

Economics 592, Fall 2011
International Monetary Theory and Policy

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Office hours: Tuesday 10-12; Wednesday 10:30-12; Thursday 3:30-4:30; and by appointment.

Prerequisites: Economics 320 (Intermediate Macroeconomics) or Economic 490 (Money and Banking).

Who should take this class: Anyone with the prerequisites and an interest in financial crises.

Course objectives. This course is a course about international finance in a macroeconomic context. It will focus on the recent financial crisis (2007-2009), its predecessors, its context, its development into a sovereign debt crisis, and things to watch for in the future. Financial crises are ubiquitous and unavoidable. We can usually see them coming but hardly ever can we determine when they will hit. Crises are unpredictable, they destroy businesses, bring down governments, break-up families, and push individuals into poverty.

After taking this course, you will be able to:

- Use (some of) the jargon of finance;
- Differentiate a banking crisis from a currency crisis from a debt crisis;
- List the aftermath effects of a financial crisis on a country's GDP growth and sovereign debt.
- Explain why the discussion of the financial sector in Economics 101 is woefully incomplete and laughably inaccurate;
- Read and explain a country's balance of payments accounts;
- Analyze the recent history of the global financial crisis of 2007-09 in historical perspective;
- Discuss monetary and fiscal policy for an open economy.

The implicit contract: Economics 592 is designed so that you need to attend class. There are quizzes nearly every class and if you miss very many, it lowers your grade. I expect you to do the reading and to come prepared to talk about it. In return, I will do everything I can to make the class relevant, interesting, and useful.

Grades:

Quizzes on the readings and other assignments: 30%.

Short paper: 20%.

Midterm: 20%. (October 11, all essay).

Final: 30%. (Thursday, December 15, 1-3 (13h00-15h00), all essay).

Details about grades: There is a quiz nearly every class, or a written assignment is due, or both. Your grade is based on your highest 80%. (For example, if there are 20 quizzes, your grade is based on the top 16 scores.) If you miss 5, the highest possible grade in the class is a B; if you miss 8, a C.

There are 4 papers assigned; you do whichever 2 interest you the most or are the most convenient. (To be clear: you only do 2 papers but you will have 4 to choose from. They each have different due dates.) The assignments are on Blackboard, along with a file ("Writing Guidelines.docx") that has the grading rubric, format instructions, and key details about the assignments.

For both the midterm and final, I post questions on Blackboard during the semester and the exams are drawn from those questions. The final is cumulative.

The grading scale is: 85-100 is A range; 75-84 is B range; 60-74 is C range; 50-59 is D range. Pluses and minuses are awarded within those ranges.

Key dates and late papers: I will accept papers late but with a loss of points. After November 30, no more late papers will be accepted.

9/22: Paper 1—Penn World Table and economic growth.

10/6: Paper 2—IMF's World Economic Outlook Database and macro-balances.

10/11: MIDTERM

10/27: Paper 3—WTO Database and trade profiles.

11/17: Paper 4—OECD statistics on government debt.

12/15: Final Exam—1-3 (13h00-15h00)

Plagiarism: Plagiarism is taken very seriously. I will fail you in the class if you are caught cheating.

Readings

- Michael Lewis, *The Big Short* (2010)
- John Authers, *The Fearful Rise of Markets* (2010)
- Raghuram Rajan, *Fault Lines* (2010)
- Carmen Reinhart and Kenneth Rogoff, *This Time is Different* (2009)
- Barry Eichengreen, *Exorbitant Privilege* (2011)

Course Outline

Week 1: August 30/September 1

- Lewis, Prologue (xiii-xviii) plus Chapters 1-3 (pp. 1-84).
- Introduction to the course.
- The jargon of the financial crisis: HELOC, CDS, CDO, etc.

Week 2: September 6/8 TOPICS WILL DEPEND ON WHETHER I AM STILL ON JURY DUTY OR NOT.

- Lewis, Chapters 4-9 (pp. 85-225).
- If not on jury duty: Has this happened before? Yes, but it was different (The Great Depression) and Maddison's data on world economic growth
- If still on jury duty: The financial crisis as an "Inside Job:" Should economists take the blame?

Week 3: September 13/15

- Lewis, Chapter 10, Epilogue, and Afterword (pp. 226-268).
- Politics, values, and two models of human behavior
- Heuristics and biases

Week 4: September 20/22

- Authers, Timeline (pp. xvi – xxii) and Chapters 1-12 (pp. 1-89)
- The Bretton Woods international order
- Savings, investment, and the current account
- The IMF's World Economic Outlook Database

PAPER 1—GROWTH RATES AND CRISES—DUE SEPTEMBER 22

Week 5: September 27/29

- Authers, Chapters 13-22 (pp. 90-157)
- The Asian Crisis
- Real exchange rates, exchange rate determination.

Week 6: October 4/6

- Authers, Chapters 23-Conclusion (pp. 158-201).
- Monetary unions and the crisis in the EU.
- Review.

PAPER 2—MACRO BALANCES—DUE OCTOBER 6
MIDTERM OCTOBER 11

Week 7: October 11/13

- Rajan, Introduction and Chapter 1 (pp. 1-45).
- Inequality, wage stagnation, and the middle class.
- The WTO database

Week 8: October 18/20

- Rajan, Chapters 2-6 (pp. 46-133).
- Balance of payments accounting
- Global imbalances

Week 9: October 25/27

- Rajan, Chapters 7-10 and Epilogue (pp. 134-229).
- Economic journalism and economic theory—Lewis and Rajan.
- What is to be done?

PAPER 3—TRADE PROFILES—DUE OCTOBER 27

Week 10: November 1/3

- Reinhart and Rogoff, Preamble and Parts I and II (pp xxxix- xlv and 1-100).
- Varieties of crises
- Sovereign external debt crises

Week 11: November 8/10

- Reinhart and Rogoff, Parts III and IV (pp 101-197).
- Domestic debt
- Banking crises and currency crises

Week 12: November 15/17

- Reinhart and Rogoff, Parts V and VI (pp 199-292).
- The subprime crisis in the US
- Have we learned anything?

PAPER 4—GOVERNMENT DEBT AND CRISIS—DUE NOVEMBER 17

Week 13: November 22 (Thanksgiving Holiday, November 24)

- Eichengreen, Introduction and Chapters 1-2 (pp 1-38)
- The rise of the dollar
- Early 20th century financial history

Week 14: November 29/December 1

- Eichengreen, Chapters 3-5 (pp 39-120)
- The postwar period (After WWII)
- The dollar and the crisis

Week 15: December 6/8

- Eichengreen, Chapters 6-7 (pp. 121-178)
- Reserve currencies
- The dollar's future role