

PUBPOL542: INTERNATIONAL FINANCIAL POLICY
Gerald R. Ford School of Public Policy, University of Michigan
Winter 2019 Course Information and Reading Assignments

ADMINISTRATIVE INFORMATION:

Schedule: T/Th 10-11:30
Location: Weill 1220
Instructor: Kathryn Dominguez
Canvas site: <https://umich.instructure.com/courses/49208>
Office Hours: sign-up online: <http://goo.gl/Ku6WK> (meetings in Weill 3306)
Email address: kathrynd@umich.edu
Grading: Problem Sets: 25%; Participation: 10%, Group Project 25%; 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 the causes and consequences of financial crises. There will be heavy emphasis on understanding and using data to study country experiences -- with examples drawn from developing and industrial economies.

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: The five short assignments that will ask you to write short essays, collect and analyze data, and problem solve.

Class Participation: Participation in class discussions of readings and assignments is required.

Group Project: This will be an assessment of the macroeconomic performance and macroeconomic problems in a particular country; more detailed information on the project is available on the course Canvas site. Groups will present their project findings to the class in April.

Exam: There will be an in-class (closed-book and closed-notes) policy-problem essay-based exam. It will cover all the topics discussed up to that point in the course. I will distribute three questions the week before the exam which will consist of one of these questions and one "new" question.

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: The main *required* textbook for this class is:

Krugman, Obstfeld and Melitz, International Economics: Theory and Policy, tenth edition, Addison-Wesley Publishers: 2015. (Note that a newer 11th edition is currently available online as a “rental edition”)

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, non-textbook readings, and (the most up-to-date) reading list will be available electronically on our course Canvas site.

In addition to the listed course readings, students are urged to 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://gregmankiw.blogspot.com/>

<http://krugman.blogs.nytimes.com/>

<http://voxeu.org/>

<http://www.economonitor.com/>

<http://www.economist.com/blogs/freeexchange/>

<http://www.econbrowser.com/>

<http://macromarketmusings.blogspot.com/>

Recent listing of “top economics blogs”: <https://www.intelligenteconomist.com/economics-blogs/>

ADDITIONAL COURSE MATERIAL:

Other excellent textbooks on international economics you may wish to consult include:

Caves, R., J. Frankel and R. Jones, World Trade and Payments, 10th edition, Pearson.

Feenstra, R. and A. Taylor, International Economics, 4th edition, Worth Publishers.

Students who have had little or no macroeconomic training (or who took macro a while ago) may find the online resources provided by the Federal Reserve (available at the following addresses) helpful:

<http://www.ny.frb.org/aboutthefed/fedpoints.html> and <https://www.newyorkfed.org/education/Fed21/index.html>

An excellent description of open-market operations is at: <http://www.ny.frb.org/aboutthefed/fedpoint/fed32.html>.

SUPPLEMENTARY (not required) READINGS:

Dominguez K. and J. Frankel, Does Foreign Exchange Intervention Work? Washington, D.C.: Institute for International Economics, 1993.

Dornbusch, R., Policymaking in the Open Economy, EDI Series in Economic Development, Oxford University Press for the World Bank, 1993.

Krugman, P., Pop Internationalism, The MIT Press, 1996.

PUBPOL542 day-to-day schedule

Class	Date	Topic	Reading	Issued	Collected
1	1/10	Introduction	ch.1		
2	1/15	Comparative Advantage	ch.2&3*		
3	1/17	Accounting Issues – the BOP	ch.13*		
4	1/22	Accounting Issues II	ch.13*	Prob 1	
5	1/24	The Foreign Exchange Market	ch.14*		
6	1/29	International Interest Parity	ch.14*		Prob 1
7	1/31	Banks and Monetary Policy	*		
8	2/5	Money and Exchange Rates	ch.15*	Prob 2	
9	2/7	Inflation and Exchange Rates	ch.15*		
10	2/12	Purchasing Power Parity	ch.16*		Prob 2
11	2/14	A Long-Run Model of Exchange Rates	ch.16*		
12	2/19	Exchange Rates and the Current Account	ch.17*	Prob 3	
13	2/21	Effects of Monetary and Fiscal Policy	ch.17*		
14	2/26	Fixed Exchange Rates and Intervention	ch.18*		Prob 3
15	2/28	Fixed versus Flexible Exchange Rates	ch.18*		
16	3/12	Guest Lecture: Alan Deardorff	*		
17	3/14	International Monetary History	ch. 19*	Prob 4	
18	3/19	Currency Unions	ch.21*		
19	3/21	The Euro Experiment	ch.21*		Prob 4
20	3/26	Euro Crisis	*		
21	3/28	International Capital Markets	ch.20*	Prob 5	
22	4/2	International Financial Crises	ch.20*		
23	4/4	Developing Country Issues	ch.22*	Exam Qs	Prob 5
24	4/9	Developing Country Issues II	ch.22*		
25	4/11	Exam			
26	4/16	Project Presentations 1			Project
27	4/18	Project Presentations 2			
28	4/23	Project Presentations 3			

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 Canvas site to supplement the textbook readings listed on page 3:

Class 1: Introduction

Class 2: Comparative Advantage

Economist Debate: Is the Global Trade System Broken, May 2018:
<https://debates.economist.com/debate/global-trade-system-broken>

“The Law of Comparative Advantage at 200: Still Winning Prizes,” The Economist, April 20, 2017

Bernhofen, Daniel and John Brown, “On the Genius Behind David Ricardo’s 1817 Formulation of Comparative Advantage,” Journal of Economic Perspectives, 32, 4, Fall 2018: 227-240.

Feenstra, Robert C., "Alternative Sources of the Gains from International Trade: Variety, Creative Destruction, and Markups." Journal of Economic Perspectives, 32, 2, Spring 2018: 25-46.

Class 3 and 4: Accounting Issues – the BOP

“The Trouble with GDP,” The Economist, April 30, 2016.

“Measuring well-being,” The Economist, July 20, 2016

“The Sanctity of Trade Statistics,” The Economist, February 23, 2017

“Argentina’s new, honest inflation statistics,” The Economist, May 25, 2017

Feldstein, Martin, “Underestimating the Real Growth of GDP, Personal Income, and Productivity,” Journal of Economic Perspectives, 31, 2, Spring 2017, 145-164.

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 5: The Foreign Exchange Market

“New Code Aims to Clean Up the Forex Market,” The Economist, May 25, 2017.

Irwin, Neil, “Economic Lessons from Switzerland’s One Day, 18 Percent Currency Rise,” NY Times, Jan 15, 2015

Yermack, David, “Is Bitcoin a Real Currency?” NBER Working Paper # 19747, December 2013.

BIS 2016 Triennial Survey: <http://www.bis.org/publ/rpfx16.htm>

Goldberg, Linda, “Is the International Role of the Dollar Changing?” FRBNY Current Issues, vol 16, 1, January 2010. http://www.newyorkfed.org/research/current_issues/ci16-1.pdf

Class 6: International Interest Parity

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

“Take Cover: A Market Anomaly,” The Economist, September 24, 2016.

Fernald, John, Thomas M. Mertens, and Patrick Shultz, “Has the Dollar Become More Sensitive to Interest Rates?” FRBSF Economic Letter, 2017-18, June 26, 2017.

Cavallo, Michele, "Interest Rates, Carry Trades, and Exchange Rate Movements," FRBSF Economic Letter, 2006-31, Nov 17, 2006 <http://www.frbsf.org/publications/economics/letter/2006/el2006-31.pdf>

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

Class 7: Banks and Monetary Policy

"The History of Central Banks," The Economist, April 27, 2017

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.

Liu, Zheng and Mark M. Spiegel "Reserve Requirements as a Chinese Macro Policy Tool," FRBSF Economic Letter, 2017-15, May 22, 2017.

IMF Blog, "Broader View: The Positive Effects of Negative Nominal Interest Rates,"
<https://blogs.imf.org/2016/04/10/the-broader-view-the-positive-effects-of-negative-nominal-interest-rates/>

FRB: How Is the Fed Structured and What Are Its Policy Tools?
<https://www.federalreserve.gov/aboutthefed/structure-federal-reserve-system.htm>

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 8: Money and Exchange Rates

FRB: Fed Purposes and Functions: How Policies Affect the Economy?
https://www.federalreserve.gov/aboutthefed/files/pf_3.pdf

Bevilaqua, Julia and Fernanda Nechio, "Fed Policy Liftoff and Emerging Markets," FRBSF Economic Letter, 2016-22, July 18, 2016

Class 9: Inflation and Exchange Rates

"Irving Fisher: Out of Keynes's Shadow," The Economist, February 12, 2009

"Seigniorage," Bank of Canada, March 2013.

"Negative Interest Rates," The Economist, Nov 28, 2015

Irwin, Neil, "Of Kiwis and Currencies: How a 2% Inflation Target Became Global Economic Gospel," NY Times, Dec 19, 2014

Class 10: Purchasing Power Parity

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

“Measuring the cost of living worldwide,” The Economist, March 21, 2017
“The Big Mac Index,” The Economist, July 13, 2017

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

Class 11: A Long-Run Model of Exchange Rates

“The Dollar and the World Economy,” The Economist, December 19, 2007
“The Clash of the Currencies,” The Economist, July 27, 2015

Class 12: Exchange Rates and the Current Account

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.
http://www.newyorkfed.org/research/current_issues/ci4-13.pdf

“Germany’s current-account surplus is a problem,” The Economist, Feb 11, 2017

IMF Blog: “Global Imbalances,” https://blogs.imf.org/2017/06/26/assessing-global-imbances-the-nuts-and-bolts/?utm_medium=email&utm_source=govdelivery

Class 13: Effects of Monetary and Fiscal Policy

“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
“Fighting the Next Recession: Unfamiliar Ways Forward,” The Economist, February 20, 2016

Eggertsson, Gauti, “Liquidity Trap,” New Palgrave Dictionary

Krugman, Paul, “Monetary Policy in a Liquidity Trap,” NY Times, April 11, 2013

Class 14: Fixed Exchange Rates and Central Bank Intervention

“China and Currency Manipulation,” The Economist, March 2, 2017

Class 15: Fixed versus Flexible Exchange Rates

Cavallo, M., “To Float or Not To Float?” FRBSF Economic Letter, 2005-01, January 7, 2005.
<http://www.frbsf.org/publications/economics/letter/2005/el2005-01.pdf>

IMF Blog, “How Flexible Exchange Rates Helped Latin America Adjust to Commodity Price Shocks,”
<https://blogs.imf.org/2017/05/25/how-flexible-exchange-rates-helped-latin-america-adjust-to-commodity-price-shocks/>

Class 16: Guest Lecture: Alan Deardorff on Trade Policy

Class 17: International Monetary History

Obstfeld, M. and A. Taylor, “International Monetary Relations: Taking Finance Seriously,” Journal of Economic Perspectives, 31, 3, Summer 2017.

“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>

Class 18: 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
"Currency Unions in Africa," The Economist, Dec 7, 2013

Class 19: 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/2016/02/taking-europe-s-pulse>

Class 20: Euro Crisis

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

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

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 21: International Capital Markets

"An On-Off relationship: Countercyclical Capital Controls," The Economist, Dec 13, 2014
"Fight or Flight," The Economist, Jan 16, 2016
"The Mundell Fleming Trilemma: Two Out of Three Ain't Bad," The Economist, Aug 27, 2016

Measuring Emerging Market Vulnerability:
<http://www.economist.com/blogs/graphicdetail/2015/09/capital-freeze-index>

IMF Blog, "Revisiting the Paradox of Capital: The Reversal of Uphill Flows,"
<https://blogs.imf.org/2017/03/07/revisiting-the-paradox-of-capital-the-reversal-of-uphill-flows/>

Class 22: International Financial Crisis

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

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

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 23 and 24: Developing Country Issues

“Horns of a Trilemma,” The Economist, Aug 31 2013

“Capital Controls: Just in Case,” The Economist, Oct 12 2013

“Emerging Markets: The Unloved Bounce,” The Economist, May 7, 2016

“Do Fiscal Rules Work in Emerging Markets?” The Economist, Dec 15, 2016

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>