International Finance
Economics 721

Syllabus

This course analyzes the nature and effects of financial arrangements on capitalist economies operating in an international context. It deals primarily with international financial arrangements, and is designed to complement Economics 797L “Open Economy Macroeconomics” taught by Arslan Razmi, though that course is not a pre-requisite for this course.

More specifically, International Finance studies the effects of domestic and international banking, finance, foreign direct investment and macroeconomic policy and institutions on capital accumulation, unemployment, inflation, income distribution and class conflict in capitalist economies including the rich, poor and semi-industrialized countries. The course will also survey some relevant economic theories which have tried to understand the operation and implications of these international arrangements.

This semester, the course will use the recent and ongoing International financial crisis as one lens through which to study these topics.

The course will involve heavy doses of history, empirical work and some modeling.

Course Requirements:

The requirements for the course and grade weights for the course will consist of the following:

Mid-term exam/paper: 25%
Short response papers: 25%
Research paper: 50%

There will be short response papers required for the course. These will be critical summaries/reactions to a set of readings. We will have 4 – 6 of these scattered throughout the course and students will be expected to write 2 – 4 pages or so for each of them.

Students will present their final papers in “extra” (see below) class sessions at the end of the semester. Students are expected to read carefully and give feedback to their fellow students on their papers.

I intend for students to write papers exploring a topic in international finance/open economy macroeconomics this is of interest to them, quite possibly as an initial exploration of a topic related to their dissertation. This is a good opportunity for students to begin or further develop ideas for dissertations.

Moodle Site:

The course has a Moodle web site where the syllabus and key readings are posted. We may also use the site for various course activities. So, it is crucial that you learn how to log into and use the site.

Readings:

Most of the readings will be available either on Moodle (M) or on Reserve in the library (R). There are a few readings that have been ordered at Amherst Books (AB) bookstore that will be useful for the course; they will also be on Reserve (R)

Books Ordered at Amherst Books:


Barry Eichengreen, Globalizing Capital Oxford University Press, 2011.


Other Required and Optional Readings:

In each section, I will list required readings: the most important are marked by an *; the ones with * can be found either on the Moodle website or on reserve at the library. Other readings will be after a line on the syllabus.

As the course goes on, I will be adding new readings to the website.

Some of the readings are taken from Martin Wolfson and Gerald Epstein, eds. The Political
Outline of Course

**Week I:** Introduction: Major Issues in the Political Economy of International Finance and Open Economy Macroeconomics

**Weeks II - III:** International Monetary System: Basic Models and Concepts, History and Political Economy

**Week IV:** Financial Crises in Historical Perspective: Minskian Perspectives and Empirical Evidence

**Week V:** The Current Crisis and the Debate Over Financial Globalization in the Lead Up to the Crisis

**Week VI-VII** The Structure of Global Financial Markets and the Debate over “Global Imbalances”

**Week VIII:** The Euro, the Euro Crisis and The Role of the Dollar

**Week IX -X:** “Emerging Markets”, Capital Flows and Capital Controls: Beating the Trilemma

**Week XI:** The IMF and other International Financial Institutions

**Week XII:** Enforcement and The International Credit Regime

**Week XIII:** Multinational Corporations, Foreign Direct Invention and Outsourcing

**Week XIV:** Reforming the International Financial System

**Readings:**

If you have not taken a course in open economy macroeconomics or international finance, familiarize yourself with the finance and open economy macroeconomics sections of a "good" textbook in international finance and open economy macroeconomics. On Reserve at the library will be the textbook by Krugman and Obstfeld, *International Economics*. Another one is Caves, Jones and Frankel, *World Trade and Payments*. You should read through the chapters on international finance and Open Economy Macroeconomics.

**Week I: Introduction**

**September 4, 2013**


**Weeks II-III: International Monetary System: Basic Models, History and Political Economy**

For the next two weeks, we will be take a tour through recent international monetary and financial history focusing on several themes that will recur throughout the course.

**Week II: Basic Models and Concepts in International Finance** (This is a quick overview of basic concepts and models: Refer to an Intermediate Textbook like Krugman and Obstfeld (R); A key but old text is R. Dornbusch *Open Economy Macroeconomics (Dornbusch)* also on reserve (R)

**September 9 – 11:**

*Dornbusch, Open Economy Macroeconomics, chs. 1,2,3,4, 10, 11. (or similar material in intermediate text book like Krugman and Obstfeld, or Frankel, Caves and Jones)


**Week III The Gold Standard, Bretton Woods System and the Non-System**

**September 16- 18**

* Barry Eichengreen, *Globalizing Capital*, chs. 2 – 5.


For more on the gold standard read:

Week IV: Financial Crises in Historical Perspective: Minskian Perspectives and Empirical Evidence
September 23 - 25

*Charles Kindelberger and Robert Aliber, *Manias, Panics and Crashes* (R, AB), chs. 1 -6, 12, 14, 15.


Jan Kregel, “Political Economy Approaches To Financial Crisis: Hyman Minsky’s Financial Fragility Hypothesis” in Wolfson and Epstein, Chapter, 8.


*Oscar Jorda, Moritz Schularick, and Alan M. Taylor “Financial Crises, Credit Booms, and External Imbalances: 140 Years of Lessons”, *International Monetary Fund*.


Skim The BIS Annual Reports, the IMF, and Bank of England Financial Stability Reports UNCTAD Annual reports in recent years.

Week V: The Current Crisis and the Debate Over Financial Globalization in the Lead Up to the Crisis
September 30 - October 2

*Joseph Stiglitz, et. al.,  **Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System** September 21, 2009


Gabriel Palma,  **The revenge of the market on the rentiers. Why neo-liberal reports of the end of history turned out to be premature”, Cambridge Journal of Economics, 2009.**


**Weeks VI-VII: The Structure of Global Financial Markets and the Debate over “Global Imbalances”**

**October 7 – October 9; October 15 and 16 (October 14 is Columbus Day)**


The Missing Wealth Of Nations: Are Europe And The U.S. Net Debtors Or Net Creditors?
Gabriel Zucman, Paris School of Economics, February 25, 2013

U.S. Senate, JP Morgan Chase Whale Trades: A Case History Of Derivatives Risks And Abuses

Tobias Adrian, Hyun Song Shin “Liquidity and Leverage” Federal Reserve Bank of New York, May 2008

Hasan Comert, *Central Banks and Financial Markets: The Declining Power of US Monetary Policy*


**Week VIII: The Euro, the Euro Crisis and the Dollar**
**October 21 and 23**


*EuroMemo Group, European Integration at the Crossroads, Euromemorandum 2012.*


Costas Lapavitsas, “The Eurozone Crisis through the Prism of World Money”, Wolfson and Epstein, Ch. 18.
The Dollar

*Roohi Prem, “An Analysis of The Determinants of Reserve Currency Status”, IMF

*Paul Krugman, “The International Role of the Dollar: Theory and Prospect”.


Barry Eichengreen, Exorbitant Privilege, Oxford University Press. 2011.


October 28 – October 30, November 4 - 6
Trilemma


Trilemma and Choice of Exchange Rate

*Frankel, Jeffrey Frankel, “No Single Currency Regime is Right for All Countries or At All Times”, Princeton Essays, August, 1999.


**Week XI: The IMF and other International Financial Institutions: Is there anything New Under the Sun?**

**November 13**
International Monetary Fund, “The Fund’s Role Regarding Cross-Border Capital Flows Prepared by the Strategy, Policy, and Review”, Department and the Legal Department, in consultation with other Departments. Approved by Reza Moghadam and Sean Hagan November 15, 2010


*Ilene Grabel, Rebranding of Capital Controls in An Era of Productive Incoherence, PERI.*


**Week XII: The Architecture of The International Credit Regime: Enforcement Structures and their Contradictions**

**November 18 – 20**

*The Pari Pasu Fight Over Argentinian Debt (see selections from Financial Times and elsewhere; to be provided)*


*Eaton and Stiglitz, The Pure Theory of Country Risk*

Charles Lipson, *Standing Guard: Protecting Foreign Capital in the Nineteenth and Twentieth Centuries*, passim (R)

**Week XIII: Multinational Corporations, Foreign Direct Invention and Outsourcing November 25 - 27**


**Week XIV: Reforming the International Financial System**

**December 2 - 4**

*The Stiglitz Commission, United Nations, passim.

*Jose Antonio Ocampo, “International and Regional Cooperation for Dealing With Financial Crises”, in Wolfson and Epstein, Ch. 27.

**December 11 and/or 12: Class Presentations**