PUBPOL542: INTERNATIONAL FINANCIAL POLICY
Gerald R. Ford School of Public Policy, University of Michigan
Winter 2015 Course Information and Reading Assignments

ADMINISTRATIVE INFORMATION:
Schedule: M/W 10:00-11:30
Location: Weill 1220
Instructor: Kathryn Dominguez
Office Hours: sign-up online: http://goo.gl/Ku6WK (in Weill 3306)
Email address: kathrynd@umich.edu
Grading: 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 (Intermediate Microeconomics) or PUBPOL 556 (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.

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:


The textbook is available for purchase at local bookstores 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 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://buy.wsj.com/shopandbuy/order/subscribe.jsp?trackCode=aap1hyb
The London Financial Times: http://education.ft.com/how-to-subscribe/

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://krugman.blogs.nytimes.com/
http://voxeu.org/
http://www.economonitor.com/
http://www.economist.com/blogs/freeexchange/
http://macroblog.typepad.com/macroblog/
http://www.econbrowser.com/
http://macromarketmusings.blogspot.com/
http://www.roubini.com/
http://www.forexblog.org/category/central-banks


ADDITIONAL COURSE MATERIAL:

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

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:


<table>
<thead>
<tr>
<th>Class</th>
<th>Date</th>
<th>Topic</th>
<th>Reading</th>
<th>Issued</th>
<th>Collected</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1/7</td>
<td>Introduction</td>
<td>ch.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>1/12</td>
<td>Comparative Advantage</td>
<td>ch.2&amp;3*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>1/14</td>
<td>Accounting Issues – the BOP</td>
<td>ch.13*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>1/21</td>
<td>Accounting Issues II</td>
<td>ch.13*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>1/26</td>
<td>The Foreign Exchange Market</td>
<td>ch.14*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>1/28</td>
<td>International Interest Parity</td>
<td>ch.14*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>2/2</td>
<td>Banks and Monetary Policy</td>
<td>*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>2/4</td>
<td>Money and Exchange Rates</td>
<td>ch.15*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>2/9</td>
<td>Inflation and Exchange Rates</td>
<td>ch.15*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>2/11</td>
<td>GUEST SPEAKER: Lisa Stowe (NY Fed)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>2/16</td>
<td>Purchasing Power Parity</td>
<td>ch.16*</td>
<td></td>
<td>Prob 2</td>
</tr>
<tr>
<td>12</td>
<td>2/18</td>
<td>A Long-Run Model of Exchange Rates</td>
<td>ch.16*</td>
<td></td>
<td>Midterm Qs</td>
</tr>
<tr>
<td>13</td>
<td>2/23</td>
<td>Exchange Rates and The Current Account</td>
<td>ch.17*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>2/25</td>
<td>Midterm Exam</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>3/9</td>
<td>Effects of Monetary and Fiscal Policy</td>
<td>ch.17*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>3/11</td>
<td>Fixed Exchange Rates and Intervention</td>
<td>ch.18*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>3/16</td>
<td>Fixed versus Flexible Exchange Rates</td>
<td>ch.18*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>3/18</td>
<td>International Monetary History</td>
<td>ch. 19*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>3/23</td>
<td>Currency Unions</td>
<td>ch.21*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>3/25</td>
<td>The Euro Experiment/Crisis</td>
<td>ch.21*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>3/30</td>
<td>International Capital Markets</td>
<td>ch.20*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>4/1</td>
<td>International Financial Crises</td>
<td>ch.20*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>4/6</td>
<td>Developing Country Issues I</td>
<td>ch.22*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>4/8</td>
<td>Developing Country Issues II</td>
<td>ch.22*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>4/13</td>
<td>Project Presentations 1</td>
<td></td>
<td></td>
<td>Final Exam Qs Project</td>
</tr>
<tr>
<td>26</td>
<td>4/15</td>
<td>Project Presentations 2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>4/20</td>
<td>Final Exam</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

All chapters listed under “readings” are in the Krugman, Obstfeld and Melitz textbook. An asterisk * denotes that additional readings for this topic are listed on the next page.
Additional Readings available on our CTools site to supplement the textbook 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
“Liberating Trade,” The Economist, May 13th 2004
“Trade's Bounty,” The Economist, Dec 2nd 2004
“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
“Building Blocks for Free Trade,” The Economist, Dec 22, 2012
“Protectionism,” The Economist, Oct 12, 2013
“The Trade-deficit: Star-spangled Spenders,” The Economist, Jan 4, 2014


Class 3 and 4: 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
“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
“America has Changed the Way it Measure GDP,” The Economist, Aug 3, 2013


Class 5: The Foreign Exchange Market

“Foreign Exchange Settlement,” The Economist, November 14, 2002
“Foreign-Exchange Trading: Free for All,” The Economist, Dec 9th 2004
“Currency Competition,” The Economist, September 29, 2005
Class 5: The Foreign Exchange Market (cont.)

“Sinking Sterling,” The Economist, Dec 18, 2008
“Dollar Depreciation: Denial or Acceptance?” The Economist, Oct 22, 2009
“The Yuan-dollars Exchange Rate,” The Economist, Nov 4, 2010
“Reserve Currencies: Climbing Greenback Mountain,” The Economist, Sep 24, 2011
“Currency War Games,” The Economist, Jan 19, 2013


Class 6: 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
“Crash and Carry,” The Economist, Dec 10, 2009
“Vietnam's dollar trade: Cleaning out the Till,” The Economist, Feb 2011
“Why Nominal Interest Rate Differentials are Important to Currency Markets” The Economist, Aug 10, 2013.


Class 7: 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
“Unconventional is the New Conventional,” The Economist, Jan 7, 2012
“Bank of Japan Moves to Fight Deflation,” NYTimes, Jan 22, 2013


Eichengreen, B., “Does the Federal Reserve Care About the Rest of the World?” *Journal of Economic Perspectives*, 27, 4, Fall 2013, 87-104.

Class 8: Money and Exchange Rates


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

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 9: Inflation and Exchange Rates

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

Class 10: GUEST SPEAKER Lisa Stowe

Lisa Stowe is a Ford School MPP Alumna who works in the Markets Group at the NY Fed. She is responsible for a team that manages the FOMC cycle driven Survey of Primary Dealers, as well as high frequency market monitoring of short term money markets and other fixed income markets (with an eye to extracting expectations for the path of the fed funds rate, among other policy expectations related themes). She will talk about her own career experiences at the Fed as well as more generally about Fed policies related to financial markets.

Class 11: Purchasing Power Parity

http://research.stlouisfed.org/publications/review/96/01/9601mp.pdf

“PPP: Food for Thought,” *The Economist*, May 27, 2004

Big Mac Index Interactive Currency Comparison Tool: http://www.economist.com/content/big-mac-index
Class 12: A Long-Run Model of Exchange Rates


Class 13: Exchange Rates and the Current Account


“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 15: Effects of Monetary and Fiscal Policy


“Managing the World Economy,” The Economist, August 1, 2002

“United We Fall,” The Economist, September 26, 2002


“Multilateralism,” The Economist, October 9, 2008


“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

“Central Banks Brave New Words,” The Economist, February 23, 2013

“Stimulus: An Enigmatic Slowdown,” The Economist, October 17, 2014


Class 16: Fixed Exchange Rates and Central Bank Intervention

“Intervention: Divine or Comic?” The Economist, September 23, 2000

“Rescuing the Euro,” The Economist, May 11, 2000


“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

“High Voltage Central Banks,” The Economist, Mar 12, 2013
Class 17: Fixed versus Flexible Exchange Rates


“Fix or Float?” The Economist, Sep 11, 2003

Class 18: International Monetary History


“Diagnosing depression,” The Economist, Dec 30, 2008
“The IMF: Mission Impossible,” The Economist, April 8, 2009
“The BRICs,” The Economist, Apr 15, 2010
“Beyond Bretton Woods 2,” The Economist, Nov 4, 2010

Class 19: Currency Unions

“Fix or Float? (Global Finance Survey, part 6),” The Economist, January 30, 1999
“How to Devalue Without Devaluing,” The Economist, Dec 2, 2010
“The charm of the BBC: Lessons for China from Singapore,” The Economist, Mar 22, 2014

Class 20: The Euro Experiment/Crisis


“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
“Greece’s Sovereign-Debt Crisis,” The Economist, Apr 15, 2010
“Breaking up the Euro Area,” The Economist, Dec 2, 2010
“Greece’s Return to the Markets: The Prodigal Son,” April 12, 2014
Economist Interactive European Economy Guide:

Class 21: International Capital Markets


“The Zimbabwean Model,” The Economist, November 28, 2002
“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
“Russia's Foreign Exchange Reserves: What's Really There?” The Economist, Dec 12, 2014
“Russia’s Ruble Crisis: Going over the Edge,” The Economist, Dec 20, 2014


Class 23: Developing Country Issues I


Class 23: Developing Country Issues I (cont.)


“Can Debt Relief Make a Difference?” *The Economist*, November 18, 2000
“Debt relief: Clean slate,” *The Economist*, Sep 30th 2004
“Peso Crisis Ten Years On,” *The Economist*, December 29, 2004
“Global Crisis and the Poor,” *The Economist*, March 12, 2009

Class 24: Developing Country Issues II


“Domino Theory,” *The Economist*, Feb 26, 2009