

International Economics

Academic year 2019-2020

International Finance B

EI059 - Autumn - 6 ECTS

Friday 10h15 - 12h00

Course Description

The course provides an analysis of international financial integration, focusing on financial crises. After presenting the main concepts related to the external accounts, and addressing the implications of financial market integration, the course focuses on financial crises. First it examines the sources and consequences of current account imbalances, sudden stops of capital inflows, and debt crises. Then, it presents theory and evidence on currency crises, balance sheet crises, and concludes with the analysis of the European sovereign debt crisis.

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Syllabus

Course objective

This is the second course of the International Finance sequence and will discuss topics which could not be covered in International finance A. It is primarily designed for second-year MIS and PhD students in International Economics.

The aim of the course is to provide a good knowledge of international financial integration with a special focus on financial crises. Competence is developed regarding: i) the benefits and costs of financial integration; ii) the determinants of the current account, and the risks of global imbalances; iii) the effects of sudden stops; iv) the feature and dynamics of currency crises, debt crises and balance sheet crises. Students will strengthen their ability to analyse the main issues of international finance relying on empirical evidence and theoretical models.

The readings indicated by an asterisk are required, the others are additional material for those who wish to go deeper.

Review sessions

The review sessions are an integral part of the course and attendance is required. Solving problem sets is essential to understand the topics and perform well in the exam. Problem sets will be handed out during the review sessions.

Grading

There will be two exams: a mid-term and a final exam. The overall grade will be the average of both exam grades. A good performance in the problem sets only counts in marginal cases, e.g. if pass/fail is uncertain.

Textbook

There is no textbook for the course, Schmitt-Grohé, Stephanie, Uribe Martin, and Michael Woodford, *International Macroeconomics*, Columbia University, July 2019, offers a good introduction for many of the topics in this reading list. It can be downloaded at <http://www.columbia.edu/~mu2166/UIM/suw.pdf>
A more advanced PhD textbook is Uribe, Martin and Stephanie Schmitt-Grohé, *Open Economy Macroeconomics*, Princeton University Press, 2017, <http://press.princeton.edu/titles/11032.html>

Course Outline

FINANCIAL INTEGRATION

1. Basics: Borrowing and Lending in the Global Economy

Schmitt-Grohé, S., Uribe, M, Woodford, M. 2019. *International Macroeconomics*, Columbia University, Chapter 1.

Obstfeld, Maurice and Alan M. Taylor, 2017 “International Monetary Relations: Taking Finance Seriously,” *Journal of Economic Perspectives*, 31(3): 3-28.

<https://www.aeaweb.org/articles?id=10.1257/jep.31.3.3>

*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>

2. Financial Integration; Benefits and Costs

*Lane, Philip R. and Gian Maria Milesi-Ferretti. 2017. “International Financial Integration in the Aftermath of the Global Financial Crisis,” IMF Working Paper WP/17/115.

<file:///C:/Users/Administrator/Downloads/wp17115.pdf>

*Coeurdacier, Nicolas, Rey, H el ene, and Pablo Winant. 2019. “Financial Integration and Growth in a Risky World,” *Journal of Monetary Economics*, Available online 31 January 2019

*Kose, Ayhan M., Prasad, Eswar, Rogoff, Kenneth and Shang-Jin Wei. 2009. “Financial Globalization: A Reappraisal,” *IMF Staff Papers*, 56(1): 8-62. (Previously IMF Working Paper WP/06/189, 2006).

<http://prasad.dyson.cornell.edu/doc/research/imfsp200836a.pdf>

*Rodrik, Dani and Arvind Subramanian. 2009. “Why Did Financial Globalization Disappoint?” *IMF Staff Papers*, 56(1): 112-138.

<http://drodrik.scholar.harvard.edu/files/dani-rodrik/files/why-did-financial-globalization-disappoint.pdf>

Jeanne, Olivier, Subramanian, Arvind and John Williamson. 2012. *Who Needs to Open the Capital Account?*, Washington DC: Peterson Institute for International Economics,

<https://piie.com/bookstore/who-needs-open-capital-account>

3. Current Account Sustainability and Determination

*Obstfeld, Maurice and Kenneth Rogoff, 1996. *Foundations of International Macroeconomics*, MIT Press. Chapter 2.

Schmitt-Gro h e, S., Uribe, M, Woodford, M. 2019. *International Macroeconomics*, Columbia University, Chapters 2, 3, 4, 5.

Obstfeld, Maurice and Kenneth Rogoff. 1995. “The Intertemporal Approach to the Current Account,” in *Handbook of International Economics*, Gene Grossman and Ken Rogoff, eds., North Holland. (Also NBER Working Paper No. 4893 and also Reprint No. r2048).

Kraay, Aart and Jaime Ventura. 2000. "Current Accounts in Debtor and Creditor Countries," *Quarterly Journal of Economics*, 115(4): 1137-1166.

4. Global Imbalances and External Adjustment

Schmitt-Grohé, S., Uribe, M, Woodford, M. 2019. *International Macroeconomics*, Columbia University, Chapters 6, 7, 14.

*Blanchard, Olivier and Gian Maria Milesi-Ferretti. 2011. "(Why) Should Current Account Balances Be Reduced?" IMF Staff Discussion Note, SDN/11/03, March 1.
<https://www.imf.org/external/pubs/ft/sdn/2011/sdn1103.pdf>

*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>

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

*Obstfeld, Maurice. 2012. "Does the Current Account Still Matter?" Richard T. Ely Lecture, *American Economic Review: Papers & Proceedings*, 102(3): 1–23.

Mendoza, Enrique G., Vincenzo Quadrini and José-Víctor Ríos-Rull. 2009. "Financial Integration, Financial Development, and Global Imbalances," *Journal of Political Economy*, 117(3): 371-416.
<https://www.sas.upenn.edu/~egme/pp/JPEreprint.pdf>

FINANCIAL CRISES

*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>

5. The Debt Burden and Debt Crises; Adjustment, Repudiation and Relief

*Schmitt-Grohé, S., Uribe, M, Woodford, M. 2019. *International Macroeconomics*, Columbia University, Chapters 15.

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

*Wyplosz, Charles. 2011. "Debt Sustainability Assessment: Mission Impossible," *Review of Economics and Institutions*, 2(3), Article 1. <http://www.rei.unipg.it/rei/article/view/42> or HEI Working Paper 03/2007. <http://repository.graduateinstitute.ch/record/11765/files/HEIWP03-2007.pdf>

Bohn, Henning. 1998. "The behavior of U.S. public debt and deficits," *Quarterly Journal of Economics*, 113(3): 949-963. Technical Appendix <http://econ.ucsb.edu/~bohn/papers/qje98app.pdf>

*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_etZqfbDr.pdf

*Wyplosz, Charles. 2011. "Olivier in Wonderland," VoxEu June 17. <https://voxeu.org/content/olivier-wonderland>

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

*Alesina, Alberto., Prati, Alessandro and Gido Tabellini. 1990. "Public Confidence and Debt Management, A Model and a Case Study of Italy," in Rudiger Dornbusch and Mario Draghi, eds, *Public Debt Management: Theory and History*, Cambridge University Press, 94-124 or NBER WP No.3135. <https://www.nber.org/papers/w3135>

*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>

Krugman, Paul. 1988. "Financing Versus Forgiving a Debt Overhang," *Journal of Development Economics*, 29(2): 253-268.

Reinhart, Carmen M., and Christoph Trebesch. 2016. "Sovereign debt relief and its aftermath," *Journal of the European Economic Association*, 14(1): 215-251.

6. Sudden Stops

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

*Forbes, Kristine J. and Francis E. Warnock. 2012. 'Capital flow waves: surges, stops, flight and retrenchment', *Journal of International Economics*, 88(2): 235–251.

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

Calvo, Guillermo, Izquierdo, Alejandro and Ernesto Talvi. 2005. "Sudden Stops, the Real Exchange Rate, and Fiscal Sustainability: Argentina's Lessons," in Calvo, G., *Emerging Capital Markets in Turmoil Bad Luck or Bad Policy?*, MIT Press, pp.143-180. (Also NBER Working Paper No. 9828.)

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>

7. Currency Crises; First Generation Models

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

*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

8. Self-Fulfilling Currency Crises; Second Generation Models

*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.

Pesenti, Paolo and Cédric Tille. 2000. "The Economics of Currency Crises and Contagion: An Introduction," *FRBNY Economic Policy Review*, 6(3): 3-16.
<http://www.newyorkfed.org/research/epr/00v06n3/0009pese.pdf>

9. Liquidity and Balance Sheet Crises

*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.

10. The European Sovereign Debt Crisis

*De Grauwe, Paul. 2011. "A Fragile Eurozone in Search of a Better Governance," CESifo Working Paper Series No. 3456. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1851324

*Wyplosz, Charles. 2013. "Eurozone Crisis: It's About Demand, not Competitiveness," Geneva: Graduate Institute. https://www.tcd.ie/Economics/assets/pdf/Not_competitiveness.pdf

Lane, Philip and Barbara Pels. 2012. "Current Account Imbalances in Europe," CEPR Discussion Paper No. 8958. <http://www.tcd.ie/iis/documents/discussion/pdfs/iisd397.pdf>

*Favero, Carlo A. and Alessandro Missale. 2016. "Contagion in the EMU – The Role of Eurobonds with OMTs," *Review of Law & Economics*, 12(3): 555-584.

Favero, Carlo A. and Alessandro Missale. 2012. "Sovereign Spreads in the Euro Area. Which Prospects for a Eurobond?" *Economic Policy*, 27: 231-273.

Reichlin, Lucrezia. 2015. "The ECB, the Banks and the Sovereigns," in Nowotny, Ewald, Ritzberger-Grünwald, Doris and Helene Schuberth, eds., *The Challenge of Economic Rebalancing in Europe - Perspectives for CESEE Countries*, Chapter 11, 149-161.
https://www.researchgate.net/publication/298519083_The_ECB_the_banks_and_the_sovereigns

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, GC, and L Dedola (2011), "Fiscal Crises, Confidence and Default. A Bare-bones Model with Lessons for the Euro Area", unpublished, Cambridge.

Corsetti, Giancarlo and Luca Dedola. 2016. "The Mystery of the Printing Press: Monetary Policy and Self-fulfilling Debt Crisis," *Journal of European Economic Association*, 14(6): 1329-1371.

Zettelmeyer, Jeromin, Christoph Trebesch and Mitu Gulati. 2013. "The Greek Debt Restructuring: An Autopsy," *Economic Policy*, 28(75): 513–563.

Zettelmeyer, Jeromin. 2018. "Managing Deep Debt Crises in the Euro Area: Towards a Feasible Regime," *Global Policy*, 9(1): 70-79. <https://onlinelibrary.wiley.com/doi/abs/10.1111/1758-5899.12571>

Berger, Marguerite, Giovanni Dell'Ariccia and Maurice Obstfeld. 2018. "Revisiting the Economic Case for Fiscal Union in the Euro Area," IMF Departmental Paper No.18/03. <https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2018/02/20/Revisiting-the-Economic-Case-for-Fiscal-Union-in-the-Euro-Area-45611>