International Monetary & Financial Relations

Fall 2010

American University – School of International Service (SIS)
SIS 466 and SIS 666
Mondays, 8:30 am – 11:10 am (Ward 103)

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Office Hours: Mondays and Thursdays, 11h15 – 12h30 (or by appointment).

Course Description and Prerequisites

The global economy has been progressively integrated through international trade and investment over the last five decades. “Globalization,” which is particularly pronounced in money, capital, and financial markets, accentuates the impact of foreign financial disturbances on national economies and vice versa. This process has also elevated the importance of international monetary and financial policies as elements of the economic and foreign policies of the United States, which has in turn intensified the dilemmas faced by policymakers worldwide.

This course addresses contemporary and historical issues in international monetary and financial relations. Emphasizing key political and economic concepts, the course examines the historical evolution of the international monetary system, the political economy of monetary regimes, and the merits of alternative exchange rate policies. It also examines global conflicts over balance-of-payments adjustments and the management of international financial crises, with special attention to the current and ongoing “global” financial and economic crisis.

For graduate students in the International Economic Relations (IER), this course is the sequel to International Economics (SIS 616) and a core course for the field. For upper-level undergraduates, the course is the sequel to International Economic Relations (SIS 385). Undergraduates are strongly advised to have already completed International Economics.

Grading and Requirements

Students are expected to come to each class, participate actively in class discussions, write a medium-length paper, and take the final (oral) exam. The weights attached to these requirements are:

- Class Participation 10%
- In-Class Presentation 20%
- Paper 30%
- Final Oral Exam 40%
The paper should be on a topic within the scope of the course. Undergraduate students have a length limitation of 3,000 words (approximately 10-12 pages), graduate students of 5,000 words (approximately 15-20 pages). Please include an exact word count on the title page. Papers will be evaluated on the basis of thoroughness of research, quality of analysis, and writing style. Analytical interpretation and explanation is generally more difficult than simple description, and papers will be evaluated accordingly. A prospectus – describing the proposed topic, research question(s), and a preliminary bibliography – should be submitted to the Professor for approval during the fifth class session (September 27). Papers are due, in both hard copy and electronic form, on **Thursday December 2 (by 5pm in the instructor’s-office)**. Students will also be required to give a 10-15 minute presentation in class on their paper topic during one of the last two class sessions, which will count towards their final grade.

The final oral examination will be given in the instructor’s office during the regular exam period, most likely on **Monday December 6**. Thirty questions will be given to you in advance and you will get two randomly picked questions during the day of the exam, which you will have 30 minutes to prepare in writing, which you can use to structure your answers. The oral exam itself will last no longer than 20 minutes.

A prior understanding of the foundations of open economy macroeconomics is essential. All students will need to review and enhance their understanding of these concepts and theories over the course of the semester by reviewing their international economics textbook. I have provided such a text as a recommended purchase (below) for those needing such a book.

**Required Texts**


- *The Financial Times*, daily
- *The Economist*, weekly

**Recommended Text**


By enrolling in this course, students agree to adhere to American University's Academic Integrity Code (AIC) in all aspects of the course. The AIC, whose provisions are taken seriously in this course, can be found at: [http://www.american.edu/american/registrar/AcademicReg/New/reg80.html](http://www.american.edu/american/registrar/AcademicReg/New/reg80.html)
Course Outline and Readings

Recommended Books on the current Global Financial Crisis:


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Week 1 – August 23
Introduction & Overview of the Course

- Review of the key concepts and analytical issues in the international monetary and financial system.

Required:
- Ferguson, *Ascent of Money*, introduction + chapters 1-2

Week 2 – August 30
The Global Financial Crisis: Causes and Policy Implications

- Discussion of current global financial crisis
- PowerPoint presentation by instructor (notes will be provided)
- Discussion of Ferguson’s main argument.

Required:
- Ferguson, *Ascent of Money*, chapters 3-6 (+ afterword).

*** Note: NO CLASS on 6 September – LABOR DAY ***
Week 3 & 4 – September 13-20
The Gold Standard and Interwar Conflict

Required:

Supplementary Reading:
- Barry Eichengreen, “Hegemonic Stability Theories of the International Monetary System,” in Frieden and Lake, chapter 15.

Week 5 – September 27
The Bretton Woods Regime of Fixed Exchange Rates

Required:

*** Paper prospectus due this class session. ***

Supplementary Reading:
- International Monetary Fund, “The IMF at a Glance,” April 2004, at  

Week 6 – October 4
External Monetary Policymaking and Experience with Flexible Exchange Rates

Required:
- Eichengreen, chapter 5, pp. 136-152 (floating), 181-186 (developing countries/conclusion), and chapter 6. [Discussion of overall argument of Eichengreen’s book during this session.]
- Corden, chapters 3 and 4.
Supplementary Reading:

Week 7 – October 11
The Merits of Flexible versus Stabilized Exchange Rates

Required:
- Corden, chapters 5 (In-between Regimes) and 14 (Conclusion).

Supplementary Reading:
- Jeffrey A. Frankel, *No Single Currency Regime is Right for All Countries or at All Times*, Essays in International Finance, No. 215 (Princeton: International Finance Section, Princeton University, August 1999).
Week 8 – October 18
Monetary Regionalism: Europe

Required:
-Corden, chapters 9 (Openness and Size) and 13 (Europe).

Supplementary Reading:

Week 9 – October 25
The Washington Consensus

Required:
-Wolf, *Fixing Global Finance*, Chapters 1 & 2
-Olivier Blanchard, Giovanni Dell’Ariccia, and Paolo Mauro, “Rethinking Macroeconomic Policy,” IMF Staff Position Note, SPN/10/03, February 12, 2010

Supplementary Reading:
-Solomon, Ch. 5 (1990s: Capital Mobility and its Effects) and 6 (The Present and Future of the System).

Week 10 – November 1
Emerging Market Financial Crises: Mexico, Asia and Beyond

Required:
- Corden, Chapters 7 (Fiscal Policy) and 8 (devaluation and borrowing).
- Wolf, Fixing Global Finance, Chapters 3 & 4
- Robert E. Rubin, chapter on Mexico [full reference to be supplied]
- Corden, chapters 10 (Mexico, Chile, Brazil) and 12 (Lessons from Asia)

Recommended:

Week 11 – November 8
Global Imbalances, the IMF, “Revived Bretton Woods,” and Contemporary Global Adjustment

Required:
- Wolf, Fixing Global Finance, Chapters 5 & 6

Recommended:
- Edwin M. Truman, ed., Reform the IMF for the 21st Century (see above), chapters 1 and 7 (regional arrangements, by Henning), and 9 (chairs and shares, by Truman).

Week 12 – November 15
Single Global Currency and Alternative Futures

Required:
-Wolf, Fixing Global Finance, Chapters 7 & 8

Supplementary Reading:

Week 13 & 14 – November 22/29
Student Paper Presentations

In-class student presentations of their papers

Final Oral Examination: December 6