, 2009
<http://www.nytimes.com/2009/01/11/business/economy/11view.html?partner=permalink&exprod=permalink>
"After the recession, the deluge" The Economist, Jan 8th 2009
"The budget deficit," The Economist, Jan 8, 2009
"Are We All Keynesians Now?" The Economist, Debate March 10-13, 2009

Class 15: Fixed Exchange Rates and Central Bank Intervention

"Intervention: Divine or Comic?" The Economist, September 23, 2000
"Rescuing the Euro," The Economist, May 11, 2000
"Japanese Currency Intervention: A Fountain of Yen", The Economist, Mar 25th 2004
"Currency Collapse in the Ukraine," The Economist, Dec 1, 2008
"Up and Away: Japan's Currency," The Economist, Feb 5, 2009
"Swissie Fit," The Economist, Mar 19, 2009
"Flood Barriers," The Economist, Oct 7, 2010

Class 16: International Monetary History

"Diagnosing depression," The Economist, Dec 30, 2008
"Beyond Bretton Woods 2," The Economist, Nov 4, 2010

Class 17: International Institutions

Dominguez, K., "International Finance and the Bretton Woods Institutions," notes for IPE 2006.
<http://www-personal.umich.edu/~kathrynd/BrettonWoodsandInternationalFinance.pdf>

"The IMF: Mission Impossible," The Economist, April 8, 2009
"A Modern Guide to G-oology," The Economist, Nov 13, 2009
"The BRICs," The Economist, Apr 15, 2010

Class 18: Fixed versus Flexible Exchange Rates

Caramazzo, F. and J. Aziz, "Fixed or Flexible? Getting the Exchange Rate Right in the 1990s," IMF Economic Issues, No. 13, 1998. <http://www.imf.org/external/pubs/ft/issues13/issue13.pdf>

"Fix or Float?," The Economist, Sep 11, 2003

Cavallo, M., "To Float or Not To Float?" FRBSF Economic Letter, 2005-01, January 7, 2005.
<http://www.frbsf.org/publications/economics/letter/2005/el2005-01.pdf>

Class 19: Macroeconomic Policy Coordination

"United We Fall," The Economist, September 26, 2002
"Managing the World Economy," The Economist, August 1, 2002
"Central Banks in Concert," The Economist, December 13, 2007
"Multilateralism," The Economist, October 9, 2008

Class 20: Currency Unions

Dominguez, Kathryn, "[The European Central Bank, the Euro, and Global Financial Markets](#)," Journal of Economic Perspectives, 20, 4, Fall 2006.

"Fix or Float? (Global Finance Survey, part 6)," The Economist, January 30, 1999 for up-to-date information on the Euro, visit: <http://europa.eu.int/euro>

"Germany's Euro Test", The Economist, June 12th 2003
"Europe: Growing Apart", The Economist, Sep 30th 2004
"The euro at Ten: Demonstrably durable," The Economist, Dec 30th 2008
"Euro Area: A tricky Balancing Act," The Economist, Feb 5, 2009
"Greece's Sovereign-Debt Crisis," The Economist, Apr 15, 2010
"Breaking up the Euro Area," The Economist, Dec 2, 2010
"How to Devalue Without Devaluing," The Economist, Dec 2, 2010

Cembalest, Michael, "The Sick Men of Europe: the Challenges of a Monetary Union in Middle Age," Eye on the Market, J.P. Morgan, February 11, 2010

Class 21: International Capital Markets

Arslanalp, Serkan and Peter Blair Henry, "Debt Relief," Journal of Economic Perspectives, V.20, 1, Winter 2006, 207-220.

"The Zimbabwean Model," The Economist, November 28, 2002
"How the Bug Can Spread," The Economist, July 19, 2001
"Globalisation and its Critics," The Economist, September 27, 2001
"Finance on the Loose," The Economist, May 15, 1999
"Can Capital Controls Stop Poor Countries Crashing," The Economist, March 14, 1998
"Capital Controversies," The Economist, May 23, 1998
"Hot and cold running money", The Economist, May 1st 2003
"Sudden Storms", The Economist, May 1st 2003
"The Price of Privilege", The Economist, Sept. 22, 2005
"Third Thoughts on Foreign Capital," The Economist, Nov 16, 2006
"Volatile Commodity Prices," The Economist, October 9, 2008

Class 22: International Financial Crisis

"How far should finance be re-regulated?" The Economist, October 9, 2008
"Financial Crisis: When fortune frowned," The Economist, Oct 9th 2008
"Greed and Fear: A Special Report on the Future of Finance," The Economist, Jan 22, 2009

Coval, Jurek and Stafford, "The Economics of Structured Finance," Journal of Economic Perspectives, V.23, 1, Winter 2009

Brunnermeier, Markus, "Deciphering the Liquidity and Credit Crunch of 2007-2008," Journal of Economic Perspectives, V.23, 1, Winter 2009

Shin, Hyun Song, "Reflections on Northern Rock: The Bank Run that Heralded the Global Financial Crisis," Journal of Economic Perspectives, V.23, 1, Winter 2009

Goldman Sachs, "Effective Regulation Part 1: Avoiding Another Meltdown," "Part 2: Local Rules, Global Markets," March 2009

Class 23: Developing Country Issues I

Zarazaga, C., "Can Currency Boards Prevent Devaluations and Financial Meltdowns?" The Southwest Economy, Issue 4, 1995. <http://www.dallasfed.org/research/swe/1995/swe9504.pdf>

Federal Reserve Bank of Atlanta, "Responding to Global Crises: Dollarization in Latin America," EconSouth, Q2, 1999, p. 14-19.
http://www.frbatlanta.org/invoke_nonav.cfm?objectid=87B689E0-6666-11D5-93390020352A7A95&method=display

Easterly, William, "Can Foreign Aid Buy Growth?", Journal of Economic Perspectives, V.17, 3, Summer 2003, 23-48.

"Floating with an Anchor" The Economist, January 29, 2000
"Huff, Puff and Pay," The Economist, May 5, 2001
"Can Debt Relief Make a Difference?" The Economist, November 18, 2000
"The Roots of Development," The Economist, October 3, 2002
"Emerging Economies: Coming into Flower", The Economist, Oct 14th 2004
"Debt relief: Clean slate", The Economist, Sep 30th 2004
"Peso Crisis Ten Years On", The Economist, December 29, 2004
"Emerging Economies: Climbing Back", The Economist, January 19, 2006

"Venezuela's New Bolivar", The Economist, January 3, 2008
"Global Crisis and the Poor," The Economist, March 12, 2009

Class 24: Developing Country Issues II

Moreno, Ramon, "Depreciations and Recessions" Federal Reserve Bank of San Francisco, FRBSF Economic Letter, No. 99-30, Oct 8, 1999.

<http://www.sf.frb.org/econsrch/wklyltr/wklyltr99/el99-30.html>

"Emerging Market Companies", The Economist, September 18, 2008

"Emerging Markets and Global Finance," The Economist, October 9, 2008

"Emerging markets: A Taxonomy of Trouble," The Economist, Oct 23rd 2008

"Will the Global Financial Crisis Halt the Rise of Emerging Economies?" The Economist, January 8, 2009

"Domino Theory," The Economist, Feb 26, 2009

"Emerging Markets and Recession, The Economist, Dec 30, 2009