

**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](mailto: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://libtystreeteconomics.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):**

Ahamed, Liaquat, Lords of Finance: The Bankers Who Broke the World, Penguin Books, 2009.

Bayoumi, Tamin, Unfinished Business: The Unexplored Causes of the Financial Crisis and the Lessons Yet to be Learned, Yale University Press, 2017.

Bernanke, Ben, Lectures on: The Federal Reserve and the Financial Crisis, Princeton University Press, 2013.

Bernanke, Ben, The Courage to Act: A Memoir of a Crisis and Its Aftermath, W. W. Norton & Company, 2015.

Blinder, Alan, After the Music Stopped: The Financial Crisis, the Response, and the Work Ahead, Penguin, 2013.

Desai, Padma, Financial Crisis, Contagion, and Containment: From Asia to Argentina, Princeton U Press, 2003.

Geithner, Timothy, Stress Test: Reflections on Financial Crises, Broadway Books, 2014.

Kindleberger, Charles, Manias, Panics, and Crashes: A History of Financial Crises, 7<sup>th</sup> Ed, Palgrave Macmillan, 2015.

King, Mervyn, The End of Alchemy: Money, Banking, and the Future of the Global Economy, Norton, 2016.

Lewis, Michael, The Big Short: Inside the Doomsday Machine, W. W. Norton & Company, 2010.

Mian, Atif and Amir Sufi, House of Debt: How They (and You) Caused the Great Recession, and How We Can Prevent It from Happening Again, University of Chicago Press, 2014.

Rajan, Raghuram, Fault Lines: How Hidden Fractures Still Threaten the World Economy, Princeton, 2010.

Reinhart, Carmen and Kenneth Rogoff, This Time is Different: Eight Centuries of Financial Folly, Princeton University Press, 2009.

Sorkin, Andrew Ross, Too Big to Fail: The Inside Story of How Wall Street and Washington Fought to Save the Financial System--and Themselves, Viking Press, 2009.

Tooze, Adam, Crashed: How a Decade of Financial Crises Changed the World, Viking Press, 2018.

Wolf, Martin, The Shifts and the Shocks: What We've Learned--and Have Still to Learn--from the Financial Crisis, Penguin Press, 2014.

**PUBPOL495 day-to-day schedule**

Class	Date	Topic	Required Reading	Due
1	9/4	Introduction		
2	9/6	Overview of Financial Markets	Wurgler	
3	9/11	Financial Institutions	Greenwood & Scharfstein	
4	9/13	Banks and Monetary Policy I	FRB	
5	9/18	Banks and Monetary Policy II	Ihrig et al.	
6	9/20	The Macro-economy and Finance	Higgins & Klitgaard	
7	9/25	Assignment 1 Discussion & Peer Reviews	Schwabish	Assign 1
8	9/27	Arbitrage and Parity Conditions I	Lamont and Thaler	
9	10/2	Arbitrage and Parity Conditions II	Lamont and Thaler	Assign 1 revision
10	10/4	The Role of Exchange Rates	Cavallo	
11	10/9	International Monetary History	Dominguez	
12	10/11	Assignment 2 Discussion & Peer Reviews		Assign 2
13	10/18	The Role of Credit	Jordà	
14	10/23	The Euro Experiment	Dominguez	Assign 2 revision
15	10/25	Euro Crisis	Dominguez and Tesar	
16	10/30	Financial Crises	Claessens and Rose	
17	11/1	Assignment 3 Discussion & Peer Reviews		Assign 3
18	11/6	Global Financial Crisis (2008)	EROP	
19	11/8	Financial Regulation & GFSN	Hanson et al.	Assign 3 revision
20	11/13	Case Study: Argentina (2001)	Dominguez and Tesar	
21	11/15	Case Study: Argentina's Capital Controls	August et al.	
22	11/20	Project Discussion & Peer Reviews		Final Project
23	11/27	Case Study: Iceland (2008)	Benediktsdóttir et al.	
24	11/29	Project Presentations 1		Project revision
25	12/4	Project Presentations 2		
26	12/6	Project Presentations 3		
27	12/11	Class Wrap-Up		Book Review

**Readings (available on our Canvas site);** \* denotes reading is required.

Class 1: Introduction

Class 2: Overview of Financial Markets

\*Wurgler, Jeffrey, "Financial Markets and the Allocation of Capital," Journal of Financial Economics, 58, 2000: 187-214.

"The Dangers of Debt: Lending Weight," The Economist, Sept 14, 2013

"The Slumps that Shaped Modern Finance," The Economist, April 12, 2014

<http://www.economist.com/news/essays/21600451-finance-not-merely-prone-crises-it-shaped-them-five-historical-crises-show-how-aspects-today-s-fina>

"What's Wrong with Finance," The Economist, May 1, 2015

Morgan, Donald and James Narron, "The Final Crisis Chronicle: The Panic of 1907 and the Birth of the Fed," November 2016.

<http://libertystreeteconomics.newyorkfed.org/2016/11/the-final-crisis-chronicle-the-panic-of-1907-and-the-birth-of-the-fed.html>

Class 3: Financial Institutions

\*Greenwood, Robin and David Scharfstein, "The Growth of Finance," Journal of Economic Perspectives, V. 27, 2, Spring 2013, 3-28.

Lettau, Martin and Ananth Madhavan, "Exchange-Traded Funds 101 for Economists," Journal of Economic Perspectives, v. 32, 1, Winter 2018, 135-154.

"Making Banks Safe: Calling to Accounts," The Economist, Oct 5, 2013

"Exclusive Access: Special Report on Financial Inclusion," The Economist, May 5, 2018.

Class 4 and 5: Banks and Monetary Policy

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

<https://www.federalreserve.gov/aboutthefed/structure-federal-reserve-system.htm>

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

[https://www.federalreserve.gov/aboutthefed/files/pf\\_3.pdf](https://www.federalreserve.gov/aboutthefed/files/pf_3.pdf)

\*Ihrig, Jane E., Ellen E. Meade, and Gretchen C. Weinbach, "Rewriting Monetary Policy 101: What's the Fed's Preferred Post-Crisis Approach to Raising Interest Rates?" Journal of Economic Perspectives, 29, 4, Fall 2015, 177-198.

"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

\*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.

Bernanke, Ben, "The Global Saving Glut and the US Current Account Deficit," The Sandridge Lecture, April 14, 2005: <http://www.federalreserve.gov/boardDocs/Speeches/2005/200503102/default.htm>

"Measuring Wellbeing and Financial Inclusion," The Economist, July 20, 2016

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

\*Schwabish, Jonathan, "An Economist's Guide to Visualizing Data," Journal of Economic Perspectives, 28, 1, Winter 2014, 209-234.

Class 8 and 9: Arbitrage and Parity Conditions

\*Lamont, Owen and Richard Thaler, "Anomalies: The Law of One Price in Financial Markets," Journal of Economic Perspectives, V.17, 4, Fall 2003, 191-202.

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

"Take Cover: A Market Anomaly," The Economist, Sept 24, 2016

Cavallo, Michele, "Interest Rates, Carry Trades, and Exchange Rate Movements," FRBSF Economic Letter, 2006-31, Nov 17, 2006

\*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.

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

Podcast: Free Money, NPR's Planet Money Episode 581:  
<http://www.npr.org/sections/money/2014/11/07/362060876/episode-581-free-money>

Class 10: The Role of Exchange Rates

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

Irwin, Neil, "Economic Lessons from Switzerland's One Day, 18 Percent Currency Rise," NY Times, Jan 15, 2015

"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

"The Mundell Fleming Trilemma: Two Out of Three Ain't Bad," The Economist, Aug 27, 2016

"China and Currency Manipulation," The Economist, March 2, 2017

## Class 11: International Monetary History

\*Dominguez, K., "International Finance and the Bretton Woods Institutions," notes.

Obstfeld, Maurice and Alan Taylor, "International Monetary Relations: Taking Finance Seriously," Journal of Economic Perspectives, 31, 3, Summer 2017.

Reinhart, Carmen and Christoph Trebesch, "The International Monetary Fund: 70 Years of Reinvention," Journal of Economic Perspectives, V.30, 1, Winter 2016, 3-28.

"The Global Monetary System: Not Floating, but Flailing," The Economist, July 5, 2014

Podcast: The Dollar at The Center of The World, NPR's Planet Money Episode 553:  
<http://www.npr.org/sections/money/2017/04/28/526051566/episode-553-the-dollar-at-the-center-of-the-world>

Podcast: When India's Cash Disappeared, Part One, NPR's Planet Money Episode 770:  
<http://www.npr.org/sections/money/2017/05/10/527803742/episode-770-when-indias-cash-disappeared-part-one>

Podcast: When India's Cash Disappeared, Part Two, NPR's Planet Money Episode 771:  
<http://www.npr.org/sections/money/2017/05/12/528181998/episode-771-when-indias-cash-disappeared-part-two>

## Class 13: The Role of Credit

\*Jordà, Òscar, "Credit: A Starring Role in the Downturn," FRBSF Economic Letter, 2012-12.

Jordà, Òscar, Moritz Schularick and Alan M. Taylor, "Financial Crises, Credit Booms, and External Imbalances: 140 Years of Lessons," IMF Economic Review, 2011, 592, 340-378.

Mian, Atif and Amir Sufi, "Finance and Business Cycles: The Credit-Driven Household Demand Channel," Journal of Economic Perspectives, 32, 3, Summer 2018, 31-58.

Ng, Michael and David Wessel, "The yield curve – what it is, and why it matters," April 16, 2018:  
<https://www.brookings.edu/blog/up-front/2018/04/16/the-hutchins-center-explains-the-yield-curve-what-it-is-and-why-it-matters/>

## Class 14: The Euro Experiment

\*Dominguez, Kathryn, "The European Central Bank, the Euro, and Global Financial Markets," Journal of Economic Perspectives, 20, 4, Fall 2006.

Economist Interactive European Economy Guide:  
<http://www.economist.com/blogs/graphicdetail/2015/11/taking-europe-s-pulse>

"The Appeal of the Euro," The Economist, May 14, 2016

"More Spend, Less Thrift," The Economist, Sep 3, 2016

## Class 15: The Euro Crisis

\*Dominguez, Kathryn and Linda Tesar, "The Euro Crisis," RSQE Economic Outlook, 2012.

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

<http://www.bbc.com/news/business-13856580>

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

\*Claessens, Stijn and Ayhan Rose, "Financial Crises: Explanations, Types and Implications," IMF Working Paper 13/28, January 2013.

Reinhart, Carmen and Kenneth Rogoff, "The Aftermath of Financial Crises," American Economic Review 99 (May 2009): 466–472.

Reinhart, Carmen M., and Kenneth S. Rogoff, "Recovery from Financial Crises: Evidence from 100 Episodes." American Economic Review 104 (May 2014): 50–55.

Romer, Christina and David Romer, "New Evidence on the Impact of Financial Crises in Advanced Countries," NBER Working Paper 21021, March 2015.

Gertler, Mark and Simon Gilchrist, "What Happened: Financial Factors in the Great Recession," Journal of Economic Perspectives, 32, 3, Summer 2018, 3-30.

FRBSF Financial Crisis Webpage: <http://sffed-education.org/econanswers/crisis.htm>

"Stimulus v Austerity: Sovereign Doubts," The Economist, Sept 28, 2013.

"Financial Stability: Minsky's Moment," The Economist, July 30, 2016

"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:

<http://www.npr.org/sections/money/2016/03/11/470136949/episode-689-a-hedge-fund-a-country-and-a-big-sailboat>

## Class 18: The Global Financial Crisis (2008)

\*Economic Report of the President (EROP), Chapter 2, pp.39-62 only, Washington, DC: Government Printing Office, 2010.

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

Swagel, Phillip, "The Financial Crisis: An Inside View," Brookings Papers on Economic Activity, Spring 2009.

"The Origins of the Financial Crisis: Crash Course," The Economist, Sept 7, 2013.

Podcast: Interview with Bernanke, Geithner and Paulson, NPR's Marketplace, aired March 2018:

<https://www.marketplace.org/shows/marketplace/bonus-bernanke-geithner-and-paulson-full-interview>

Podcast: The Giant Pool of Money, NPR's This American Life, aired on May 9, 2008:  
<http://www.thisamericanlife.org/radio-archives/episode/355/the-giant-pool-of-money>

Podcast: Credit Crisis, NPR's Planet Money, aired on Feb 19, 2009:  
[http://www.npr.org/sections/money/2009/02/moving\\_picture\\_credit\\_crisis.html](http://www.npr.org/sections/money/2009/02/moving_picture_credit_crisis.html)

#### Class 19: Financial Regulation and Global Financial Safety Nets

\*Hanson, Samuel, Anil Kashyap and Jeremy Stein, "A Macroprudential Approach to Financial Regulation," Journal of Economic Perspectives, V.25, Winter 2011, 3-28.

Budnik, Katarzyna and Johannes Kleibl, "Macroprudential Regulation in the European Union in 1995-2014: Introducing a New Data Set on Policy Actions of a Macroprudential Nature," ECB Working Paper 2123, January 2018. Database webpage: <https://sdw.ecb.europa.eu/browse.do?node=9689335>

\*IMF, "Adequacy of the Global Financial Safety Net," Staff Report, March 2016:  
<https://www.imf.org/external/np/pp/eng/2016/031016.pdf> Blog version:  
<https://blogs.imf.org/2017/12/19/strength-in-numbers-a-safety-net-to-prevent-crises-in-the-global-economy>

FRBSF: Regulatory Reform: [http://sffed-education.org/econanswers/reform\\_q1more.htm](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](http://sffed-education.org/econanswers/reform_q2more.htm)

FRBSL: Primer on Dodd-Frank Act:  
<https://research.stlouisfed.org/pageone-economics/uploads/newsletter/2011/201105.pdf>

Dodd-Frank Act: <https://www.congress.gov/bill/111th-congress/house-bill/4173>

Gorton, Gary and Andrew Metrick, "Regulating the Shadow Banking System," Brookings Papers on Economic Activity, Fall 2010, 261-312.

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)

\*Dominguez, Kathryn and Linda Tesar, "International Borrowing and Macroeconomic Performance in Argentina," in Capital Controls and Capital Flows in Emerging Economies: Policies, Practices, and Consequences, edited by Sebastian Edwards, University of Chicago Press for the NBER, 2007, 297-342.

"The tragedy of Argentina: A century of decline," The Economist, Feb 15, 2014

"Argentina's Economic Woes: The Crisis of Macroeconomics," The Economist, May 12, 2018.

#### Class 21: Case Study: Argentina's Capital Controls

\*Auguste, S., Dominguez, K., Kamil, H. and Tesar, L. "Cross-Border Trading As a Mechanism For Implicit Capital Flight: ADRs and the Argentine Crisis," Journal of Monetary Economics, 53, 2006, 1259-1295.

#### Class 23: Case Study: Iceland (2008)

\*Benediktssdóttir, Sigríður, Gauti B. Eggertsson, and Eggert Þórarinnsson, "The rise, the fall, and the resurrection of Iceland" Brookings Papers on Economic Activity, Fall 2017:  
<https://www.brookings.edu/bpea-articles/the-rise-the-fall-and-the-resurrection-of-iceland/>