PP495: POLICY SEMINAR: GLOBAL FINANCIAL MARKETS, CRISES AND POLICY
Gerald R. Ford School of Public Policy, University of Michigan
Fall 2018 Course Information and Reading Assignments

ADMINISTRATIVE INFORMATION:

Schedule: T/Th 1:00-2:30
Location: Weill 1220
Instructor: Kathryn Dominguez
Office Hours: sign-up online: http://goo.gl/Ku6WK (in Weill 3306)
Email address: kathrynd@umich.edu
Grading: Short Writing Assignments: 40%; Participation: 15%; Book Review: 15%; Final Project: 30%

COURSE DESCRIPTION:
Global financial markets provide both opportunities and risks for macroeconomic policymakers. In this course we will explore the role of financial markets in economic development, the causes and consequences of financial crises, whether and how policies and institutions can be used to stabilize markets and help countries recover from crises, and what lessons we can learn from recent experiences which might help prevent future crises. There will be heavy emphasis on understanding and using data to study country experiences -- with examples drawn from developing and industrial economies.

COURSE PREREQUISITES:
PUBPOL 330 or Econ 401 (Intermediate Microeconomics) or Econ 402 (Intermediate Macroeconomics); or the equivalents.

COURSE REQUIREMENTS:

Writing Assignments: The three short writing assignments will each involve data collection and analysis. Revisions (based on in-class peer reviews) will be due one week after original assignment deadlines.

Book Review: a 2-3 page critical review of a book covering a financial crisis. A list of recommended books is on page 2 of this syllabus. The review should include: (1) description of the central message of the book and your assessment of its merit, (2) discussion of something important you learned from the book that you did not know before reading it, (3) discussion of something in the book that you disagree with (or think was inadequately explained/addressed).

Final Project: The final project will be a comparative assessment of the causes and consequences of two financial crises either in the same country across time, or in the same time period across two countries; more detailed information on the project will be available on the course Canvas site. Students will present their project findings to the class in December.

Class Participation: Participation in class discussions is required; there will be many opportunities for students to lead class discussions of readings and assignments.

COURSE EXPECTATIONS:
The Ford School website academic expectation page: http://fordschool.umich.edu/academics/expectations describes my expectations for academic integrity, accommodations for students with disabilities, information about mental health services, our inclusivity statement, expectations regarding class attendance and assignments, and Ford School norms for use of technology in the classroom and during office hours.
COURSE READINGS:
All required readings are available in pdf format on our course Canvas site.

In addition to the listed course readings, students should stay up-to-date with current events in international financial markets. Excellent sources include the Financial Times, Wall Street Journal and the Economist as well as numerous blog sites that provide macro and financial news and analysis, examples include:
https://blogs.wsj.com/economics/
https://blogs.imf.org/
http://libertystreeteconomics.newyorkfed.org/
http://macroblog.typepad.com/
http://www.moneyandbanking.com/
http://voxeu.org/
http://www.economist.com/blogs/freeexchange/
http://www.econbrowser.com/

RECOMENDED BOOKS (for the book review assignment):


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<thead>
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<th>Class</th>
<th>Date</th>
<th>Topic</th>
<th>Required Reading</th>
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<td>1</td>
<td>9/4</td>
<td>Introduction</td>
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<td>2</td>
<td>9/6</td>
<td>Overview of Financial Markets</td>
<td>Wurgler</td>
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<td>3</td>
<td>9/11</td>
<td>Financial Institutions</td>
<td>Greenwood &amp; Scharfstein</td>
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<td>4</td>
<td>9/13</td>
<td>Banks and Monetary Policy I</td>
<td>FRB</td>
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<td>5</td>
<td>9/18</td>
<td>Banks and Monetary Policy II</td>
<td>Ihrig et al.</td>
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<td>6</td>
<td>9/20</td>
<td>The Macro-economy and Finance</td>
<td>Higgins &amp; Klitgaard</td>
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<td>7</td>
<td>9/25</td>
<td>Assignment 1 Discussion &amp; Peer Reviews</td>
<td>Schwabish</td>
<td>Assign 1</td>
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<td>8</td>
<td>9/27</td>
<td>Arbitrage and Parity Conditions I</td>
<td>Lamont and Thaler</td>
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<td>9</td>
<td>10/2</td>
<td>Arbitrage and Parity Conditions II</td>
<td>Lamont and Thaler</td>
<td>Assign 1 revision</td>
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<td>10/4</td>
<td>The Role of Exchange Rates</td>
<td>Cavallo</td>
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<td>11</td>
<td>10/9</td>
<td>International Monetary History</td>
<td>Dominguez</td>
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<td>12</td>
<td>10/11</td>
<td>Assignment 2 Discussion &amp; Peer Reviews</td>
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<td>Assign 2</td>
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<td>13</td>
<td>10/18</td>
<td>The Role of Credit</td>
<td>Jordà</td>
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<td>14</td>
<td>10/23</td>
<td>The Euro Experiment</td>
<td>Dominguez</td>
<td>Assign 2 revision</td>
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<td>15</td>
<td>10/25</td>
<td>Euro Crisis</td>
<td>Dominguez and Tesar</td>
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<td>16</td>
<td>10/30</td>
<td>Financial Crises</td>
<td>Claessens and Rose</td>
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<td>11/1</td>
<td>Assignment 3 Discussion &amp; Peer Reviews</td>
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<td>Assign 3</td>
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<td>19</td>
<td>11/8</td>
<td>Financial Regulation &amp; GFSN</td>
<td>Hanson et al.</td>
<td>Assign 3 revision</td>
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<td>21</td>
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<td>Case Study: Argentina’s Capital Controls</td>
<td>August et al.</td>
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<td>22</td>
<td>11/20</td>
<td>Project Discussion &amp; Peer Reviews</td>
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<td>Final Project</td>
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<td>24</td>
<td>11/29</td>
<td>Project Presentations 1</td>
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<td>Project revision</td>
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<td>12/4</td>
<td>Project Presentations 2</td>
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<td>26</td>
<td>12/6</td>
<td>Project Presentations 3</td>
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<td>27</td>
<td>12/11</td>
<td>Class Wrap-Up</td>
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<td>Book Review</td>
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Readings (available on our Canvas site); * denotes reading is required.

Class 1: Introduction

Class 2: Overview of Financial Markets


“The Slumps that Shaped Modern Finance,” The Economist, April 12, 2014
historical-crises-show-how-aspects-today-s-fina

“What’s Wrong with Finance,” The Economist, May 1, 2015

birth-of-the-fed.html

Class 3: Financial Institutions


“What’s Wrong with Finance,” The Economist, May 1, 2015

birth-of-the-fed.html

Class 4 and 5: Banks and Monetary Policy

*FRB: How Is the Fed Structured and What Are Its Policy Tools?

*FRB: Fed Purposes and Functions: How Policies Affect the Economy?


“Monetary Policy after the Crash: Controlling Interest,” The Economist, Sept 21, 2013

“The History of Central Banks,” The Economist, April 27, 2017

Podcast: The Invention of Money, NPR's This American Life episode 423, first aired on Jan 7, 2011:
http://www.thisamericanlife.org/radio-archives/episode/423/the-invention-of-money

NPR, "Yap: the Island of Stone Money," Planet Money, December 2010:
https://www.npr.org/sections/money/2011/02/15/131934618/the-island-of-stone-money
Class 6: The Macro-economy and Finance


Podcast: The Invention of ‘The Economy,’ NPR’s Planet Money Episode 521: http://www.npr.org/sections/money/2014/03/05/286366404/episode-521-the-invention-of-the-economy

Class 7: Writing About and Presenting Data


Class 8 and 9: Arbitrage and Parity Conditions


“Why Nominal Interest Rate Differentials are Important to Currency Markets” The Economist, Aug 10, 2013.


Big Mac Index Interactive Currency Comparison Tool: http://www.economist.com/content/big-mac-index


Class 10: The Role of Exchange Rates

*Cavallo, Michele, “To Float or Not To Float?” FRBSF Economic Letter, 2005-01, January 7, 2005.


“Russia’s Ruble Crisis: Going over the Edge,” The Economist, Dec 20, 2014

“Global Monetary Disorder: Thrills and Spills,” The Economist, Oct 3, 2015

“Fight or Flight: China’s Exchange Rate Options,” The Economist, Jan 16, 2016


“China and Currency Manipulation,” The Economist, March 2, 2017
Class 11: International Monetary History


Class 13: The Role of Credit


Class 14: The Euro Experiment


Class 15: The Euro Crisis


BBC News Timeline: The Unfolding Eurozone Crisis (June 13, 2012):

Podcast: Continental Breakup, NPR’s This American Life episode 455, aired on January 20, 2012:
https://www.thisamericanlife.org/radio-archives/episode/455/continental-breakup

Class 16: Financial Crises


“What Asia Learned from Its Financial Crisis,” The Economist, July 1, 2017

Podcast: A Hedge Fund, A Country, and a Big Sailboat, NPR's Planet Money Episode 689:


Podcast: Interview with Bernanke, Geithner and Paulson, NPR's Marketplace, aired March 2018:
Podcast: The Giant Pool of Money, NPR's This American Life, aired on May 9, 2008:

Podcast: Credit Crisis, NPR's Planet Money, aired on Feb 19, 2009:

Class 19: Financial Regulation and Global Financial Safety Nets


FRBSF: Regulatory Reform: http://sffed-education.org/econanswers/reform_q1more.htm

FRBSF: Regulation of Firms Deemed “Too Big to Fail”: http://sffed-education.org/econanswers/reform_q2more.htm


Podcast: In Search of a Goldilocks Banking System, NPR's Planet Money, aired on June 8, 2011:
http://www.npr.org/sections/money/2011/06/08/137056965/there-is-no-goldilocks-banking-system

Class 20: Case Study: Argentina (2001)


Class 21: Case Study: Argentina’s Capital Controls


Class 23: Case Study: Iceland (2008)

*Benediktsdóttir, Sigriður, Gauti B. Eggertsson, and Eggert Þórarinsson, “The rise, the fall, and the resurrection of Iceland” Brookings Papers on Economic Activity, Fall 2017: