



The Political Economy of International Finance 2006-7

Tuesdays: 14:15 – 18:00 (see schedule below), SGAS

This is an interdisciplinary seminar open to graduate students from the economics and political science sections. It is also open to advanced (4th year) licence students with good grades in the economics and political science in the third year conferences. The seminar will run on Tuesdays from 14:15 to 18:00 on the following dates:

October 24 November 7 and 21 January 23

And it will have an intensive day on Friday December 8 from 9am to 6pm.

Enrolment is limited to 30 students. All interested must sign up with Ms Denise Ducroz (Rigot 36) before November 3. If need be, a random draw will be organized to select the admitted students, with different quotas for graduate and undergraduate students. The list of admitted students will be posted on instructors' doors as well as on Charles Wyplosz's personal website (<http://hei.unige.ch/~wyplosz>) and on the political science website (<http://hei.unige.ch/sections/sp/>).

Instructors:

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Course description:

The forces of globalization – trade and financial liberalization, political integration and technological change – have led to a dramatic expansion of the global financial system during the last two decades. Rapidly increasing private capital flows have provided the foundation for economic growth and wealth creation in a large number of developing economies. Yet, they may also have contributed to a series of severe international financial and economic crises from Latin American in the 1980s to East Asia, Asia and Brazil at the end of the 1990s and the financial collapse in Argentina in 2002. These setbacks, along with perceptions that inequality is on the rise worldwide, have provided the impetus for an increasingly vocal opposition to globalization. The process is therefore controversial and its continuation is not necessarily certain.

The course will examine how these powerful forces of international capital flows are shaping public policy decisions at the national and the international level. Class discussions will be based on selected theoretical and policy papers.

Requirements:

Students will be required to submit one discussion paper and to take an exam at the end of the term. The first requirement will be a short discussion paper on the readings for one class session (1000 words). Students should briefly review the main points found in the reading and then discuss them critically. Discussion papers are due at the beginning of the class on the given session. The second requirement will bear on issues treated during the whole year. In addition, students will have to participate in class discussions. The final exam will account for 2/3 of the grade while the discussion paper and class participation will count for the remaining 1/3.

Readings:

The emphasis of the course is not upon the technical aspects of the operation of financial markets, but rather upon the evolving political and institutional context in which they operate. Nevertheless, students must have a basic understanding of international macroeconomics. Students should be familiar with the material presented in macroeconomic textbooks such as Obstfeld-Krugman or Burda-Wyplosz. Students are strongly encouraged to explore the websites listed below and the rapidly expanding sites dealing with globalization.

Economics – References:

Burda, M. and Wyplosz, C., *Macroeconomics, A European Text* (Third edition).
Krugman, P. and Obstfeld, M. *International Economics: Theory and Policy* (latest edition). especially parts III and IV.

Economics and International Political Economy – General Bibliography:

Eichengreen, Barry (1996). *Globalizing Capital*. Princeton: Princeton University Press.
Eichengreen, Barry (2002). *Financial Crises*. Oxford: Oxford University Press.
Frieden, J. A. (2006). *Global capitalism: its fall and rise in the twentieth century*. New York, W.W. Norton.
Frieden, Jeffrey A. and Lake, David A. *International Political Economy* (latest edition) (good general overview of IPE theory, with some very relevant articles)
Grieco, Joseph M. and G. John Ikenberry (2003). *State Power and World Markets*. New York: W.W. Norton. (the latest textbook on international political economy).
Helleiner, Eric (1994). *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s*. Ithaca: Cornell University Press.
Luttwak, Edward (2000). *Turbo Capitalism. Winners and Losers in the Global Economy*. New York: HarperCollins (anti-establishment but thoughtful account of evolution towards winner take all turbo capitalism with its inevitable societal upheavals and economic inequities).
Ravenhill, John, ed. (2004). *Global Political Economy*. Oxford: Oxford University press.
Soros, George (1994). *The Alchemy of Finance*. New York: John Wiley & Sons (difficult but insightful account of a great speculator's investment reasoning).
Spero, Joan and Jeffrey Hart (1997). *The Politics of International Economic Relations*. London: Routledge (the most basic and general introduction to international political economy).
Stiglitz, Joseph (2002) *Globalization and its Discontents*, New York: W.W. Norton.

Journals:

International Organization; World Politics; The World Economy; International Studies Quarterly; American Political Science Review; Review of International Political Economy (RIPE); Journal of Economic Perspectives; World Development; Journal of Common Market Studies. Economic Policy; Foreign Affairs

Newspapers, Magazines:

The Economist and Financial Times

International Organizations:

Students should carefully explore the International Monetary Fund's website <http://www.imf.org/external/index.htm> which covers a wide range of information and publications. For most countries, the IMF now publishes its annual economic reviews or abstracts thereof (Article 4 reviews). With regard to the Asian crisis, the IMF's May 1998 *International Capital Markets* reports is particularly useful.

OECD: for one of the most useful global economic data references, see the OECD's *World Economic Outlook*. <http://www.oecd.org/>

Bank of International Settlements: BIS Annual Report, <http://www.bis.org/>

For *World Development Reports* and the *World Debt Tables*, go to the World Bank's website: <http://www.worldbank.org>

The European Commission's website contains links to all other EU websites.

National Central Banks:

All national central banks maintain rich websites. In particular, you should look at major monetary policy speeches by prominent central bankers as well as the most important regular economic publications of leading central bank (Federal Reserve Bank, European Central Bank, Bank of Japan, Bank of England, German Bundesbank, Swiss National Bank etc.)

Course Outline

The following list of topics is provisional. It will evolve as the seminar progresses and a guest speaker is confirmed. Articles marked with a star (*) are required reading and will be included in a reader as well as all the non-compulsory readings that are not available online. The reader will be available for purchase at Imprimerie Minute.

1. Introduction: Globalization, Trends and Reversibility (Oct. 24, 2006)

- * Rodrik, Dani (1998). "Symposium on Globalization in Perspective: An Introduction." *The Journal of Economic Perspectives* 12(4): 3-8.
- * Williamson, Jeffrey (2002) "Winners and Losers Over Two Centuries of Globalization", NBER Working Paper No. 9161.
- Bourguignon, François et al (2002) "Making Sense of Globalization, A Guide to the Economic Issues", *Policy Paper* 8, CEPR, London.
- Eichengreen, Barry and Harold James (2001) "Monetary and Financial Reform in Two Eras of Globalization", University of California, Berkeley.
- O'Rourke, Kevin H. (2001) "Globalization and Inequality: Historical Trends", *NBER Working Paper* 8339. (online from HEI campus)
- Faria, André, Paolo Mauro, Martín Minnioni and Aleksandar Zaklan (2006) "The External Financing of Emerging Market Countries: Evidence from Two Waves of Financial Globalization", IMF Working Paper No. WP/06/205.

Part I: Managing integration: features and variety of responses

2. Managing integration: the international dimension (Oct. 24, 2006)

- *Conybeare, John A.C. (1980). "International Organization and the Theory of Property Rights." *International Organization* 34(3): 307-334.
- *Aggarwal, Vinod K. and Cédric Dupont (2004). Collaboration and Coordination in the Global Political Economy. In John Ravenhill, ed. *Global Political Economy*. Oxford, Oxford University press: 28-49.
- *Yarbrough, Beth V. and Robert M. Yarbrough (1986). "Reciprocity, Bilateralism, and Economic Hostages: Self-Enforcing Agreements in International Trade." *International Studies Quarterly* 30(March): 7-21.
- Lake, David A. (1996). "Anarchy, Hierarchy, and the Variety of International Relations." *International Organization* 50(1): 1-33. (online from HEI campus)

3. Managing integration: the national level (Nov. 7, 2006)

- *Bernhard, William, et al. (2002). The Political Economy of Monetary Institutions. *International Organization* 56(4): 693-723.
- *Freeman, John R. (2002). Competing Commitments: Technocracy and Democracy in the Design of Monetary Institutions. *International Organization* 56(4): 889-910.
- Eichengreen, Barry and David Leblang (2006), Democracy and Globalization, NBER Working Paper No. 12450.

- Keefer, Philip and David Stasavage (2003). The Limits of Delegation: Veto Players, Central Bank Independence, and the Credibility of Monetary Policy. *American Political Science Review* 97(3): 407-423.
- Pearce, David H. (2003). Societal Preferences, Partisan Agents, and Monetary Policy Outcomes. *International Organization* 57(2): 373-410.

Part II: Life in an integrated world

4. A dangerous world: crises and their costs (Nov. 7, 2006)

- *Calvo, Guillermo, "Varieties of Capital-Market Crises", in: G. Calvo and M. King (eds.) *The Debt Burden and Its Consequences for Monetary Policy*, Macmillan, 1998.
- Kaminsky, Graciela and Carmen Reinhart (1998) "On Crises, Contagion, and Confusion", unpublished, November 1998. <http://www.puaf.umd.edu/papers/reinhart.htm>
- Reuveny, and Thompson (2004). Long-cycles and crises. *Journal of Peace Research*.
- Catão Luis A.V. (2006) "Sudden Stops and Currency Drops: A Historical Look", IMF Working Paper No. WP/06/133.

5. Policy risks(1): Exchange Rate Regime Choices and their impact (Nov 21, 2006)

- *Frankel Jeffrey, " No Single Currency Regime Is Right For All Countries Or At All Times", *NBER Working Paper* 7338, September 1999. <http://www.nber.org/papers/w7338>
- Cizre, Umit and Erinc Yeldan (2005). The Turkish encounter with neo-liberalism: economics and politics in the 2000/2001 crises. *Review of International Political Economy* 12(3): 387-408.
- MacIntyre, Andrew (2001). "The Politics of the Economic Crisis in Southeast Asia." *International Organization* 55(1): 81-122. (online from HEI campus)
- Montinola, Gabriella R. (2003). Who recovers first? Banking crises resolution in developing countries. *Comparative Political Studies* 36(5): 541-574.
- Reinhart, Carmen M. and Kenneth S. Rogoff (2002) "The Modern History of Exchange Rate Arrangements: A Reinterpretation", *NBER Working Paper* No. 8963. (online from HEI campus)
- Shambaugh, George E. (2004). The Power of Money: Global Capital and Policy Choices in Developing Countries. *American Journal of Political Science* 48(2): 281-295.

6. Policy risks (2): The Effects of Financial Liberalization in Emerging Market Countries (Nov. 21, 2006)

- * Reinhart, Carmen and Ioannis Tokatlidis (2001) "Before and After Financial Liberalization", University of Maryland and NBER
- * Wyplosz, Charles (2002) "How Risky is Financial Liberalization in the Developing Countries?" *Comparative Economic Studies*, June.
- Cizre-Sakallioglu, Umit and Erinc Yeldan (2000). Politics, Society and Financial Liberalization: Turkey in the 1990s. *Development and Change* 31(2): 481-508.

- Haggard, Stephan and Jongryn Mo (2000). "The Political Economy of the Korean Financial Crisis." *Review of International Political Economy* 7(2): 197-218. (online from HEI campus)
- Hausmann, Ricardo and Ugo Panizza (2002) "The Mystery of Original Sin: The Case of the Missing Apple", Harvard University.
- Kaminsky, Graciela and Sergio L. Schmukler (2002) "Short-Run Pain, Long-Run Gain: The Effects of Financial Liberalization", George Washington University. <http://home.gwu.edu/~graciela>
- Prasad, Eswar S., Kenneth Rogoff, Shang-Jin Wei, and M. Ayhan Kose, 2003, "Effects of Financial Globalization on Developing Countries: Some Empirical Evidence," Occasional Paper 220, International Monetary Fund, October.
- Rosas, Guillermo 2006. Bagehot or Bailout? An Analysis of Government Responses to Banking Crises. *American Journal of Political Science* 50(1): 175-191.

7. Governance risks: is there a good governance? (Dec. 8, 2006)

- *Przeworski, Adam 2004. Institutions Matter? *Government and Opposition* 39(4): 527-540.
- Hardie, Ian 2006. The Power of Markets? The International Bond Markets and the 2002 Elections in Brazil. *Review of International Political Economy* 13(1): 53-77.
- Anoop Singh (2006) "Macroeconomic Volatility: The Policy Lessons from Latin America", IMF Working Paper No. WP/06/166.

8. The reform agenda: Searching for the right sequence: trade and financial liberalization; economic and political liberalization (Dec. 8, 2006)

- *Dupont, Cédric and Carsten Hefeker (2002). "Policy Trade-Offs and the Choice of International Institutions: The Gold Standard and Beyond." Paper presented at a Conference on "The Political Economy of Globalization: Can the Past Inform the Present?", Trinity College, Dublin, Aug 29-31, ms. <http://www.tcd.ie/iis/duponthefeker.pdf>
- *Estevadeordal, Antoni, Brian Frantz and Alan M. Taylor (2001). "The Rise and Fall of World Trade, 1870-1939." IADB, USAID and UC Davis, ms.
- Rose, Andrew K. (2000). "One Money, One Market: Estimating the Effect of Common Currencies on Trade." *Economic Policy* 30(2): 7-45 (online from HEI campus).
- *Quinn, Denis (2002). "Political and International Financial Liberalization." Paper presented at a CEPR/CREI Conference on "Controlling Global Capital: Financial Liberalization, Capital Controls and Macroeconomic Performance, ms.
- Hallak, Juan Carlos and James Levinsohn (2004) "Fooling Ourselves: Evaluating the Globalization and Growth Debate", NBER Working Paper No. 10244.
- Thurbon, Elizabeth (2001). Two paths to financial liberalization: South Korea and Taiwan. *Pacific Review* 14(2): 241-267.

Part III: Toward a better global governance

9. New actors, new imbalances (Dec. 8, 2006)

- *Eichengreen, Barry (2004) "Global Imbalances and the Lessons of Bretton Woods", NBER Working Paper No. 10497.
- *Lee, Jong-Wha, Warwick J. McKibbin and Jung Chul Park 2006. Transpacific Trade Imbalances: Causes and Cures. *The World Economy* 29(3): 281-303.
- Dooley, Michael P., David Folkerts-Landau and Peter Garber "An Essay on the Revived Bretton Woods System", NBER Working Paper 9971
- Chinn, Menzie and Jeffrey Frankel (2005) "Will the Euro Eventually Surpass the Dollar as Leading International Reserve Currency?", Harvard University.

10. Challenges for a global architecture (Dec. 8, 2006)

- *Kenen, Peter, Jeffrey Shafer, Nigel Wicks and Charles Wyplosz (2004) "International Economic and Financial Cooperation: New Issues, New Actors, New Responses", *Geneva Reports on the World Economy* 6, London: CEPR.
- * Eichengreen, Barry (1996) "Hegemonic Stability Theory and Economic Analysis: Reflections on Financial Instability and the Need for an International Lender of Last Resort", University of California, Berkeley Center for International and Development Economics Research (CIDER) Working Paper: C96/080 October 1996 <http://iber.berkeley.edu/wps/cider/c96-80.pdf>
- *Perry, James and Andreas Nölke 2006. The Political Economy of International Accounting Standards. *Review of International Political Economy* 13(4): 559-586.
- Kirton John (2006) "From G7 to G20: Capacity, Leadership and Normative Diffusion in Global Financial Governance", University of Toronto.
- Koromenos, Barbara, Charles Lipson and Duncan Snidal (2001). The Rational Design of International Institutions. *International Organization* 55(4): 761-799.
- Williamson, John (2003) "From Reform Agenda to Damaged Brand Name", *Finance and Development* 40(3): 10-113
- Porter, Tony (2001). The Democratic Deficit in the Institutional Arrangements for Regulating Global Finance. *Global Governance* 7(4): 427-439.
- Pauly, Louis W. (1999). "Good Governance and Bad Policy: The Perils of International Organizational Overextension." *Review of International Political Economy* 6(4): 401-424.

11. What role for the IMF? Can the WTO help? (Jan. 23, 2007)

- *Rapkin, David P. and Jonathan R. Strand 2006. Reforming the IMF's Weighted Voting System. *The World Economy* 29(3): 305-323.
- *Williamson, John (2000) The Role of the IMF: A Guide to the Reports, Washington: Institute for International Economics. <http://www.iie.com/policybriefs/news00-5.htm>
- Thacker, Strom C. (1999). "The High Politics of IMF Lending." *World Politics* 52(1): 38-75. (available online from HEI campus)
- Woods, Ngaire 2006. Understanding Pathways Through Financial Crises and the Impact of the IMF: An Introduction. *Global Governance* 12(4): 373-393.

Woods, Ngaire and Domenico Lombardi (2006). Uneven Patterns of Governance: How Developing Countries Are Represented in the IMF. *Review of International Political Economy* 13(3): 480-515. (available online from HEI campus)

12. Regionalism to the rescue? (Jan. 23, 2007)

- *Baldwin, Richard (1997) "The Causes of Regionalism", *The World Economy* 20(7): 865-88.
- *Charles Wyplosz, Charles (2004) "Monetary and Financial Arrangements as Regional Public Goods: A European Perspective".
- *Aggarwal, Vinod K. and Cédric Dupont (2002). "A Leader in Institutional Design? Europe and the Governance of Trade and Monetary Relations." In *Globalization and Europe*, ed. Henryk Kierzkowski. New York: Palgrave, pp. 114-142.
- Dieter, Heribert and Richard Higgott (2003). Exploring Alternative Theories of Economic Regionalism: From Trade to Finance in Asian Cooperation? *Review of International Political Economy* 10(3): 430-454.
- Pempel, T.J. (2006) "Firebreak: East Asia Institutionalizes Its Finances", East Asian Institute University Of California, Berkeley.
- Daniel Heymann (2001) "Regional Interdependencies and Macroeconomic Crises, Notes on Mercosur", CEPAL Buenos Aires.

13. Exam in class (3h) (Jan. 30, 2007)

CD/PH/CW, October 2006