INTERNATIONAL FINANCE

Rhys Bidder

**http://isbs.sbs.ox.ac.uk/mbacourse2010/PublishingImages/solofavicon.pngSOLO tag:**

Course Aims and Objectives

This course develops analytical frameworks useful in understanding current issues of macro performance and capital flows in the international economy. The emphasis will be on the interdependent nature of these issues in a globalised world. We will introduce various benchmark theoretical models to help structure our understanding of the issues, present empirical evidence on them, and discuss their policy implications.

Lecturers

Lecturer: Rhys Bidder

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The views expressed in this course and associated materials – and any errors and omissions - are solely the responsibility of the lecturer and should not be interpreted as reflecting the views of the Federal Reserve Bank of San Francisco or the Board of Governors of the Federal Reserve System or any other representative of the Federal Reserve system.

Course Textbooks

We will draw on analyses from various textbooks:

(**AM**) Agenor and Montiel (2008), *Development Macroeconomics* (3rd ed.), Princeton

(**BN**) Backus and NYU Stern (2015), *The Global Economy*, NYU ([Creative commons license](http://creativecommons.org/licenses/by-sa/3.0/)),

<https://github.com/DaveBackus/Amazon_Global_Economy>

(**SUW**) Schmitt-Grohe, Uribe and Woodford (2016), *International Macroeconomics*, Princeton,

<http://www.columbia.edu/~mu2166/UIM/index.html>

(**SU-O**) Schmitt-Grohe and Uribe (2017), *Open Economy Macroeconomics*, Princeton

(**CS**) Carlin and Soskice (2015), *Macroeconomics: Institutions, Instability and the Financial System*, Oxford

(**OR**) Obstfeld and Rogoff (1997), *Foundations of International Economics*, MIT

(**KO/KOM**) Krugman, Obstfeld (and Melitz in later editions), *International Economics: Theory and policy*

Course Reading List

Session 1: World economic outlook

**Topics**

Growth and imbalances, oil/commodities, trade patterns and sustainability of international financial flows.

Primary readings

SU-O, Ch. 1 and Ch. 2 (section 2.1)

Jones (2015), “The facts of economic growth”, [*NBER WP 21142*](https://www.nber.org/papers/w21142)

Fernald and Wang (2015), “The recent rise and fall of rapid productivity growth”, [FRBSF EL 2015-04](https://www.frbsf.org/economic-research/publications/economic-letter/2015/february/economic-growth-information-technology-factor-productivity/)

Fernald (2016), “What is the new normal for GDP growth?”, [FRBSF EL 2016-30](https://www.frbsf.org/economic-research/publications/economic-letter/2016/october/new-normal-for-gdp-growth/)

Bernanke (2015), “Why are interest rates so low?” parts [1](https://www.brookings.edu/blog/ben-bernanke/2015/03/30/why-are-interest-rates-so-low/), [2](https://www.brookings.edu/blog/ben-bernanke/2015/03/31/why-are-interest-rates-so-low-part-2-secular-stagnation/) and [3](https://www.brookings.edu/blog/ben-bernanke/2015/04/01/why-are-interest-rates-so-low-part-3-the-global-savings-glut/) (especially 1 and 2)

Taylor and Taylor (2004), “[The purchasing power parity debate](https://www.jstor.org/stable/3216796)”, *JEP*, Vol. 18(4)

IMF (2018), “Global Prospects and Policies”, [*World Economic Outlook*](https://www.imf.org/en/Publications/WEO/Issues/2018/09/24/world-economic-outlook-october-2018), Ch. 1 (and [update](https://www.imf.org/en/Publications/WEO/Issues/2019/01/11/weo-update-january-2019))

ECB (2017), “China’s economic growth and rebalancing”, [*Economic Bulletin (7)*](https://www.ecb.europa.eu/pub/economic-bulletin/html/eb201707.en.html), [Article](https://www.ecb.europa.eu/pub/pdf/other/ebart201707_01.en.pdf)

Freeman (2006), “[The Great Doubling: The Challenge of the New Global Labor Market](http://emlab.berkeley.edu/users/webfac/eichengreen/e183_sp07/great_doub.pdf)”

IMF (2015), “Where Are Commodity Exporters Headed?”, [*World Economic Outlook*](https://www.imf.org/en/Publications/WEO/Issues/2016/12/31/World-Economic-Outlook-October-2015-Adjusting-to-Lower-Commodity-Prices-43229), October, Ch. 2

Hamilton (2014), “[The changing face of world oil markets](https://econweb.ucsd.edu/~jhamilto/IAEE_2014.pdf)”, Working paper version of IAEE contribution [note the unfortunate timing of this paper (see the concluding lines) relative to the oil price decline in 2014 – and this is from a superb economist and oil expert! Tricky market…]

**Additional readings**

Calvo, Leiderman and Reinhart (1996), “[Inflows of Capital to Developing Countries in the 1990s](https://www.jstor.org/stable/2138485)”, *Journal of Economic Perspectives*, Vol. 10(2)

IMF (2016), “Spillovers from China’s Transition and from Migration”, [*World Economic Outlook*](https://www.imf.org/en/Publications/WEO/Issues/2016/12/31/Subdued-Demand-Symptoms-and-Remedies), April, Ch. 4

Du *et al* (2017), “[Deviations from covered interest rate parity](https://www.nber.org/papers/w23170)”, *NBER Working Paper*, 23170

Session 2: Macroeconomics and policy

Primary readings

CS, Chs. 1-3 and 9 (also <https://cepr.org/active/publications/discussion_papers/dp.php?dpno=7979> for compact version)

Bernanke (2009), “[*The crisis and the policy response*](https://www.federalreserve.gov/newsevents/speech/bernanke20090113a.htm)”, Stamp Lecture

Yellen (2016), “[*The Federal Reserve’s monetary policy toolkit: Past, present and future*](https://www.federalreserve.gov/newsevents/speech/yellen20160826a.htm)”, Jackson Hole speech

Bernanke (2017), “[Monetary policy in a new era](https://www.brookings.edu/wp-content/uploads/2017/10/bernanke_rethinking_macro_final.pdf)*”*, *Brookings working paper*

Auerbach, Gale and Harris (2010), “[Activist Fiscal Policy](http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.24.4.141)”, *Journal of Economic Perspectives*, 24(4)

**Additional readings**

Walsh (2009), “[Using Monetary Policy to Stabilize Economic Activity](http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.233.723&rep=rep1&type=pdf)”

Teulings and Baldwin (eds.) (2014), Chs. 1, 4, 8 and 9 in [*Secular stagnation: Facts, causes and cures*](https://voxeu.org/article/secular-stagnation-facts-causes-and-cures-new-vox-ebook)

Rachel and Smith (2017), “[Are low real interest rates here to stay?](https://www.ijcb.org/journal/ijcb17q3a1.pdf)”, *IJCB*, Sept.

Del Negro *et al* (2018), “[Global trends in interest rates](https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr866.pdf)”, *FRBNY Staff Report*, 866

Fernald (2016), “[What is the new normal for U.S. growth?](https://www.frbsf.org/economic-research/publications/economic-letter/2016/october/new-normal-for-gdp-growth/)”, *FRBSF Economic Letter*, 2016-30

Nechio *et al* (2017), “[Demographic transition and low U.S. interest rates](https://www.frbsf.org/economic-research/publications/economic-letter/2017/september/demographic-transition-and-low-us-interest-rates/)”, *FRBSF Economic Letter*, 2017-27

Bernanke (2015), “Why are interest rates so low?” parts [1](https://www.brookings.edu/blog/ben-bernanke/2015/03/30/why-are-interest-rates-so-low/), [2](https://www.brookings.edu/blog/ben-bernanke/2015/03/31/why-are-interest-rates-so-low-part-2-secular-stagnation/) and [3](https://www.brookings.edu/blog/ben-bernanke/2015/04/01/why-are-interest-rates-so-low-part-3-the-global-savings-glut/)

Sessions 3/4: Currency regimes, unions, debt and crises

Primary Readings

CS, Chs. 10-12

KO – good for basics on BoP and Income Accounting and though experiments under fixed rate regimes

SUW, Ch.12

BN, Chs. 17, 20 and 21

Frankel (2011), “[Choosing an exchange rate regime](https://www.hks.harvard.edu/sites/default/files/centers/mrcbg/files/MRCBG_FWP_2011_16-2011_Frankel_Exchange_Rate.pdf)”, *M-RCBG Faculty Working Paper*, 2011-16

Burnside *et al* (2007), “Currency crisis models”, *The New Palgrave: A Dictionary of Economics*, 2nd Edition ([also on Rebelo’s website](https://www.kellogg.northwestern.edu/faculty/rebelo/htm/currency%20crisis%20models%20Ed.pdf))

Calvo and Reinhart (2002), “[Fear of floating](https://www.jstor.org/stable/2696430)”, *QJE*, Vol. 117(2)

Allen *et al* (2002) “[A Balance Sheet Approach to Financial Crisis](http://www.imf.org/external/pubs/ft/wp/2002/wp02210.pdf),” *IMF Working Paper,* 02/210

Wyplosz (2006), “[European Monetary Union: the dark sides of a major success](https://academic.oup.com/economicpolicy/article-pdf/21/46/208/9572763/economicpolicy21-0208.pdf)”, *Economic Policy*, ([also here](http://citeseerx.ist.psu.edu/viewdoc/summary?doi=10.1.1.125.2322))

Glick and Rose (2016), “[How much does the EMU benefit trade?](https://www.frbsf.org/economic-research/publications/economic-letter/2016/march/trade-benefits-of-emu-european-economic-and-monetary-union/)”, *FRBSF Economic Letter*, 2016-09

Glick and Hutchison (2011), “[Currency Crises](https://www.frbsf.org/economic-research/files/wp11-22bk.pdf)”, *FRBSF Working Paper*, 2011-22 [scan paper for main points]

Glick and Hutchison (1999), “[Banking and currency crises: How common are twins?](https://www.frbsf.org/economic-research/files/wppb99-07.pdf)”, *FRBSF/PB Working Paper*, 99-07 [scan paper for main points]

Obstfeld and Rogoff (1995), “[The mirage of fixed exchange rates](https://www.jstor.org/stable/2138391)”, *JEP*, Vol. 9(4)

Kaminsky, Reinhart and Vegh (2003), “[The unholy trinity of financial contagion](https://www.jstor.org/stable/3216931)”, *JEP*, Vol. 17(4)

Nechio (2011), “[Monetary policy when one size does not fit all](https://www.frbsf.org/economic-research/files/el2011-18.pdf)”, *FRBSF Economic Letter*, 2011-18

Frankel (2005), “[Mundell-Fleming Lecture: Contractionary currency crashes in developing countries](https://www.jstor.org/stable/30035893)”, *IMF Staff Papers*, Vol. 52(2)

IMF (2014), “Are Global Imbalances at a Turning Point?”, [*World Economic Outlook*](https://www.imf.org/external/pubs/ft/weo/2014/02/), October, Ch. 4

Bernanke (2005), “[The Global Savings Glut and the US Current Account Deficit](http://www.federalreserve.gov/boarddocs/speeches/2005/200503102/)”

**Additional readings**

Jeanne (2000) “[Currency Crises: A Perspective on Recent Theoretical Developments](http://econ.sciences-po.fr/sites/default/files/file/CEPR-DP2170-jeanne.pdf)”, *CEPR Paper*, 2170

Rey, Hélène (2015) “[Dilemma Not Trilemma: The Global Financial Cycle and Monetary Policy Independence](http://www.nber.org/papers/w21162)” *NBER Working Paper*, 21162

Begg, Iain (2017) “[Fiscal and Other Rules in EU Economic Governance: Helpful, Largely Irrelevant or Unenforceable?](http://journals.sagepub.com/doi/full/10.1177/002795011723900110)”, *National Institute Economic Review*, 239(1)

Tressel, T., S. Wang, J. Kang and J. Shambaugh (2014) “[Adjustment in Euro Area Deficit Countries: Progress, Challenges, and Policies](https://www.imf.org/external/pubs/ft/sdn/2014/sdn1407.pdf)”, *IMF Staff Discussion Note*, SDN/14/7

Feldstein (2002), “[Economic and financial crises in emerging market economies: Overview of prevention and management](https://www.nber.org/papers/w8837.pdf)”, *NBER Working Paper*, 8837

Calvo *et al* (1996), “[Inflows of capital to developing countries in the 1990s](https://www.jstor.org/stable/pdf/2138485.pdf)”, *JEP*, Vol. 10(2)

Corsetti, Giancarlo *et al* (2015), “[A New Start for the Eurozone: Dealing with Debt](https://voxeu.org/content/new-start-eurozone-dealing-debt)”, Chs. 1 and 2

House and Tesar (2015), “[Greek Budget Realities: No Easy Solutions](http://www.nber.org/papers/w21688)”, *NBER Working Paper*, 21688

AM, Part IV

Obstfeld (2012), “[Does the Current Account Still Matter?](https://www.aeaweb.org/articles?id=10.1257/aer.102.3.1)”, *American Economic Review*, Vol. 102(3)

Calvo (1998), “[Capital Flows and Capital-Market Crises: The Simple Economics of Sudden Stops](https://ucema.edu.ar/publicaciones/download/volume1/calvo.pdf)”, *Journal of Applied Economics*, Vol. I(1)

Session 5/6: The origins and legacies of the Global Financial Crisis

Recall my disclaimer above that nothing in this course should be taken as necessarily representing the views of anyone at the Fed. These are also not necessarily reflective of my personal opinions either.

Primary readings

CS, Chs. 5-7

Bernanke (2012), “[Some reflections on the crisis and the policy response](https://www.federalreserve.gov/newsevents/speech/bernanke20120413a.htm)”

Mishkin (2011), “[Over the cliff: From the subprime to the global financial crisis](https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.25.1.49)”, J*EP*, Vol. 25(1)

Caballero (2010), “[The “Other” Imbalance and the Financial Crisis](http://www.nber.org/papers/w15636)”, *NBER Working Paper*, 15636 [scan paper for main points]

Gorton and Metrick (2009), “[Securitized banking and the run on repo](https://www.nber.org/papers/w15223.pdf)”, *NBER Working Paper*, 15223 [scan paper for main points]

Bernanke (2018), “[The real effects of the financial crisis](https://www.brookings.edu/wp-content/uploads/2018/09/BPEA_Fall2018_The-real-effects-of-the-financial-crisis.pdf)”, *Brookings Papers on Economic Activity*

IMF (2018), “A Decade after the Global Financial Crisis”, [*Global Financial Stability Report*](https://www.imf.org/en/publications/gfsr)*,* October, Ch. 1

Brunnermeier (2009), “[Deciphering the Liquidity and Credit Crunch 2007 – 2008](https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.23.1.77)”, J*EP*, Vol. 23(1) [excellent]

Hirtle and Lehnert (2014), “[Supervisory Stress Tests](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2521612)”, *FRBNY Staff Reports*, 696 ([also see SCAP analysis](https://www.newyorkfed.org/research/staff_reports/sr409.html))

Kashyap *et al* (2019), “[Would macroprudential regulation have prevented the last crisis](https://www.aeaweb.org/articles?id=10.1257/jep.33.1.107)”, *JEP*, Vol. 33(1) [excellent]

**Additional readings**

Mian and Sufi (2014), “[*House of Debt*](https://www.press.uchicago.edu/ucp/books/book/chicago/H/bo20832545.html)”, University of Chicago

Duffie (2010), “[*How big banks fail and what to do about it*](https://press.princeton.edu/titles/9371.html)”, Princeton ([also old draft here](https://web.stanford.edu/~duffie/DuffieDealersMarch10.pdf))

Ball (2016), “[The Fed and Lehman Brothers: Introduction and Summary](https://www.nber.org/papers/w22410.pdf)”, *NBER Working Paper*, 22410 ([book](https://www.cambridge.org/core/books/fed-and-lehman-brothers/14BE6C2AD579DC4782EC27F2A6AF2FA6)) [I don’t endorse the main thrust but contains interesting information]

Bernanke, Ben (2009) “[The Crisis and Policy Response](http://www.federalreserve.gov/newsevents/speech/bernanke20090113a.htm),” *Stamp Lecture*

Noeth and Sengupta (2012), “[Global European banks and the financial crisis](https://files.stlouisfed.org/files/htdocs/publications/review/12/11/Noeth.pdf)”, *FRBSL Review*

Reinhart and Rogoff (2009), “[Aftermath of Financial Crises](http://www.nber.org/papers/w14656)”, NBER Working paper 14656

Baker (2018), “[The housing bubble and the Great Recession: Ten years later](http://cepr.net/images/stories/reports/housing-bubble-2018-09.pdf)”, CEPR

Bhutta and Ringo (2015), “[Assessing the CRA’s role in the financial crisis](https://www.federalreserve.gov/econresdata/notes/feds-notes/2015/assessing-the-community-reinvestment-acts-role-in-the-financial-crisis-20150526.html)”, *FEDS Notes*

IMF (2012) “[The Reform Agenda: An Interim Report on Progress Toward a Safer Financial System](http://www.imf.org/External/Pubs/FT/GFSR/2012/02/pdf/c3.pdf)”, *GFSR*

**Session 7: Oil/fracking and sovereign wealth funds / Benefits of openness**

Primary readings

IMF (2015), “[The Commodity Roller Coaster. A fiscal framework for uncertain times](http://www.imf.org/external/pubs/ft/fm/2015/02/pdf/fmc1.pdf)” in *Fiscal Monitor*, October [first 10 pages – up to section on “Long term fiscal management under uncertainty”]

Truman (2010), “[*Sovereign wealth funds: Threat or salvation?*](https://piie.com/bookstore/sovereign-wealth-funds-threat-or-salvation)”, Peterson Institute, chs. 1, 5 and 8 ([compressed](https://core.ac.uk/download/pdf/6603442.pdf))

Aizenmann and Glick (2008), “[Sovereign wealth funds: Stylized facts about their determinants and governance](https://www.nber.org/papers/w14562)”, *NBER Working Paper*, 14562

Frankel (2010), “[The natural resource curse: A survey](https://www.nber.org/papers/w15836)”, *NBER Working Paper*, 15836

Clark (2019?), “[What’s oil shale?](https://science.howstuffworks.com/environmental/energy/oil-shale.htm)”, [howstuffworks.com](https://www.howstuffworks.com/) post

Frondel *et al* (2018), “[The US fracking boom: The impacts on global oil prices and OPEC](https://www.iaee.org/en/publications/newsletterdl.aspx?id=466)”, *IAEE Energy Forum*

Hamilton (2012), “[How shale and tight oil have changed the look of US oil production](https://oilprice.com/Energy/Crude-Oil/How-Shale-and-Tight-Oil-Have-Changed-the-Look-of-US-Oil-Production.html)”, *OilPrice.com*

Hamilton (2014), “[The changing face of world oil markets](https://econweb.ucsd.edu/~jhamilto/IAEE_2014.pdf)”, Working paper version of IAEE contribution [note the unfortunate timing of this paper (see the concluding lines) relative to the oil price decline in 2014 – and this is from a superb economist and oil expert! Tricky market…]

Bernstein *et al* (2013), “[The investment strategies of sovereign wealth funds](https://www.aeaweb.org/articles?id=10.1257/jep.27.2.219)”, *Journal of Economic Perspectives,* Vol 27(2)

Cherif *et al* (2017), “[End of the oil age: Not whether, but when](https://blogs.imf.org/2017/09/12/end-of-the-oil-age-not-whether-but-when/)”, IMF Blog

Coeurdacier and Rey (2013), “[Home bias in open economy financial macroeconomics](https://www.jstor.org/stable/23644704)”, *JEL*, Vol. 51(1)

Maggiori *et al* (2018), “[International currencies and capital allocation](http://faculty.chicagobooth.edu/brent.neiman/research/MNS.pdf)” (also [NBER version](https://www.nber.org/papers/w24673)) [scan for main points]

Kose *et al* (2006), “[Financial Globalisation: A Reappraisal](http://www.prasad.aem.cornell.edu/doc/research/imfsp200836a.pdf)”, *IMF Staff Papers*, Vol. 56(1) ([compressed](https://voxeu.org/article/does-financial-globalisation-help))

**Additional readings**

Smith (2009), “[World oil: Market or mayhem?](https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.23.3.145)”, *Journal of Economic Perspectives*, Vol 23(3)

Baumeister and Kilian (2016), “[Forty years of oil price fluctuations: Why the price of oil may still surprise us](https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.30.1.139)”, *JEP*, Vol. 30(1)

Poelhekke and van der Ploeg (2009), “[Volatility and the natural resource curse](https://ora.ox.ac.uk/objects/uuid:bdb8c9a3-78fe-408a-bedf-3fc15ced9512/download_file?file_format=application/pdf&safe_filename=oxcarrerp200803.pdf&type_of_work=Working%20paper)”, *Oxford Economic Papers*, 4(1)

Hamilton (2014), “[A glut of oil?](http://econbrowser.com/archives/2014/11/a-glut-of-oil)”, *Econbrowser* blog post [note that this isn’t to say the ultimate conclusion he draws has turned out correct – but the article contains interesting commentary]

World Economic Forum (2016), “[Renewable infrastructure investment handbook: A guide for institutional investors](http://www3.weforum.org/docs/WEF_Renewable_Infrastructure_Investment_Handbook.pdf)”, *WEF Industry Agenda* [early sections most relevant]

Obstfeld and Rogoff (2000), “[The six major puzzles in international macroeconomics: Is there a common cause?](https://www.jstor.org/stable/3585405)”, *NBER Macroeconomics Annual*, Vol. 15 [some of this paper will be difficult – feel free to scan for main points]

Engel and Rogers (1996), “[How wide is the border?](https://www.jstor.org/stable/2118281)”, *AER*, Vol. 86(5)

OR, Ch. 5 (especially P. 304-306, 325-332)

SUW, Ch. 8 [did not have time to cover this but interesting]

Frankel and Romer (1999), “[Does trade cause growth?](https://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.89.3.379)”, *AER*, Vol. 89(3)

Hoxha *et al* (2009), “[How Big are the Gains from International Financial Integration?](http://www.nber.org/papers/w14636)” *NBER Working* Paper, 14636 ([published version](https://www.sciencedirect.com/science/article/pii/S0304387813000163))

IMF (2013) “[How Do Changes in the Investor Base and Financial Deepening Affect Emerging Market Economies?](http://www.imf.org/External/Pubs/FT/GFSR/2014/01/pdf/c2.pdf)”, *GFSR*, Ch. 2

Schmukler and Abraham (2017), “[Financial globalization: A glass half empty?](http://documents.worldbank.org/curated/en/990491505323961395/Financial-globalization-a-glass-half-empty)”, *World Bank Policy Research Working Paper*, WPS8194

Session 8: Presentation of Practical Work Group Assignments

The practical group (3-4 people) assignment consists of a presentation in the last class of term (week 8) of an analysis of the macro situation and policy outlook for a country chosen by the group, using the theory taught in the preceding lectures. The slides must be submitted in advance of the presentation, by 12 noon on Monday 17th June. Presentations should last between 15 and 20 minutes and will be followed by questions. Groups are advised to use presentation media, such as PowerPoint, Beamer or something similar.