

PUBPOL475/750: GLOBAL FINANCIAL MARKETS, CRISES AND POLICY
Gerald R. Ford School of Public Policy, University of Michigan
Fall 2016 Course Information and Reading Assignments

ADMINISTRATIVE INFORMATION:

Schedule: M/W 10-11:30
Location: Weill 1220
Instructor: Kathryn Dominguez
Canvas site: <https://umich.instructure.com/courses/112136>
Office Hours: sign-up online: <http://goo.gl/Ku6WK> (in Weill 3306)
Email address: kathrynd@umich.edu
Grading: Problem Sets: 15%; Participation: 15%; Book Review 15%, Mid-Term: 20%;
Final Project: 35%

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 555 or Econ 401 (Intermediate Microeconomics) or PUBPOL 556 or Econ 402 (Intermediate Macroeconomics); or the equivalents.

COURSE REQUIREMENTS:

Assignments: There are three problem sets which will involve data collection and analysis as well as problem solving.

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.

Book Review: a 2-3 page *critical* review of a book covering a financial crisis. Recommended books are listed 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 an assessment of the causes and consequences of a financial crisis in a specific country; more detailed information on the project will be available on the course Canvas site. Students will present their project findings to the class in late November and early December.

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

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 are urged to stay up-to-date with current events in global 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=aap1hybd>

The London Financial Times: <http://education.ft.com/how-to-subscribe/>

The Economist: <https://subscriptions.economist.com/ODR/index.php>

There are a number of excellent blog sites that provide up-to-the minute macro and financial news and analysis, examples include:

<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.forexblog.org/category/central-banks>

Recent listing of “best economics blogs”: <http://www.businesseconomics.com/best-economics-blogs.html>

RECOMMENDED BOOKS (for the book review assignment):

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.

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.

PUBPOL475/750 day-to-day schedule

| Class | Date | Topic | Required Reading | Issued | Collected |
|-------|--------|--|-------------------------|--------|--------------|
| 1 | 9/7 | Introduction | | | |
| 2 | 9/12 | Overview of Financial Markets | Wurgler | | |
| 3 | 9/14 | Financial Institutions | Greenwood & Scharfstein | | |
| 4 | 9/19 | The Macro-economy and Finance | Higgins & Klitgaard | Prob 1 | |
| 5 | 9/21 | Banks and Monetary Policy | Ihrig et al. | | |
| 6 | 9/26 | Arbitrage and Parity Conditions | Lamont and Thaler | | Prob 1 |
| 7 | 9/28 | The Role of Exchange Rates | Cavallo | | |
| 8 | 10/3 | International Monetary History | Dominguez | | |
| 9 | 10/5 | The Euro Experiment | Dominguez | Prob 2 | |
| 10 | 10/10 | The Euro Crisis | Dominguez & Tesar | | |
| 11 | 10/12 | Grexit and Brexit | TBA | | Prob 2 |
| 12 | 10/19 | Midterm Review | | Qs | |
| 13 | 10/24 | Midterm Exam | | | |
| 14 | 10/26* | Financial Crises | TBA | | |
| 15 | 10/31 | The 2008 Crisis | Gorton and Metrick | | |
| 16 | 11/2 | Guest Lecture: Andreas Fisher (SNB) | TBA | | project info |
| 17 | 11/7 | Panic and Contagion | Covitz et al. | | |
| 18 | 11/9 | Panic Prevention | Gorton and Metrick | | |
| 19 | 11/14 | Short & Long-Run Effects of Financial Crisis | Reinhart and Rogoff | | book review |
| 20 | 11/16 | Rescuing the Financial Sector | Calomiris and Khan | Prob 3 | |
| 21 | 11/21 | Financial Regulation | Fischer | | |
| 22 | 11/23 | The Macprudential Approach | Hanson et al. | | Prob 3 |
| 23 | 11/28 | Finance and Economic Growth | Shin | | |
| 24 | 11/30 | Project Presentations 1 | | | Project |
| 25 | 12/5 | Project Presentations 2 | | | |
| 26 | 12/7 | Project Presentations 3 | | | |
| 27 | 12/12 | Class Wrap-Up | | | |

*Note: University of Michigan's Center on Finance, Law & Policy will host a conference, "Big Data: Improving the Scope, Quality, and Accessibility of Financial Data" on October 26-27. The conference is free and open to the public, but space is limited and you must register in advance at: <http://financelawpolicy.umich.edu/big-data-conference/>

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

Class 3: Financial Institutions

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

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

Class 4: 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

Class 5: Banks and Monetary Policy

*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

U.S. Monetary Policy: Part 1: How Is The Fed Structured And What Are Its Policy Tools? FRBSF Economic Letter, 2004-01, Jan 16, 2004.

Class 6: 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.

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>

Class 7: 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

Class 8: International Monetary History

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

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

Class 9: 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>

Class 10: The Euro Crisis

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

Shambaugh, Jay, "The Euro's Three Crises," Brookings Papers on Economic Activity, 2012, 157-231.

Lane, Philip, "The European Sovereign Debt Crisis," Journal of Economic Perspectives, 26, 3, 2012, 49-68.

Hale, Galina, "Balance of Payments in the European Periphery," FRBSF Economic Letter, Jan 2013.

O'Rourke, Kevin, and Alan Taylor, "Cross of Euros," Journal of Economic Perspectives, 27, 3, 2013, 167-192.

Class 11: Grexit and Brexit

TBA

Class 14: Financial Crises

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

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.

Hoshi, Takeo and Anil K. Kashyap, "Japan's Financial Crisis and Economic Stagnation," Journal of Economic Perspectives, V. 18, 4, Winter 2004, 3-26

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

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

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

Class 15: The 2008 Crisis

*Gorton, Gary and Andrew Metrick, "Getting Up to Speed on the Financial Crisis: A One-Weekend-Reader's Guide," Journal of Economic Literature, 2012, 50:1, 128-150.

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

Gorton, Gary, "Questions and Answers about the Financial Crisis," NBER Working Paper 15787, February 2010.

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

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

<http://www.federalreserve.gov/newsevents/speech/bernanke20090113a.htm>

Shin, Hyun Song, "Reflections on Northern Rock: The Bank Run that Heralded the Global Financial Crisis," Journal of Economic Perspectives, V.23, 1, Winter 2009

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

Class 16: Guest Lecture: Andreas Fisher (Swiss National Bank)

Class 17: Panic and Contagion

*Covitz, Daniel, Nellie Liang and Gustavo Suarez, "The Evolution of a Financial Crisis: Panic in the Asset Backed Commercial Paper Market," Federal Reserve Board, Finance and Discussion Series, 200936:

Class 18: Panic Prevention

*Gorton, Gary and Andrew Metrick, "The Federal Reserve and Panic Prevention: The Roles of Financial Regulation and Lender of Last Resort," Journal of Economic Perspectives, V.27, 4, Fall 2013, 45-64.

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

Class 19: Short and Long-Run Effects of Financial Crisis

*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.

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

Class 20: Rescuing the Financial Sector

*Calomiris, Charles and Urooj Khan, "An Assessment of TARP Assistance to Financial Institutions," Journal of Economic Perspectives, 29 (Spring 2015), 53-80.

Class 21: Financial Regulation

*Fischer, Stanley, "Financial Sector Reform: How Far Are We?" Martin Feldstein Lecture, National Bureau of Economic Research, July 10, 2014.

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

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>

Brunnermeier, Markus, Andrew Crockett, Charles Goodhart, Avinash D. Persaud, and Hyun Shin. 2009. "The Fundamental Principles of Financial Regulation." Geneva Reports on the World Economy 11.

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

Class 22: The Macroprudential Approach

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

Class 23: Finance and Economic Growth

*Shin, Yongseok, "Financial markets: An Engine for Economic Growth," The Regional Economist, Federal Reserve Bank of San Francisco, July 2013.

Zingales, Luigi, "Does Finance Benefit Society?" American Finance Association Presidential Address, January 2015.