

**CGU Econ 350**  
**Spring 2010**  
Office Hours:  
Monday and Tuesday  
2:45-3:45pm  
and by appointment.

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## **Global Money and Finance**

### **Description**

There are a number of different approaches to International Money and Finance. This course takes an applied focus and emphasizes the key concepts that are relevant for most approaches including international financial management, open economy macro economics, analysis of the international monetary and financial systems, and the political economy of international monetary relations.

### **Requirements**

Course requirements consist of problem sets, a midterm, and a final.

### **Main Textbook and Other Readings**

The main textbook for this course is:

Pilbeam, Keith, *International Finance*, 3rd ed., Macmillan Business Press, 2006.

A number of sections from Willett, T.D. et al. (2009) *The Global Crisis and Korean International Financial Policy* (Korean Economic Institute) will also be assigned.

The textbook is available in Huntley Bookstore. Electronic copies of the other required readings will be on the Sakai for the course.

You are required to read key chapters and papers listed in the outline before each class. Undoubtedly there will be additions and changes in categories made as the course progresses. You will be notified about these during the semester.

## **COURSE OUTLINE (Required readings are starred.)**

### **I. INTRODUCTION : THE CRISIS AND MACROECONOMICS**

#### **The Scope of International Monetary and Financial Economics, Problems of the International Monetary and Financial Systems, and Different Views of Their Operation.**

\*Willett T.D. “The Role of Defective Mental Models in Generating the Global Financial Crisis.”

\* “Briefing: The state of economics” The Economist, July 18,2009 pp 65-69

Willett T.D. (2009) “Similarities and Differences between the 1997–98 Crisis and the Current One” Ch9 in The Global Crisis and Korean International Financial Policy (KEI)

Willett T.D. (2005) “Why is There So Much Disagreement About the IMF and Reform of the International Financial Architecture?” *Current Developments in Monetary and Financial Law* Vol. 3, International Monetary Fund.

Willett T.D. (1983) “The Functioning of the Current International Financial System.” in George Von Furstenberg’s ed. *International Money and Credit* IMF.

Krugman, Paul (2009) “How Did Economists Get It So Wrong?” New York times, September 2.

Cochrane, John (2009) “How did Paul Krugman get it so Wrong?” Cochrane’s website

### **II. THE FOREIGN EXCHANGE MARKET AND BALANCE OF PAYMENTS, EXCHANGE MARKET PRESSURE, DEMAND FOR INTERNATIONAL RESERVES AND CONCEPTS OF EQUILIBRIUM**

#### **A. Foreign Exchange Market and Balance of Payments**

\*Pilbeam, Ch. 1 through 1.8, Ch. 2 through 2.10.

#### **B. Concepts of Equilibrium and Crisis Theories**

\*Pilbeam, Ch 4 section 4.1 and 4.2, Ch.11 section 11.1 to 11.5

\*Handout – “The Theory of Economic Policy”

\*Eichengreen, Appendix B

\*Willett, T.D. (1980) “An Analytic History of International Liquidity Concepts and Developments” Ch2 in International Liquidity Issues (pp.6-44).

\*Willett, T.D. et al. (2008) “Currency Crises.” in The Princeton Encyclopedia of the World Economy, Princeton University Press.

\*Willett, T.D. (1977). Floating Exchange Rates and International Monetary Reform. (AEI) Chapter 1.

Willett, T.D. et al. “Taking Seriously the Concept of Exchange Market Pressure for Classifying Exchange Rate Regimes: A Two-Parameter Approach”

Li, Jie, Ozan Sula, and T. Willett (2008) “A New Framework for Analyzing Adequate and Economic Reserve Levels Under High Capital Mobility” in Y.W. Cheung and K.Y. Wong (Eds.), China and Asia. Routledge.

Dooley et al. “An Essay on the Revived Bretton Woods System” NBER W9971.

Eichengreen, “Global Imbalances and the Lessons of Bretton Woods” NBER W10497

Bird, G. and T. Willett (2008) “Global Imbalances and the Lessons of Bretton Woods: A Review Essay” *World Economics*, Vol.9 No.3, July-September.

Ouyang, A., R. Rajan, and T. Willett, “China as A Reverse Sink” JIMF (forthcoming)

### **III. EXCHANGE RATE ADJUSTMENTS AND BALANCE OF PAYMENTS DETERMINATION**

\*Pilbeam, Ch. 3

\*Willett, T.D. (1977). Floating Exchange Rates and International Monetary Reform. pp. 48-53 and 57-67.

\*Handout, “Devaluation Formulas.”

\*Handout, “Notes and Practice Problems on Exchange Rate Adjustments.”

\*Handout, “Notes on Devaluation and Feedback Effects.”

### **IV. OPEN ECONOMY MACROECONOMICS - MUNDELL-FLEMING MODEL**

\*Pilbeam, Ch. 4

\*Handout, “Summary of Open Economy Effects.”

\*Handout, “The Theory of Economic Policy.”

Bird, Graham (2007). "Evolution in Macroeconomics" in R. Roy, A.Denzau, and T. Willett, eds. Neoliberalism. Rutledge.

Obstfeld, M and K. Rogoff (1996) "Foundations of International Macroeconomics" (MIT)

## **V. THE MONETARY APPROACH, PURCHASING POWER PARITY, and EXCHANGE RATE DYNAMICS.**

\*Pilbeam, Chs. 5, 6, 7

\*Willett, T.D. (1977). Floating Exchange Rates and International Monetary Reform. "Balance of Payments Adjustment" pp.48-53

\*Handouts, "Notes on Exchange Rate Analysis."

\*Handouts, "Major Points on Global Monetarism."

MacDonald, Ronald (2007). Exchange Rate Economics: Theories and Evidence. Routledge.

Rogoff, K.(1996) "The Purchasing Power Parity Puzzle," *Journal of Economic Literature*.

Taylor Mark (1995) "The Economics of Exchange Rates," *Journal of Economic Literature*, March.

## **VI. INTERNATIONAL PARITY CONDITIONS AND MARKET EFFICIENCY, AND BEHAVIORAL FINANCE**

\*Pilbeam, Chs. 8 & 9

## **VII. IMPERFECT MARKETS, BEHAVIORAL FINANCE, AND INTERNATIONAL RISK MANAGEMENT**

\*Lars Oxelheim and Clas Wihlborg (2008). Corporate Decision-Making with Macroeconomic Uncertainty: Performance and Risk Management. Oxford University Press. Chapter 1 and 12

\*Burton Malkiel (2007). A Random Walk Down Wall Street, Ch. 10 "Behavioral Finance".

Willett, T.D., M.Keil and Y.S.Ahn (2002) "Capital Mobility for Developing Countries May Not Be So High" *Journal of Development Economics*.

Willett, T.D (2000) “International Capital Markets as Sources of Crisis or Discipline,” *Princeton Essays in International Finance*.

Shleifer, Andrei (2000). Inefficient Markets: An Introduction to Behavioral Finance. Clarendon Lectures in Economics. New York: Oxford University Press. – Introduction and Concluding Chapters

Mankiel, Burton (2003) “The Efficient Market Hypothesis and Its Critics.” *Journal of Economic Perspectives*, 17(1): 59 – 82.

Shiller, Robert (2003) “From Efficient Markets Theory to Behavioral Finance.” *Journal of Economic Perspectives*, 17(1): 83 – 104.

De Grauwe, Paul and M. Grimaldi (2006). The Exchange Rate in a Behavioral Finance Framework. Princeton University Press.

Peter Bernstein (2007). Capital Ideas Evolving. Part 1 “The Behavioral Attack”, Preface, Ch.1 and 2.

Jamie Sabal (2002). Financial Decisions in Emerging Markets, Oxford.

## **VIII. SOME MAJOR CURRENT INTERNATIONAL POLICY ISSUES**

### **A. Inflation, Discipline, and Exchange Rate Based Stabilization**

\*Willett, T.D. (1977). Floating Exchange Rates and International Monetary Reform. “Floating Exchange Rates, the Alleged Victims Circle, and World Inflation” pp.57-67

\*Willett, T.D. (1998) “The Credibility and Discipline Effects of Exchange Rates as Nominal Anchors,” *The World Economy*, August 1998.

\*Willett, T.D. (2000) “International Financial Markets are Sources of Crises or Discipline: The Too Much, Too Late Hypothesis”. *Princeton Essays in International Finance*.

\*Willett, T.D. and Sirathorn Dechsakulthorn (2008) “Discipline” *Princeton Encyclopedia of the World Economy*.

Willett, T.D. (2002) “Crying for Argentina” *The Milken Institute Review*, Second Quarter, pp.50-59.

### **B. The Unstable Middle and Currency Crises**

\*Pilbeam, Ch. 11 through 11.14 and Ch. 17

\*Eichengreen, Appendix B.

\*Willett, T.D. et al. (2008) “Currency Crises” *Princeton Encyclopedia of the World Economy*.

\*Willett, T.D. (2007) “Why the Middle is Unstable: The Political Economy of Exchange Rate Regimes and Currency Crises” *The World Economy*.

Frankel, J.A. (2005) “Experience of and Lessons from Exchange Rate Regime in Emerging Economies,” NBER W10032..

Angkinand, P., E. Chiu, and T. Willett (2007) “Testing the Unstable Middle and Two Corners Hypotheses”, *Open Economies Review*.

### **C. Capital Flows, Sudden Stops, Contagion, Financial Liberalization, Behavioral Finance, Crises and Reserve Adequacy**

\*Handout, “Notes on Contagion”

\*P. Liang and T.D. Willett (2008) “Contagion”, *Princeton Encyclopedia of the World Economy*, 2009

\*Willett, T.D. et al. (2005) “The Asian Crises Reexamined,” *Asian Economic Papers* Vol. 3, No. 3, 2005, pp. 32 - 87.

\*Willett, T.D et al. (2009). The Global Crisis and Korean International Financial Policy (KEI) Ch 4 and 5

Willett, T.D. et al. “The Slow Spread of the Global Crisis” JICEP (forthcoming)

Willett, T.D. et al. (2004) ‘The Falsification of Four Popular Hypotheses About International Financial Behavior During the Asian Crisis,’ *World Economy*, No. 27, Issue 1, 25-44, January.

Sula, O., and T. Willett “The Reversibility of Different Types of Capital Flows to Emerging Markets” *Emerging Markets Review* (forthcoming)

Calvo, G., Leiderman, L. and C. Reinhart (1996) “Inflows of Capital to Developing Countries in the 1990s,” *Journal of Economic Perspectives*, Vol. 10, No. 2.

Kaminsky, Graciella L., Carmen Reinhart and Carlos A. Vegh, (2003) “The Unholy Trinity of Financial Contagion,” NBER Working Papers 10061, October, published in *Journal of Economic Perspectives*, Vol. 17, No. 4, pp. 51-74.

Bookstaber, Richard (2007). A Demon of Our Own Design: Markets, Hedge Funds, and the Perils of Financial Innovation. Wiley.

Paul Blustein (2003). And the Money Just Kept Rolling I, PublicAffairs, New York  
Calvo, G. et al.(2008) “Systemic sudden Stops” NBER Working Paper 14026.

Reinhart, Carmen, and V. Reinhart (2008) “Capital Flow Bonanzas: An Encompassing View of the Past and Present,” NBER WP 14321.

Potchamanawong, P. et al. “A New and Better Measure of Capital Controls” in K. Banaian and B. Roberts (Eds.) Political Economy Indicators.

#### **D. The Continuing Debate about Fixed versus Flexible Exchange Rates, OCA Theory, Currency Boards, Dollarization and EMU**

\*Pilbeam, Ch. 10 and 16

\*Willett, T.D. (1977). Floating Exchange Rates and International Monetary Reform. the rest of Ch. 2

\*Handouts, “Aspects of the Pros and Cons of Returning to a Fixed Exchange Rate System.”

\*Friedman, Milton (1952) “The Case for Flexible Exchange Rates,” in Essays in Positive Economics, (University of Chicago Press).

\*Willett, T.D. et al. (2009). The Global Crisis and Korean International Financial Policy (KEI) Ch 2,3,7 and 8

\*Willett, T.D. (2003) “The OCA Approach to Exchange Rate Regimes” in D. Salvatore, J. Dean and T.D. Willett eds. The Dollarization Debate (Oxford University Press). Available at <http://spe.cgu.edu/econ/papers/index.htm>

\*Willett, T.D. “Optimum Currency Area and Political Economy Approaches to Exchange rate Regimes: Towards a Framework for Integration,” *Current Politics and Economics in Europe*.

Willett, T.D. (2001) “Truth in Advertising and the Great Dollarization Scam,” *Journal of Policy Modeling*,

Willett, T.D., Orawan Permpoon, and Clas Wihlborg, “Endogenous OCA Analysis and the Early Euro Experience” *The World Economy* (forthcoming)

Willett, T.D. (2003) “Fear of Floating Needn’t Imply Fixed Rates,” *Open Economies Review*, January.

Calvo, G.A., and C.M. Reinhart (2002) “Fear of Floating,” *The Quarterly Journal of Economics*, Vol. 17, Issue 2.

## **E. Global Imbalances, International Policy Coordination, and the Decoupling Debate**

\*Pilbeam, ch 14

\*Willett, T.D., P. Liang, and N. Zhang “Contagion and the Decoupling Debate” draft

\*Willett, T.D. (1999) “Developments in the Political Economy of Policy Coordination”. *Open Economies Review*.

Willett, T.D., O. Permpoon, and N. Srisorn “Asian Monetary Cooperation” Singapore Economic Review. (forthcoming)

Bird, Graham and T. Willett (2008) “Global Imbalances and the Lessons of Bretton Woods: A Review Essay” *World Economics*, Vol.9 No.3, July-September.

## **F. Reform of the International Financial Architecture**

\*Pilbeam, 11.15 to 11.19 and 17.11 to 17.15

Willett, T.D. (2000) “Understanding the IMF Debate,” *Independent Review*. Spring.

Willett, T.D. (2005) “Why is There So Much Disagreement About the IMF and Reform of the International Financial Architecture?” *Current Developments in Monetary and Financial Law*, International Monetary Fund.

Willett, T.D. (2005) “The IMF and Capital Account Crisis: The Case for Separate Lender of Last Resort and Conditionality Functions,” in Gustav Ranis, James Vreeland and Stephen Kosak, eds. The IMF and World Bank, Routledge, pp. 351 – 371.

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