

National and International Financial Relations Winter Term 2017-18

Course description

“Trade and financial openness are deeply symbiotic. Trade integration not only relies on, but generates, financial linkages. Banks with international operations underpin trade financing and follow their customers into foreign markets. Trade denominated in a foreign currency can require hedging, with counterparties accumulating international positions. Firms may build capacity in a foreign country with an attractive skill or resource base in order to export from there. Managing the financial asset and liability positions built up through trade induces still deeper financial linkages, including international trade in financial services.” (Source: 87. Annual Report of the BIS, 2017, p. 97.)

“Finally, current account and financial imbalances are linked. The financial crisis showed that effectively managing the risks posed by both types of imbalance is crucial for sustainable global growth and financial stability. Further, some of the risks arising from current account imbalances are similar to those arising from gross flows. As noted, a sudden reversal of either can trigger domestic economic and financial crises.” (Source: 81. AR BIS 2011, p. 34)

This course introduces advanced concepts, key tools and instruments that are central to the understanding of domestic and international monetary frameworks and interdependencies. This course takes a specific approach outlining rules of international capital flows and their consequences to domestic and international financial relations. Students attending the course will become familiar with historical and current issues in this field.

Essential prerequisites for the attendance of this lecture are the successful completion of the courses: Macroeconomics I, Macroeconomics II (International Economics), and Theories of Economic Policies (Macroeconomics and Economic Policy).

Introduction

06.10.2017 Coeuré, Bernoît (2016) The Case for Rethinking International Capital Flows.

https://www.ecb.europa.eu/press/key/date/2016/html/sp160915_1.en.html

Part I History of Monetary System and International Capital Flows in Historical Perspective

13.10.2017 Main paper:

- McKinnon, Ronald, I. (1993) The Rules of the Game: International Money in Historical Perspective. *Journal of Economic Literature*. Vol. 31, No. 1, pp. 1-44: *required reading pp 11-34.*

20.10.2017 Main paper:

- James, Harold (2011) The Multiple Contexts of Bretton Woods. *Oxford Review of Economic Policy*, 28 Jg., H. 3, pp 411-430.

27.10.2017 Main papers:

- Dooley, Michael P., David Folkerts-Landau, Peter M. Garber (2009) Bretton Woods II still defines The International Monetary System. NBER *Working Paper 14731*, <http://www.nber.org/papers/w14731>
- Cooper, Richard (2005) Almost a Century of Central Bank Cooperation. Papers from the BIS conference on “Past and Future of Central Bank Cooperation,” Basel, Switzerland, June 27–29, 2005. <http://www.bis.org/publ/bppdf/bispap27.htm>

03.11.2017 Date of the preparatory session (attendance required)

This preparatory session offers formal details on the term paper. The topics available will be discussed in detail (see page 8). Participants should choose 1-2 preferred topics beforehand. Up until two weeks later final choosing of topic.

Part II Current Tendencies in the international Financial System and Proposals for Reforming International Monetary Institutions

10.11.2017 Main papers:

- Obstfeld, M. (2012) Does the Current Account Still Matter? *American Economic Review, Papers & Proceedings. The Richard Ely Lecturer*, 102(3), pp 1-23.
- Eichengreen, Barry (2012) International Liquidity in a Multipolar World. *American Economic Review. Papers & Proceedings*, 102 (3), pp 207-212.

17.11.2017 Main papers:

- Greenwald, B. and J. Stiglitz (2010) *A Modest Proposal for International Monetary Reform*. In Griffith-Jones, St., J. A. Ocampo, and J. Stiglitz (2010) (eds.) *Time for a Visible Hand. Lessons from the 2008 World Financial Crisis*. Oxford University Press, New York, pp 314-344.
- Stiglitz, Joseph (2008) *Making Globalization Work*, W.W. Norton, New York, ch. 9.

~~24.11.2017~~ Cancellation

- Substitution 17.11.2017 Borio, Claudio, Harold James and Hyun Shin (2014) The International Monetary and Financial System: A Capital Account Historical Perspective. *BIS Working Papers* no 457, August. <http://www.bis.org/publ/work457.pdf>

Part III The role of a Lead Currency – Currency Competition between the US dollar, the euro and yen

01.12.2017 Main papers:

- Goldberg, Linda (2011) The International Role of the Dollar: Does It Matter if This Changes? https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr522.pdf
- Spahn, H.-Peter (2009) Fundamentaler Dollar-Kurs und Tragfähigkeit des US-Leistungsbilanzdefizits. In, Kromphardt, Jürgen und H. Peter Spahn (2009) (Hg.) *Die aktuelle Währungsunordnung: Analysen und Reformvorschläge*. Metropolis Marburg, pp 23-50.

08.12.2017 Main papers:

- Eichengreen, Barry (2011) *Exorbitant Privilege. The Rise and Fall of the Dollar*. Oxford, UP, ch. 6, pp 121-152.
- Reinhart, Carmen (2016) Will Dollar Strength Trigger Intervention in 2017. Project Syndicate 30.12.2016. <https://www.project-syndicate.org/print/dollar-strength-and-currency-market-intervention-by-carmen-reinhart-2016-12>

15.12.2017 Main papers:

- Canzeroni, M., R. Cumby, B. Diba and D. López-Salido (2013) Key Currency Status: an Exorbitant Privilege and Extraordinary Risk. *Journal of International Money and Finance*, 27, pp. 371-393.
- Bernanke, Ben (2015) Federal Reserve Policy in an International Context. Brookings Institution Washington, USA <http://www.imf.org/external/np/res/seminars/2015/arc/pdf/Bernanke.pdf>

22.12.2017 Main paper:

- Laibson, David und Johanna Mollerstrom (2010) Capital Flows, Consumption and Asset Bubbles: A Behavioral Alternative to The Savings Glut Hypothesis. *The Economic Journal*, 120 (May), 354-374.

05.01.2018 Main papers:

- International Monetary Funds (2014) *IMF Staff Discussion Note Emerging Market Volatility: Lessons from the Taper Tantrum.*
<https://www.imf.org/external/pubs/ft/sdn/2014/sdn1409.pdf>

12.01.2018 Main Papers:

- Truger, Tobias H. (2015) A Political Economy Perspective on Common Supervision in the Eurozone. In, Faia, Hackethal, Haliassos et al. (ibid), 167-191.
- European Central Bank (2017) *Financial Stability and Macprudential Policy.*
<https://www.ecb.europa.eu/ecb/tasks/stability/html/index.en.html>

19.01.2018 Presenting of Term Paper



Details on this agenda will follow on 3.11.2017

26.01.2018 Presenting of Term Paper

Further Resources

International Monetary Fund (IMF) (2017) *Global Financial Stability Report.*
<http://www.imf.org/en/publications/gfsr>

International Monetary Fund (IMF) (2017) *External Sector Report 2017.*
<https://www.imf.org/en/Publications/Policy-Papers/Issues/2017/07/27/2017-external-sector-report>

International Monetary Fund (IMF) (2017) World Economic Outlook.
<http://www.imf.org/en/About/infographics/world-economic-outlook-update-july-2017-infographic>

European Central Bank (2017) *Finance Stability Report. Ch. 2 Financial Markets.*
<https://www.ecb.europa.eu/pub/fsr/html/index.en.html>

Federal Ministry of Finance (2017) G 20 Summit Result in the Finance Track
<http://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Topics/Featured/G20/G20-summit-results-in-the-finance-track.html>

Federal Ministry of Finance (2015) *Reorganisation of the Federal Agency for Financial Market Stabilisation (FMSA)*
http://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Topics/Financial_markets/Articles/2015-12-14-reorganisation-fmsa.html

Bibliography

- Avdjiev, Stefan, Robert N. McCauley and Hyun Song Shin (2015)** Breaking Free of the Triple Coincidence in International Finance. BIS Working Papers No 524, Monetary and Economic Department, Basel.
- Banco de Espana (2017)** First Conference on Financial Stability in Madrid.
http://www.bde.es/bde/en/secciones/sobreebanco/Conferencias/First_Conferenc_e673f38cc17985_1.html
- Bank for International Settlement (BIS) (2017)** *87th Annual Report*. Var.eds.Basel. <http://www.bis.org>
- Bernanke, Ben (2015)** Federal Reserve Policy in an International Context. Brookings Institution Washington, DC, USA. <http://www.imf.org/external/np/res/seminars/2015/arc/pdf/Bernanke.pdf>
- Bernanke, Ben (2005)** The 'global savings glut and the US current account deficit: Remarks by Governor Ben S. Bernanke at the Sandridge Lecture, Virginia Association of Economics, Richmond, Virginia, The Federal Reserve Board of Governors.
<http://www.federalreserve.gov/boarddocs/speeches/2005/200503102/default.htm>
- Board of Governors of the Federal Reserve System (2013)** International Finance Discussion Papers. Nr. 1077, April. <http://www.federalreserve.gov/pubs/ifdp/2013/1077/ifdp1077.pdf>
- Bordo, Michael and Barry Eichengreen (2007)** *A Retrospective on the Bretton Woods System. Lessons for International Monetary Reforms. A comprehensive NBER Working Paper of a conference held in 1991.* <http://papers.nber.org/books/bord93-1>
- Borio, Claudio, Harold James and Hyun Shin (2014)** The International Monetary and Financial system: A Capital Account Historical Perspective. *BIS Working Papers* no 457, August. <http://www.bis.org/publ/work457.pdf>
- Brunnermeier, Markus K. (2009)** Deciphering The Liquidity and Credit Crunch 2007-2008. *Journal of Economic Perspectives*, Vol. 23, No 1, Winter 2009, 77-100.
- Bundesbank, Die (2012)** Der Euro als Ankerwahrung und als Kern eines Wahrungsblocks. *Monatsbericht der Bundesbank Juli*, Frankfurt am Main. <http://www.bundesbank.de>
- Burda, Michael and Charles Wyplosz (2013)** *Macroeconomics. A European Text*. 6th. Oxford University Press. Oxford. Ch. 19.
- Carlin, Wendy and David Soskice (2015)** *Macroeconomics. Institutions, Instability, and the Financial System*. Oxford University Press.
- Canzeroni, Matthew, Robert Cumby, Behzad Diba and David Lopez-Salido (2013)** Key Currency Status: an Exorbitant Privilege and Extraordinary Risk. *Journal of International Money and Finance*, 27, 371-393.
- Coeure, Benoıt (2016)** The Case for Rethinking International Capital Flows.
https://www.ecb.europa.eu/press/key/date/2016/html/sp160915_1.en.html
- Cohen, Benjamin J. (2015)** *Currency Power. Understanding Monetary Rivalry*. Princeton University Press. Princeton.

Cooper, Richard (2005) Almost a Century of Central Bank Cooperation. Papers from the BIS conference on “Past and Future of Central Bank Cooperation,” Basel, Switzerland, June 27–29, 2005.

<http://www.bis.org/publ/bppdf/bispap27.htm>

CREDITSUISSE Research Institute (2015) *The End of Globalization or a Multipolar World?* Thought Leadership from Credit Suisse Research and the World’s Foremost Expert. Ed. By Michael O’Sullivan, Zurich. <http://www.credit-suisse.com/researchinstitute>

Dooley, Michael P., David Folkerts Landau, Peter M. Garber (2014) The Revived Bretton Woods System’s First Decade. *NBER Working Paper no. 20454*, Cambridge, U.S.A.

Dooley, Michael P., David Folkerts Landau, Peter M. Garber (2009) Bretton Woods II still defines The Internationale Monetary System. *NBER Working Paper no. 14731*, <http://www.nber.org/papers/w14731>

Debelli, Gabriele and Guy Galati (2005) Current Account Adjustment and Capital Flows. *BIS Working Paper*, No. 169. Basel.

Dooley, Michael P. et al. (2005) Savings Glut and Interest Rates – The Missing Link to Europe. *NBER Working Paper no 11520*. Cambridge. <http://www.nber.org/papers/w11520>

Eichengreen, Barry & Marc Flandreau (2009) The Rise and Fall of the Dollar (or when did the Dollar replace Sterling as the Lending International Currency?) *European Review of Economic History* 13, 317-344.

Eichengreen, Barry (2012) International Liquidity in a Multipolar World. *American Economic Review. Papers & Proceedings*, 102 (3), 207-212.

Eichengreen, Barry (2011) *Exorbitant Privilege. The Rise and Fall of the Dollar*. Oxford, UP.

Eichengreen, Barry (2007) *The Cairoli Lectures. Global Imbalances and the Lessons of Bretton Woods*. The MIT Press. Massachusetts, Cambridge.

European Central Bank (2017) *The International Role of the Euro*. Frankfurt am Main.

European Central Bank (2017) Financial Stability and Macroprudential Policy. Frankfurt am Main. <https://www.ecb.europa.eu/ecb/tasks/stability/html/index.en.html>

Faia, Ester, Andreas Hackethal, Michael Haliassos and Katja Langenbucher (eds.) (2015) *Financial Regulation. A Transatlantic Perspective*. Cambridge University Press.

Fratzcher Marcel and Arnaud Mehl (2013) China’s Dominance hypothesis and the Emergence of a Tri-Polar- Global Currency System. *The Economic Journal*. December 2013, 1343-1370.

Ganziro, Taremza and Robert G. Vamberg (2016) *The Exorbitant Burden*. UK, USA. Emerald Group.

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Goldberg, Linda (2010) Is the International Role of the Dollar Changing? *Current Issues. Economics and Finance* 16 (1), 1-7. http://www.newyorkfed.org/research/current_issues

Gourinchas, Pierre-Olivier, Hélène Rey and Nicolas Govillot (2010) Exorbitant Privilege and Exorbitant Duty. Bank of Japan, Institute for Monetary and Economic Studies (IMES) *Discussion Paper*, No. 2010-E-20. http://socrates.berkeley.edu/~pog/academic/Duty_BoJ2010.pdf

Gourinchas, Pierre-Olivier and Hélène Rey (2014) External Adjustment, Global Imbalances, Valuation Effect. *Working Paper No. 19240 of National Bureau of Economic Research (NBER)*, Cambridge, USA <http://www.nber.org/papers/w19240.pdf>

Gourinchas, Pierre-Olivier and Hélène Rey (2007) From World Banker to World Venture Capitalist: U.S. External Adjustment and the Exorbitant Privilege. Clarida Richard H. 2007, (ed.) *G 7 Current Account Imbalances. Sustainability and Adjustment*. The University of Chicago Press. Chicago and London, 11-66.

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International Monetary and Financial Committee of the IMF (2016) IMFC statement by Xiaochuan Zhou Governor of the People's Bank of China, China, On behalf of People's Republic of China, <https://www.imf.org/External/spring/2016/imfc/statement/eng/chn.pdf>

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Krugman, Paul R., Obstfeld, Maurice, and Marc J. Melitz (2015) *International Economics. Theory & Policy*. Pearson. Boston. Columbia et al., Ch. 19 (Historical Overview), 20 (Financial Globalization: Opportunity and Crisis), and 22 (Developing Countries: Growth, Crisis and Reform).

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Mersch, Yves (2016) The ECB and the Federal Reserve – An Ocean Apart? http://www.ecb.europa.eu/press/key/date/2016/html/sp161012_1.en

Muchlinski, Elke (2015) Vertrauen und Modellbildung in der Ökonomie. *Archiv für Mediengeschichte* Bd. 14, Hg. Balke, Friedrich, Bernhard Siegert und Joseph Vogl, Paderborn, 151-162.

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Muchlinski, Elke (2009) Die gegenwärtige Problematik der Weltwährungsreserven im Lichte der Vorschläge von Keynes. Kromphardt, Jürgen und H. Peter Spahn (2009) (Hg.) *Die aktuelle Währungsunordnung: Analysen und Reformvorschläge*. Metropolis Verlag, 151-174.

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<http://userpage.fu-berlin.de/muchlin/uploads/files/research/ExplicitOrImplicitCoordination.pdf>

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<http://www.bis.org/publ/bppdf/bispap27.htm>

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Watson, Matthew (2017) Global Trade and Global Finance. In, Baylis, John, Steve Smith, and Patricia Owens (eds.) (2017) *The Globalization of World Politics*, 7thed. Oxford: Oxford University Press.

Topics of Your Paper

Students will complete the course by writing a seminar paper. This course discusses papers, covering topics. Students are expected to replicate the literature of this course. Topics to choose from are:

Part I

- The International Monetary and Financial System: A Capital Account Approach.
- Liberalization of Capital Controls and New 'Rules of the Game' by Macroprudential Regulation
- Interdependencies of Debtor Countries and Creditor Countries

Part II

- Exorbitant Privilege and Extraordinary Risk of a (the) Key Currency (cies)
- Tripolar World and Consequences for Financial and Liquidity Conditions
- Currency Competition between the US dollar, the Euro and Yen

Part III

- Current Tendencies in the International Monetary System
- Causes and Consequences of the Reserve Accumulation in Emerging Market Economies
- International Capital Flows and Asset Bubble in the Behavioral Approach.

Course requirements and grading

1. Students are required to submit a term paper based on (as a minimum) two of the referred journal articles/research or working paper.
2. Students are supposed to actively participate in class discussion based on the literature and worksheets, which includes having studied at least the relevant main papers of each topic given in the syllabus.
3. The seminar paper should consist of four parts: *First*, the motivation why the topic and the research question is of relevance. *Second*, a comprehensive and critical discussion of the 'hard core' of the paper the authors present in their articles. On the top of that, students should conduct a literature research and work on additional research papers related to their research question.
4. As a road map, when discussing the literature, the following questions may be answered: Why is the research question important? What is the starting point (hypothesis or question). What are the main premises, findings and implications? Why is the paper convincing – why not?
5. The *third* part will present your own findings and line of arguments. Are they consistent with the results in the literature?

Preferably, use the Harvard style of referencing. Be formally correct. More details will follow on the Date of the preparatory session 3.11.2017. The paper should not exceed 3500 words (excluding cover page, graphs, tables or figures and literature references). This is a hard upper bound; anything above 3.500 words will not be graded. I will use class participation as a heuristic for moving people up or down by as much as a half-grade at the end of the course.

The paper should be handed in paper form **and** as pdf on **Friday 29 December 2017** to elke.muchlinski@hwr-berlin.de