

International Economics

Academic year 2024-2025

Financial Integration and Crises

El100 - Spring - 6 ECTS

Wednesday 08h15 - 10h00

Course Description

The course provides an analysis of the different crisis episodes focusing on identifying key empirical and theoretical factors. After presenting the main concepts related to the external accounts, and addressing the implications of financial market integration, the course focuses on financial crises. The course will focus first on classical model of crisis (currency crisis, capital flows crisis and sovereign debt crisis) and will then frame and analyze recent financial stress episodes (Repo Crisis 2019, Gilt crisis in the UK 2022, Banking Crisis in the US 2023, Yen Carry Trade Crisis 2024). Part of the evaluation will consist in a short essay on a selected crisis episode. Rest of the evaluation consists in written examination (midterm and final exam)

> PROFESSOR

[Gianluca Benigno](#)

[Office hours](#)

> ASSISTANT

Yang Jiao

[Office hours](#)

IMPORTANT

Regular attendance is compulsory, and any absence must be promptly communicated to the teacher. In the event of missing more than two sessions, students are expected to provide well-documented justifications for unforeseeable circumstances (e.g. illness, accident, death of a relative), directly to the Direction of Studies. Failure to justify absences beyond two sessions will result in the assignment of code N.

Students are also reminded of the following legal rules:

The teacher owns the **copyright** on the material they created for this course. As such, any reproduction or distribution of this document, in whole or in part, as well as of any other material created by the teacher for the course, is prohibited unless permission is granted by the author.

Recording (as video or audio) a course without the consent of the teacher and other participants is strictly forbidden.

Syllabus

Course objective

Students will strengthen their ability to analyze the main issues of macroeconomic crisis relying on empirical evidence and theoretical models.

Readings with an asterisk are required, the others are suggestions for those who want to know more.

Grading

Midterm (30%), Final Exam (50%), Essay (20%)

Textbook

There is no textbook for the course I suggest as a reference book:

Maurice Obstfeld and Kenneth Rogoff, Foundations of International Macroeconomics, Cambridge, MA, MIT press, 1996. (required) (OR from now on).

Manias, Panics and Crashes (3rd edition) Charles Kindleberger

Tentative Course Outline

Introduction and Basic Concepts

*Anatomy of a Typical Crisis, chapter 2 Kindleberger

1. Financial Integration at play: An overview of the Global Financial Crisis and Global Imbalances

*Brunnermeier, Markus (2009) "[Deciphering the liquidity and credit crunch 2007-2008](#)" Journal of Economic Perspective, Winter.

*Obstfeld, Maurice and Kenneth Rogoff (2009) “Global Imbalances and the Financial Crisis: Products of Common Causes.” Asia and the Global Financial Crisis. Asia Economic Policy Conference, Santa Barbara, CA, October 18-20, 2009: Federal Reserve Bank of San Francisco.

2. External Imbalances: The Intertemporal approach to the current account

*Obstfeld, Maurice and Kenneth Rogoff, 1996, *Foundations of International Macroeconomics*, chapters 1-2 (pages 63-72; 74-76; 79-89) and chapter 4

*Dooley, Michael P., Peter Garber and David Folkerts Landau, “An Essay on the Revived Bretton Woods System” <http://www.nber.org/papers/w9971>.

*Dooley, Michael P., Peter Garber and David Folkerts Landau “Bretton Woods II still Defines the International Monetary System”, <http://www.nber.org/papers/w14731>

Obstfeld, Maurice, 2004, "External Adjustment," *Review of World Economics*, 140(4): 541-568.

*Tille, Cedric, "The Impact of Exchange Rate Movements on U.S. Foreign Debt," *Current Issues in Economics and Finance* 9 (January 2003), Federal Reserve Bank of New York.
http://www.newyorkfed.org/research/current_issues/ci9-1.html

Lane, Phillip R. and Gian Maria Milesi-Ferretti. 2014. “Global Imbalances and External Adjustment after the Crisis,” IMF Working Paper WP/14/151. <https://www.imf.org/external/pubs/ft/wp/2014/wp14151.pdf>

Borio, Claudio, and Piti Disyatat. 2011. “Global Imbalances and the Financial Crisis: Link or No Link?” BIS Working Paper No 346, May. <http://www.bis.org/publ/work346.pdf>

Obstfeld, Maurice. 2012. “Financial flows, financial crises and global imbalances,” *Journal of International Money and Finance*, 31(3): 469-480.

Exchange Rate Determination and Currency Crisis

3. Exchange Rate Determination

Obstfeld Maurice and Kenneth Rogoff, 1996, *Foundations of International Macroeconomics*, chapter 8, pages 530-556.

W. Du, A. Tepper and A. Verderlhan (2018) “[Deviations from Covered Interest Rate Parity](#)” , *Journal of Finance*.

E. Cerruti, M. Obstfeld and H. Zhou (2020) "[The shifting Drivers of Covered Interest Parity Deviations](#)", VOX column.

Avdjiev, S., E. Eren and P. McGuire (2020) "[Dollar Funding Costs during the Covid-19 Crisis](#)", BIS bulletin No. 1.

4. First Generation Currency Crisis Model

Flood, Robert, P. and Peter M. Garber. 1984. "Collapsing exchange rate regimes: Some linear examples," Journal of International Economics, 17: 1-13.

https://people.ucsc.edu/~hutch/Econ241a/Articles/FloodGarber_JIE1984.pdf

Krugman, Paul. 1979. "A Model of Balance-of-Payments Crises," Journal of Money, Credit, and Banking, 11(3): 311-325. http://www.columbia.edu/~rhc2/Spring2006/G6904/Papers/Krugman_79.pdf

5. Second Generation Currency Crisis Model

*Krugman, Paul. 1996. "Are Currency Crises Self-Fulfilling?" NBER Macroeconomics Annual, 11: 345-506.

*Obstfeld, Maurice. 1996. "Models of currency crises with self-fulfilling features," European Economic Review, 40: 1037-1048.

Obstfeld, Maurice. 1986. "Rational and Self-Fulfilling Balance of Payments Crises," American Economic Review, 76(1): 72-81. <http://www.nber.org/papers/w1486>

Obstfeld, Maurice. 1994. "The logic of currency crises," Cahiers Economiques et Monetaires (Bank of France), 43: 189-213.

Asian Crisis, Capital Flows and Sudden Stop

6. Asian Crisis

Corsetti, G., P. Pesenti and N. Roubini (1993) "[Paper Tigers: A Model of The Asian Crisis](#)", Federal Reserve Bank of New York Staff Paper 9822.

P. Pesenti and C. Tille "[The Economics of Currency Crises and Contagion: an Introduction](#)", Federal Reserve Bank of New York.

Claessens, Stijn and M. Ayhan Kose. 2013. "Financial Crises: Explanations, Types, and Implications," IMF Working Paper WP/13/28. <http://www.imf.org/external/pubs/ft/wp/2013/wp1328.pdf>

Claessens, Stijn, Kose, M. Ayhan, Laeven, Luc and Fabián Valencia, eds. 2014. Financial crises: causes, consequences and policy response. Book Introduction. Washington, DC: International Monetary Fund, pp. XIII-XVI. <https://www.imf.org/external/np/seminars/eng/2012/fincrisis/pdf/ck.pdf>

7. Sudden Stops

Calvo, Guillermo. 1998. "Capital Flows and Capital Market Crises: The Simple Economics of Sudden Stops." *Journal of Applied Economics*, I(1): 35-54.

<http://www.ucema.edu.ar/publicaciones/download/volume1/calvo.pdf>

Calvo, Guillermo, Izquierdo, Alejandro and Luis-Fernando Mejia. 2004. "On the Empirics of Sudden Stops: The Relevance of Balance Sheet Effects," NBER Working Paper No. 10520.

Kaminsky, Graciela L., Reinhart, Carmen M. and Carlos Vegh. 2004. "When it Rains, it Pours: Procyclical Capital Flows and Macroeconomic Policies," NBER Macroeconomics Annual, 19: 11-53.

<http://www.nber.org/chapters/c6668.pdf>

Mendoza, E. (2005) "Real Exchange Rate Volatility and the Relative Price of Non-tradeable in Sudden Stop Prone Economies" *Economía*.

Mendoza, Enrique. 2010. "Sudden Stops, Financial Crises, and Leverage," *American Economic Review*, 100(5): 1941-1966.

8. Liquidity Crisis and Balance Sheet

*Chang, Roberto and Andreas Velasco. 2001. "A Model of Financial Crises in Emerging Markets," *Quarterly Journal of Economics*, 116: 1-34. http://class.povertylectures.com/Chang_Velasco_QJE2001.pdf

*Krugman Paul. 1999. "Balance Sheets, the transfer problem and financial crises," *International Tax and Public Finance*, 6: 459-472. <http://www.princeton.edu/~pkrugman/krugmanbalance.pdf>

Aghion, Philippe, Bacchetta, Philippe and Abhijit Banerjee. 2000. "A Simple Model of Monetary Policy and Currency Crises," *European Economic Review*, 44: 728-738. <http://economics.mit.edu/files/504>

Diamond, Douglas W. and Philip H. Dybvig. 1983. "Bank Runs, Deposit Insurance, and Liquidity," *Journal of Political Economy*, 91(3): 401-419.

Mendoza, E. (2010). "Sudden Stops, Financial Crisis and Leverage", *American Economic Review*, Vol. 100, pp. 1941-1966.

Sovereign Default

9. Sovereign Default

*Blanchard, Olivier. 2019. "Public Debt and Low Interest Rates," American Economic Review, 109(4): 1197-1229. https://www.aeaweb.org/aea/2019conference/program/pdf/14020_paper_etZgfbDr.pdf

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

- - Varieties of Crises and their Dates, chapter 1, pp. 1-20.
- - A Digression on the Theoretical Underpinnings of Debt Crises, chapter 4, pp. 51-67
- - The Stylized Facts of Domestic Debt and Default, chapter 7, pp. 103-118

Calvo, Guillermo. 1988. "Servicing the public debt: The role of expectations," American Economic Review, 78(4): 647-661.

Reinhart, Carmen M., Reinhart, Vincent and Kenneth Rogoff. 2015. "Dealing with debt," Journal of International Economics, 96: S43-S55.

Panizza Ugo, Sturzenegger, Federico and Jeromin Zettelmeyer. 2009. "The Economics and Law of Sovereign Debt and Default," Journal of Economic Literature (American Economic Association), 47(3): 651–698.

Das, Udaibir S., Papaioannou, Michael G. and Christoph Trebesch. 2012. *Sovereign Debt Restructurings 1950-2010: Literature Survey, Data, and Stylized Facts*. International Monetary Fund, IMF Working Paper WP/12/203 <http://www.imf.org/external/pubs/ft/wp/2012/wp12203.pdf>

10. The European Sovereign Debt Crisis

De Grauwe, Paul. 2013. "The European Central Bank as Lender of Last Resort in the Government Bond Markets," CESifo Economic Studies, 59(3): 520-535.

Corsetti, Giancarlo, and Luca Dedola. 2011. "Fiscal Crises, Confidence and Default. A Bare-bones Model with Lessons for the Euro Area", unpublished, Cambridge.
<https://pdfs.semanticscholar.org/99e8/46bfa17d635c9d8fb0421d52af130a3efdb.pdf>

Flash Crash in Financial Markets

11. Recent Financial Crisis Events:

- Repo Market Crisis in the US:

[“Anatomy of the Repo Crisis in September 2019”](#), Office of Financial Research Working paper 23-04

- Gilt Crisis in the UK:

[“Anatomy of the 2022 Gilt Market Crisis”](#), Bank of England working paper 1019.

- SVB and Regional Banking Crisis in the US

[“Review of the Federal Reserve’s Supervision and Regulation of Silicon Valley Bank”](#), Federal Reserve Board

- Yen carry trade Crisis

Fx swaps and dollar funding and history of the Yen carry trade (lecture notes)