

Department of Economics
Colorado State University
EC742: International Production and Monetary Theory

Fall 2011

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Office hours: T 4-5 pm (or by appointment)

Section 001	TR	2.00- 3.15	C360 Clarke
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COURSE OBJECTIVES

This is a course on Open Economy Macroeconomics and the International Monetary System. We will begin by looking at the actual functioning and historical evolution of the international financial markets and then go on to address both mainstream and heterodox approaches (including post Keynesian and structuralist theories) theory. The final segment of the course will address certain policy issues, in particular capital flows and financial crisis and the global imbalances in the world economy.

EXPECTATIONS AND GRADING

You are expected to complete the reading assignments by the week assigned to ensure productive engagement. The course will be conducted as a mix of lecture and seminar and

Grading will be as follows

Midterm Exam: 30% (Take home exam due on)

Final Exam: 30 % (During final Exam Week)

Paper: 30%

Each student is expected to write a 10-15 page paper on a topic of their choice that is pertinent to international finance and open economy macroeconomic. Make an appointment with me before fall break to discuss your paper topics. The last two week of class are reserved for short in-class presentations of your papers. The final paper is due on Dec 12

Presentations: 10 %

Each student will sign up for presentations based on specific readings from the syllabus. Presentations should be of about 40 minutes, following which the presenter will facilitate a discussion. Apart from this the last two weeks of class are reserved for short presentations of your final paper.

COURSE SYLLABUS AND READINGS (subject to change)

A basic textbook that you should refer to in this course is C. Paul Hallwood and Ronald Macdonald (2000) *International Money and Finance*, Blackwell Publishing.

You can also refer to Giancarlo Gandolfo (2002) *International Finance and Open Economy Macroeconomics* Springer Verlag. (Both have been ordered at the CSU bookstore)

An interesting fairly readable book that I recommend is Lance Taylor J. Eatwell, *Global Finance at risk*, New Press

Another book which you might want to buy is Eichengreen, Barry *Globalizing Capital: A History of the International Monetary System*, Princeton: Princeton University Press, 1996.

Starred readings are required. There are some books in the readings list (particularly in the first weeks). These you can skim through to get a grasp of the main arguments and issues.

Basic Concepts and Overview (Week 1)

Readings:

*Hallwood & MacDonald, Ch. 1-3, 4

*Gandolfo Ch 2, 3, 5, 6

R. Blecker, *Taming Global Finance*, chap. 2

Open Economy Macroeconomics

Broad picture of the open economy: International transactions and the balance of payments, Mainstream and Heterodox approaches to exchange rate determination and balance of payments adjustment

A. Balance of Payments (Week 2-3)

Readings:

Hallwood & MacDonald, chs, 5, 8

Gandolfo, Ch 6, 10, 12

*Gray, H.P. and J.M Gray. 1989. International payments in a flow of funds format, *Journal of Post-Keynesian Economics*, Vol. 11, No. 2, 241-260

*Whitman, Marina v. N. 1975. "Global Monetarism and the Monetary Approach to the Balance of Payments," *Brookings Papers on Economic Activity*, 3:1975, pp. 491-536

*Frenkel, Jacob and Harry Johnson, 1976, "The Monetary Approach to the Balance of Payments: Essential Concepts and Historical Origins," in Jacob Frenkel and Harry Johnson (eds), *The Monetary Approach to the Balance of Payments* (Toronto: University of Toronto Press, 1976,

Rudi von Arnim and Lance Taylor. 2007. World Bank CGE Macroeconomics and the Doha Debate, Schwartz Center for Economic Policy Analysis New School for Social Research, NY

B. Theorizing the Exchange Rates : (Week 4-5)

Readings:

Hallwood & MacDonald, Chs. 7, 9, 11 -13

Gandolfo, Ch 12, 13, 15,

*Taylor, Alan and Taylor, Mark, "The Purchasing Power Parity Debate," *Journal of Economic Perspectives*, 18(4), Fall 2004, pp. 135-158.

*R. Dornbush, R. (1976), Expectations and Exchange Rate Dynamics, *Journal of Political Economy*, 84:1161-76

- *Frankel, Jeffrey A., and Andrew K. Rose. 1995. "Empirical Research on Nominal Exchange Rates," 1994, National Bureau of Economic Research, Inc, NBER Working Papers: 4865.
- *Kenneth Rogoff, "The Purchasing Power Parity Puzzle," *Journal of Economic Literature* 34(2): 647-668, 1996.
- *P. Krugman and L. Taylor, Contractionary Effects of a Devaluation, *Journal of International Economics* 8 (1978) 445-456
- Taylor, Mark, "The Economics of Exchange Rates," *Journal of Economic Literature*, 33(1), March 1995, pp. 13-47.
- *Frenkel, J. and Mussa, M. (1988), Asset markets, Exchange rates and the Balance of Payments, in R.W. Jones and P.B. Kenen (eds), *Handbook of International Economics*
- Isard, Peter, 1977, "How Far Can We Push the Law of One Price?" *American Economic Review* 67, 942--48.
- Nicholas Barelis and Richard Thaler, "A Survey of Behavioral Finance", *NBER Working Paper*, 9222, September 2002
- R. Meese and K. Rogoff : Empirical Exchange Rate Models of the seventies: Do they Fit Out of Sample? *Journal of International Economics* 1983

*J. Harvey Post Keynesian versus neoclassical explanations of exchange rate movements: a short look at the long run, *Journal of Post Keynesian Economics*, 28,2 2006

Asea, Patrick K., and Max Corden, 1994, "The Balassa-Samuelson Model: An Overview," *Review of International Economics* 2

C. Neo-Kaleckian, Structuralist, and Post-Keynesian Perspectives on Growth and Income Distribution in Open Economies (Week 6-7)

Readings:

- *J. S. L. McCombie and A. P. Thirlwall, "The Dynamic Harrod Foreign Trade Multiplier and the Demand-orientated Approach to Economic Growth: An Evaluation," *International Review of Applied Economics*, vol. 11, no. 1 (January 1997), pp. 5-26.
- *Robert A. Blecker, "Kaleckian Macro Models for Open Economies," in J. Deprez & J. Harvey, eds., *Foundations of International Economics: Post Keynesian Perspectives* (1999), pp. 116-49.
- *Godley, W and M. Lavoie. 2006. Comprehensive Accounting in Simple Open Economy Macroeconomics with Endogenous sterilization or flexible exchange rates, *Journal of Post-Keynesian Economics*, Vol. 28, No 2, 241-266
- *Taylor, Lance, "Exchange rate indeterminacy in Portfolio balance, Mundell-Fleming and uncovered interest rate parity models," *Cambridge Journal of Economics*, 28(2), 2004, pp. 205-27.
- Robert A. Blecker, "International Competition, Income Distribution, and Economic Growth," *CJE*, vol. 13 (September 1989), pp. 395-412.
- J. S. L. McCombie, "On the Empirics of Balance-of-Payments-Constrained Growth," *Journal of Post Keynesian Economics*, vol. 19, no. 3 (Spring 1997), pp. 345-75.
- Perraton, Jonathon. 2003. "Balance of Payments Constrained Growth and Developing Countries: An Examination of Thirlwall's Hypothesis." *International Review of Applied Economics* 17(1):

Taylor, Lance. 1982. *Structuralist Macroeconomics*, Chs 2 and 10.

Mid-term Exam Oct 7

History and Institutions

(Week 8-9)

A. The International Gold Standard

Readings:

*De Cecco, Marcello. *Money and Empire: The International Gold Standard*. New York: St Martins Press, 1984.

*Eichengreen, Barry *Globalizing Capital: A History of the International Monetary System*, Princeton: Princeton University Press, 1996.

Eichengreen, Barry. *Golden Fetters: The Gold Standard and the Depression*. London: Oxford University Press.

Galarotti, Giulio. M. *The Anatomy of an International Monetary Regime: The Classical Gold Standard*. London: Oxford University Press, 1995.

Hallwood & MacDonald Ch 16

B. Bretton Woods, and after

Readings:

*Helleiner, Eric. *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s*. Ithaca: Cornell University Press 1994.

Block, Fred.L. *The Origins of International Economic Disorder: A Study of United States International Monetary Policy from World War II to the Present*. Berkeley: University of California Press, 1977.

*Eichengreen, Barry *Globalizing Capital: A History of the International Monetary System*, Princeton: Princeton University Press, 1996.

Hallwood & MacDonald, Ch 17

Note: The sessions on International Gold Standard and the Post War system will be organized as group discussions. You divide into groups and each group will take responsibility for facilitating discussions around one of the three starred readings

C. Overviews and Perspectives

* Depres, Emile., Charles P. Kindleberger and Walter Salant. "The Dollar and World liquidity: A Minority view." In Walter S.(ed) *Comparative political economy: A retrospective*, Cambridge and London: MIT Press, 2000.

*McKinnon, Ronald, "The World Dollar Standard and Globalization: New Rules for the Game?"; *Exchange rates, economic integration and the international economy* 2004, pp. 3-28, Studies in Economic Transformation and Public Policy. Toronto: APF Press

Kindleberger, Charles P. "Dominance and Leadership in the International Economy." *International Studies Quarterly* 25, 2 (1982).

Bordo, Michael. "The Gold Standard, Bretton Woods and other Monetary Regimes: An Historical Appraisal." National Bureau of Economic Research, Inc., NBER Working Papers: 4310, 1993

Shulmeister, Stephen. "Globalization without Global Money: The double role of the dollar as national currency and world currency." *Journal of Post Keynesian Economics* 22, 3 (2000): 365-395 Ch 17

Serrano, Franklin. "From the Static Gold to the Floating Dollar." *Contributions to Political Economy* 22 (2003): 87-102.

Vasudevan, R. The Borrower of Last Resort: International liquidity and adjustment in historical perspective, *Journal of Economic Issues* 2008

C. Reform of the International Financial System

*Ute Peiper and Lance Taylor, "The Revival of the Liberal Creed: the IMF, the World Bank, and Inequality in a Globalized Economy", *Globalization and Progressive Economic Policy*, Ch. 2.

*d' Arista, J. 2009. Setting the Agenda for Monetary reform. PERI Working Paper 190
http://www.peri.umass.edu/fileadmin/pdf/working_papers/working_papers_151-200/WP190.pdf

Akyüz, Yilmaz, "Reforming the IMF: Back to the Drawing Board." URL:
http://www.networkideas.org/featart/nov2005/Reforming_IMF.pdf

d' Arista 2009 The evolving international monetary system. *Cambridge Journal of Economics* 2009, 33, 633–652

Griffith-Jones, S and Ocampo, JA. 2010. International Financial Architecture seen through the lense of economic crisis: achievements and numerous challenges. Working Paper
<http://www.stephanygj.net/papers/International-financial-architecture.pdf>

United Nations. 2009. Report of the Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System. http://www.un.org/ga/econcrisissummit/docs/FinalReport_CoE.pdf

Leanne Ussher, 2009. Global Imbalances and the Key Currency Regime: The Case for a Commodity Reserve Currency. *Review of Political Economy*, Taylor and Francis Journals, vol. 21(3), pages 403-421

Wade, R. 2009 From global imbalances to global reorganizations. *Cambridge Journal of Economics* 2009, 33

Contemporary Issues

International Capital Flows and the Liberalization of Capital Markets (Week 10)

Readings:

* Ocampo, Kregel and Griffith Jones *International Finance and Development* (2007) Overview and Ch I

* Blecker, R. "Financial Globalization, Exchange Rates and International Trade" in G Epstein edited *Financialization and the World Economy*(2005) Edward Elgar

* Maurice Obstfeld, "The Global Capital Market: Benefactor or Menace?" *Journal of Economic Perspectives* 12(4): 9-30, 1998.

* Goldin & K. A. Reinert, "Global Capital Flows and Development: A Survey," *Journal of International Trade and Economic Development*, vol. 14, no. 4 (December 2005), pp.453-481.

Prasad, E., Rogoff, K., Wei, S., Kose, A., Effects on Financial Globalization on Developing Countries: Some Empirical Evidence , IMF Occasional Paper No. 220, September 2003.

G. A. Calvo & F. S. Mishkin, "The Mirage of Exchange Rate Regimes for Emerging Market Countries," *Journal of Economic Perspectives*, vol. 17, no. 4 (Fall 2003), pp. 99-118.

Graciela Kaminsky, et al., "The Unholy Trinity of Financial Contagion," *Journal of Economic Perspectives*, vol. 17, no. 4 (Fall 2003), pp. 51-74.

Carmen M. Reinhart & Kenneth S. Rogoff, "Serial Default and the 'Paradox' of Rich-to- Poor Capital Flows," *American Economic Review*, vol. 95, no. 2 (May 2005), pp. 53-58.

*Gourinchas, P., Jeanne, O. (2006) The Elusive Gains from International Financial Integration, *Review of Economic Studies* 73: 715–741.

Rodrik, D. (2006), Goodbye Financial Consensus, Hello Washington Confusion? A Review of the World Bank's Economic Growth in the 1990s: *Learning from a Decade of Reform*, *Journal of Economic Literature* 44: 973-987.

Easterly, W. (2005) What did Structural Adjustment Adjust? The association of policies and Growth with Repeated IMF and World Bank Adjustment Loans, *Journal of Development Economics* 76: 1- 22.

* Papaioannou, E. (2009), What Drives international financial flows? Politics, Institutions and other Determinants *Journal of Development Economics* 88, 269–281.

Calvo, G., Leiderman, L. and Reinhart, C. (1996), Inflows of Capital to Developing Countries in the 1990s, *Journal of Economic Perspectives* 10(2): 123-39.

Fernandez-Arias, E. (1996) The New Wave of Private Capital Inflows: Push or Pull? *Journal of Development Economics*, 48: 389-418.

Alfaro, L.; Kalemli-Ozcan, S. and Volosovych, V. (2008) Why Doesn't Capital Flow from Rich to Poor Countries? An Empirical Investigation *The Review of Economics and Statistics*, 90(2): 347–368.

Elements of Crises, Mainstream Models and Heterodox Views (Week 11-12)

Readings:

Hallwood and Macdonald, Ch 14

Gandolfo, Ch 16

Mainstream Models

*Barry Eichengreen and Andrew K. Rose, 1998. "Staying Afloat When the Wind Shifts: External Factors and Emerging Market Crises", NBER WP, 6370.

*Rodrik, Dani, 1998, "Who Needs Capital-Account Convertibility?" in Stanley Fischer, et al., *Should the IMF Pursue Capital Account Convertibility? Essays in International Finance*, No. 207, International Finance Section, Department of Economics, Princeton University, Princeton, N.J., (May). Also available at:

<http://ksghome.harvard.edu/~drodrik/essay.PDF#search='Who%20needs%20capital%20account%20convertibility'>

*Pesenti, P. and Tille, C., "The Economics of Currency Crises and Contagion: An Introduction," *FRBNY Economic Policy Review*, September 2000.

<http://www.newyorkfed.org/research/epr/00v06n3/0009pese.pdf>

*Krugman, P (1999), Balance Sheets, the Transfer Problem, and Financial Crises, *International Tax and Public Finance*, 6, 459–472.

*Obstfeld, Maurice, (1986), Rational and Self-Fulfilling Balance of Payments Crises, *American Economic Review* 76: 72-81

Kaminsky, G.L. (2006) Currency crises: Are they all the same? *Journal of International Money and Finance* 25: 503-527.

*Kaminsky, Graciela L., Saul Lizondo, and Carmen M. Reinhart. 1997. “Leading Indicators of Currency Crises,” International Monetary Fund, Working Paper No. WP/97/79 (July). Washington, DC: IMF.

Eichengreen, Barry, Andrew K. Rose, and Charles Wyplosz. 1995. “Exchange Market Mayhem: The Antecedents and Aftermaths of Speculative Attacks,” *Economic Policy* 21 (October), pp. 249-312.

Jason Furman and Joseph Stiglitz, 1998. The Asian Financial Crisis. Brookings Papers on Economic Activity, Vol II. pp. 1-114.

Heterodox Approaches and Policy Responses

*Taylor, Lance, “Capital Market Crises: Liberalization, Fixed Exchange Rates, and Market-Driven Destabilisation,” *Cambridge Journal of Economics*, vol. 22, no. 6 (1998), pp. 663-76.

*Erturk, K., “Economic Volatility and Capital Account Liberalization in Emerging Countries,” *International Review of Applied Economics*, 19(4), October 2005, pp. 399-417.

*Gerald Epstein, Ilene Grabel and K.S. Jomo, “Capital Management Techniques in Developing Countries: An Assessment of Experiences from the 1990s and Lessons for the Future.” PERI Working Paper No. 56, 2003.

Grabel, Ilene. 2010. “Promising Avenues, False Starts and Dead Ends: Global Governance and Development Finance in the Wake of the Crisis.” PERI Working Paper 241, University of Massachusetts, Amherst.

*Grabel, Ilene Trip Wires and Speed Bumps: Managing Financial Risks and Reducing the Potential for Financial Crises in Developing Economies, UNCTAD G24 Discussion Paper 2004.

James Crotty and Kangkook Lee, “The Causes and Consequences of Neoliberal Restructuring in Post crisis Korea’ in G Epstein edited *Financialization and the World Economy*(2005) Edward Elgar

Arturo O'Connell, "The Recent Crisis and Recovery of the Argentine Economy" in G Epstein edited *Financialization and the World Economy*(2005) Edward Elgar

R. Wade, “From ‘Miracle’ to ‘Cronyism’: Explaining the Great Asian Slump,” *Cambridge Journal of Economics*, vol. 22, no. 6 (1998), pp. 693-706.

Global Imbalances (Week 13)

Readings:

*Gourinchas, P-P and H. Rey. 2005. From World Banker to World Venture Capitalist: US External Adjustment and the Exorbitant Privilege, NBER Working Paper 11563

*Eichengreen, B. 2004., ‘Global Imbalances and the Lessons of the Bretton Woods, NBER Working paper 10497

*Dooley, M., D. Folkerts-Landau and P. Graber. 2004a. The Revived Bretton Woods System, *International Journal of Finance and Economics*, Vol 9, No. 4, pp 307-313

*McKinnon, R. I (2005) "Trapped by the international dollar standard", *Journal of Policy Modeling*, 27

R. Vasudevan , Financial Intermediation and Fragility: the Role of the Periphery, *International Review of Applied Economics* forthcoming

Mckinnon, Ronald. "The Dollar and the Sustainability of the US Current Account Deficit." *Brookings Institutions Paper* 1 (2001): 227-239.

Obstfeld, M. and K. Rogoff . 2005. "Global Current Account Imbalances and Exchange Rate Adjustments", *Brookings Papers on Economic Activity* Vol. 1, 67-146

Hausman, Ricardo and Fredrico Sturzenegger. 2006. Global Imbalances or Bad Accounting? The Missing Dark Matter and the Wealth of Nations, Center for International Development Working Paper 124, Harvard University.

Gray, H. P "Unequal Spending, Aggregate Demand and International Financial Stability" *CESifo Forum* 2005 (1)

Gray, H. P . 2004. *The Exhaustion of the Dollar*, New York, Palgrave-Macmillan

Presentations (Week 14-15)

Final Exam (Week 16)