

International Economics Development Economics

Academic year 2019-2020

Advanced International Macroeconomics B: Policies to Harness Financial Globalisation

EI090 - Printemps - 3 ECTS

Tuesday 10h15 - 12h00

Course Description

This course provides a graduate-level treatment of research on international financial integration, with an emphasis on empirical works. The course reviews recent developments in macroeconomics, with emphasis on open economy questions, in order to help students identify research topics.

It documents the rising extent of financial linkages and the associated 'valuation effects' of asset prices on countries' wealth. It then considers research on the global financial cycle and whether the exchange rate regime can help absorb capital flows. The course then considers the development of international banking activity and its impact on policy transmission. It considers situations in which borrowing can be socially excessive, and concludes with a review of the use and effectiveness of international reserves, capital controls, and macroprudential policies.

The first part of the course consists of lectures. The second part consists of presentations of papers from the reading list (with the option to propose a paper not on the list that you would be particularly interested in presenting).

You will need a working knowledge of macroeconomic at the level of Obstfeld and Rogoff's Foundations in International Economics.

> PROFESSOR

[Cédric Tille](#)

[Office hours](#)

> ASSISTANT

[Office hours](#)

Syllabus

Evaluation

The evaluation consists of the presentations of a paper from the reading list (40% of grade), a short review of one of the topics (40% of grade) and participation in the classwide discussion (20% of grade). Each presentation lasts 30 minutes and goes over the main points of the paper. Each student will make one presentation. Preferences should be indicated by the end of the third week, and I will then put together the schedule ensuring an even coverage of topics.

Each student will also write a short review at the end of the course on a topic of her/his choice. The review should be a concise (5-6 pages) discussion of the recent advances in a topic, identifying what has been learnt and what are the remaining challenges. This review can form the basis of the literature review of your MPT or one of your chapters.

1) International financial integration

1.1) *Patterns of international financial integration*

Avdjiev, Stefan, Mary Everett, Philip Lane, and Hyun Song Shin (2018). "Tracking the international footprints of global firms", *BIS Quarterly Review*, March, pp. 47-66.

https://www.bis.org/publ/qtrpdf/r_qt1803f.pdf

Lane, Philip, and Gian Maria Milesi-Ferretti (2007). "A global perspective on external positions", in R. Clarida ed. *G7 Current Account Imbalances: Sustainability and Adjustment*, University of Chicago Press.

<http://www.nber.org/papers/w11589>

Lane, Philip, and Gian-Maria Milesi-Ferretti (2018). "International Financial Integration in the Aftermath of the Global Financial Crisis", *IMF Economic Review* 66(1), pp. 189-222

<https://link.springer.com/article/10.1057/s41308-017-0048-y>

Lane, Philip, and Gian-Maria Milesi-Ferretti (2014). "Global Imbalances and External Adjustment after the Crisis", IMF working paper 14/151

<http://www.imf.org/external/pubs/cat/longres.aspx?sk=41842>

1.2) *Valuation effects and the "exorbitant privilege"*

Bénétrix, Agustin, Deepali Gautam, Luciana Juvenal, and Martin Schmitz (2020). "Cross-Border Currency Exposures. New evidence based on an enhanced and updated dataset," Trinity economic paper 0120

<https://www.tcd.ie/Economics/TEP/2020/tep0120.pdf>

Bénétrix, Agustin, Philip Lane, and Jay Shambaugh (2015). "International currency exposures, valuation effects and the global financial crisis," *Journal of International Economics* 96(S1), 98-109.

<https://www.sciencedirect.com/science/article/pii/S0022199614001226>

Curcuro, Stephanie, Tomas Dvorak, and Francis Warnock (2013). "On Returns Differentials", *Journal of International Money and Finance* 36(C), pp. 1-25.

<http://www.sciencedirect.com/science/article/pii/S0261560613000272>

Evans, Martin (2017). "External balances, trade and financial conditions" *Journal of International Economics* 107, pp. 165-184.

<https://www.sciencedirect.com/science/article/pii/S0022199617300399>

Gourinchas, Pierre-Olivier and Hélène Rey (2013). "External Adjustment, Global Imbalances and Valuation Effects", NBER working paper 19240.

<http://www.nber.org/papers/w19240>

1.3) Global imbalances

- Alfaro, Laura, Sebnem Kalemli-Ozcan, and Vadym Volosovych (2014). "Sovereigns, Upstream Capital Flows, and Global Imbalances", *Journal of the European Economic Association* 12, pp. 1240 - 1284
<https://academic.oup.com/jeea/article-abstract/12/5/1240/2319690>
- Blanchard, Olivier, and Gian Maria Milesi-Ferretti (2011). "(Why) Should Current Account Balances Be Reduced?", IMF Staff Discussion Notes No. 11/3
<http://www.imf.org/external/pubs/cat/longres.aspx?sk=24674.0>
- Brumm, Johannes, Georgios Georgiadis, Johannes Gräb, and Fabian Trottner (2019). "Global value chain participation and current account imbalances", *Journal of International Money and Finance* 97, pp. 111-124.
<https://www.sciencedirect.com/science/article/pii/S0261560619300610/pdf?md5=7868f2caaffa9cc07ee29ad9a5b297bb&pid=1-s2.0-S0261560619300610-main.pdf>
- International Monetary Fund (2014). "Are Global Imbalances at a Turning Point?", *World Economic Outlook* chapter 4.
<http://www.imf.org/external/pubs/ft/weo/2014/02/pdf/c4.pdf>
- Ito, Hiro, and Robert McCauley (2019). "A Key Currency View of Global Imbalances", *Journal of International Money and Finance* 96, pp. 97-115.
<https://www.sciencedirect.com/science/article/pii/S0261560619300567/pdf?md5=a7bf7849418928872ad384bc711439e5&pid=1-s2.0-S0261560619300567-main.pdf>
- Lane, Philip, and Barbara Pels (2012). "Current Account Imbalances in Europe", CEPR discussion paper 8058
<http://www.cepr.org/pubs/new-dps/dplist.asp?dpno=8958.asp>

1.4) Patterns and drivers of international capital flows

- Avdjiev, Stefan, Brian Hardy, Sebnem-Kalemli-Ozcan, and Luis Servén (2017). "Gross Capital Inflows to Banks, Corporates and Sovereigns", NBER working paper 23116.
<http://www.nber.org/papers/w23116>
- Allen, Cian (2019). "Revisiting external imbalances: Insights from sectoral accounts", *Journal of International Money and Finance* 96, pp. 67-101.
<https://www.sciencedirect.com/science/article/pii/S0261560618306387/pdf?md5=009756a0c99432c3317f97f8aa990004&pid=1-s2.0-S0261560618306387-main.pdf>
- Blanchard, Olivier, Jonathan Ostry, Atish Ghosh, and Marcos Chamon (2017). "Are Capital Inflows Expansionary or Contractionary? Theory, Policy Implications, and Some Evidence", *IMF Economic Review* 65(3), pp. 563-585.
<https://link.springer.com/content/pdf/10.1057%2Fs41308-017-0039-z.pdf>
- Burger, John, Francis Warnock, and Veronica Cacadac Warnock (2018). "Benchmarking Portfolio Flows", *IMF Economic Review* 66, pp. 527-563.
<https://link.springer.com/content/pdf/10.1057%2Fs41308-018-0062-8.pdf>
- Bussière, Matthieu, Julia Schmidt, and Natacha Valla (2016). "International Financial Flows in the New Normal: Key Patterns (and Why We Should Care)", CEPII Policy Brief no 10.
http://www.cepii.fr/PDF_PUB/pb/2016/pb2016-10.pdf
- Cavallo, Eduardo, Andrew Powell, Mathieu Pedemonte, and Pilar Tavella (2015). "A New Taxonomy of Sudden Stops: Which Sudden Stops should Countries be Most Concerned About?", *Journal of International Money and Finance* 51, pp. 47-70.
<https://www.sciencedirect.com/science/article/pii/S0261560614001600>
- Emter, Lorenz, Martin Schmitz, and Marcel Tirpák (2018). "Cross-border banking in the EU since the crisis: what drives the great retrenchment?", ECB working paper 2130.
<https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2130.en.pdf>

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- Ghosh, Atish, Jun Il Kim, Mahvash Saeed Qureshi, and Juan Zaldueño (2014). "Surges", *Journal of International Economics* 92, pp. 266-285.
https://ac.els-cdn.com/S002219961300144X/1-s2.0-S002219961300144X-main.pdf?_tid=9be497d5-6bd3-40b9-baa7-ae6d6df60156&acdnat=1550854089_9fed053d1c4e2e62b0fa688e08460412
- IMF (2016). "Understanding the Slowdown in Capital Flows to Emerging Markets", *World Economic Outlook* chapter 2.
<http://www.imf.org/external/pubs/ft/weo/2016/01/pdf/c2.pdf>
- Koepke, Robin (2019). "What drives Capital Flows to Emerging Markets: A Survey of the Empirical Literature", *Journal of Economic Surveys* 33(2), pp. 516-540.
<https://onlinelibrary.wiley.com/doi/epdf/10.1111/joes.12273>
- McQuade, Peter, and Martin Schmitz (2016). "The great moderation in international capital flows : a global phenomenon ?", ECB Working Paper 1952.
<https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1952.en.pdf>
- Milesi-Ferretti, Gian-Maria, and Cédric Tille (2011). "The great retrenchment: international capital flows during the global financial crisis", *Economic Policy* 66, pp. 287-342.
<http://onlinelibrary.wiley.com/doi/10.1111/j.1468-0327.2011.00263.x/abstract>

2) Global financial cycle, and the trilemma

2.1) The global financial cycle

- Adrian, Tobias, Daniel Stackman, and Erik Vogt (2019). "Global Price of Risk and Stabilization Policies", *IMF Economic Review* 67(1) pp. 215-260.
<https://link.springer.com/content/pdf/10.1057%2Fs41308-019-00075-3.pdf>
- Avdjiev, Stefan, Valentina Bruno, Catherine Koch, and Hyun Song Shin (2019). "The Dollar Exchange Rate as a Global Risk Factor: Evidence from Investment" *IMF Economic Review* 67(1) pp. 151-173.
<https://link.springer.com/content/pdf/10.1057%2Fs41308-019-00074-4.pdf>
- Cerutti, Eugenio, Stijn Claessens, and Andrew Rose (2019). "How Important is the Global Financial Cycle? Evidence from Capital Flows" *IMF Economic Review* 67(1) pp. 24-60.
<https://link.springer.com/content/pdf/10.1057%2Fs41308-019-00073-5.pdf>
- Coimbra, Nuno, and Hélène Rey (2017). "Financial Cycles with Heterogeneous Intermediaries", NBER working paper 23245.
<http://www.nber.org/papers/w23245>
- Davis, Scott, Giorgio Valente, and Eric van Wincoop (2019). "Global Capital Flows Cycle: Impact on Gross and Net Flows", NBER working paper 25721.
<https://www.nber.org/papers/w25721.pdf>
- Eickmeier, Sandra, Leonardo Gambacorta, and Boris Hofmann (2013). "Understanding Global Liquidity", *European Economic Review* 68, pp. 1-18.
<https://www.sciencedirect.com/science/article/pii/S0014292114000233#>
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<http://www.imf.org/~media/Files/Publications/WP/2017/wp1769.ashx>
- Gourinchas, Pierre-Olivier (2017). "The Fundamental Structure of the International Monetary System" in *Rules for International Monetary Stability* Michael D. Bordo and John B. Taylor, eds, Hoover Institution Press.
<https://berkeley.app.box.com/s/u6cmrud63fhoqil00bovu3c05vns1p0o>
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<https://berkeley.app.box.com/s/ermn26nvdgabyi3yl3fwnk0dw689gu1b>
- Greenwood, Robin, and David Scharfstein, (2013). "The Growth of Finance." *Journal of Economic Perspectives*, 27(2), pp. 3-28.
http://www.aeaweb.org/atypon.php?return_to=/doi/pdfplus/10.1257/jep.27.2.3
- Miranda-Agrippino, Silvia, and Hélène Rey (2019). "US Monetary Policy and the Global Financial Cycle", NBER working paper 21722.
<https://www.nber.org/papers/w21722.pdf>
- Obstfeld, Maurice, and Alan Taylor (2017). "International Monetary Relations: Taking Finance Seriously", *Journal of Economic Perspectives* 31(3), pp. 3-28.
<https://www.aeaweb.org/articles?id=10.1257/jep.31.3.3>
- Rajan, Raju (2005). "Has financial development made the world riskier?" Proceedings of the 2005 Jackson Hole Conference.
<http://www.kc.frb.org/publicat/sympos/2005/pdf/Rajan2005.pdf>
- Reinhart, Carmen, Vincent Reinhart, and Christoph Trebesch (2017). "Capital Flow Cycles: A Long Global View" paper presented at the 18th Jacques Pollack IMF conference.
<https://www.imf.org/en/News/Seminars/Conferences/2017/09/18/~media/76E0E62F8AF744D48A0D59D84D925BF9.ashx>

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2.2) The international trilemma vs. dilemma

Aizenman, Joshua, Menzie Chinn, and Hiro Ito (2015). "Monetary Policy Spillovers and the Trilemma in the New Normal: Periphery Country Sensitivity to Core Country Conditions" NBER working paper 21128.

<http://www.nber.org/papers/w21128>

http://web.pdx.edu/~ito/trilemma_indexes.htm

Chinn, Menzie (2015). "Navigating the trilemma in a financially integrated world: challenges for policy makers", in proceedings of BCC third annual conference *Exchange Rate Policy: Limits to Flexibility, Capital Controls, and Reserve Management*, pp. 15-51.

<http://graduateinstitute.ch/files/live/sites/iheid/files/sites/bcc/shared/docs/BCC%203th%20Annual%20Conference%20proceedings.pdf>

Eichengreen, Barry, and Rui Esteves (2019). "The Trials of the Trilemma: International Finance 1870-2017", CEPR discussion paper 13465.

https://cepr.org/active/publications/discussion_papers/dp.php?dpno=13465#

Farhi, Emmanuel, and Iván Werning (2014). "Dilemma Not Trilemma? Capital Controls and Exchange Rates with Volatile Capital Flows", *IMF Economic Review* 62, pp. 569-605.

<http://www.palgrave-journals.com/imfer/journal/v62/n4/pdf/imfer201425a.pdf>

Han, Xuehui, and Shang-Jin Wei (2017) "International transmissions of monetary shocks: Between a trilemma and a dilemma" *Journal of International Economics* 110, pp. 205-219.

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<https://www.bis.org/publ/work797.htm>

Georgiadis, Georgios, and Arnaud Mehl (2015). "Trilemma, Not Dilemma: Financial Globalisation and Monetary Policy Effectiveness" Federal Reserve Bank of Dallas Globalization and Monetary Policy Institute Working Paper No. 222

<http://www.dallasfed.org/assets/documents/institute/wpapers/2015/0222.pdf>

Klein, Michael, and Jay Shambaugh (2013). "Rounding the Corners of the Policy Trilemma: Sources of Monetary Policy Autonomy", NBER working paper 19461.

<http://www.nber.org/papers/19461>

Obstfeld, Maurice, Jonathan Ostry, and Mahvash Qureshi (2017). "A Tie That Binds: Revisiting the Trilemma in Emerging Market Economies ", IMF working paper 17/130

<http://www.imf.org/~media/Files/Publications/WP/2017/wp17130.ashx>

Obstfeld, Maurice, Jay Shambaugh, and Alan Taylor (2004). "The Trilemma in History: Tradeoffs among Exchange Rates, Monetary Policies, and Capital Mobility", NBER working paper 10396.

<http://www.nber.org/papers/w10396>

Rey, Hélène (2016). "International Channels of Transmission of Monetary Policy and the Mundellian Trilemma ", *IMF Economic Review* 64, pp. 6-35.

<https://www.imf.org/external/np/res/seminars/2014/arc/pdf/Rey.pdf>

Rey, Hélène (2013). "Cross-Border Capital Flows", paper presented at the 2013 Jackson Hole Symposium.

<http://www.kc.frb.org/publicat/sympos/2013/2013Rey.pdf>

2.3) International reserves

- Aizenman, Joshua, Yin-Wong Cheung, and Hiro Ito (2014) "International Reserves Before and After the Global Crisis: Is There No End to Hoarding?" NBER Working Paper No. 20386.
<http://www.nber.org/papers/w20386>
- Alberola, Enrique, Aitor Erce, and José Maria Serena (2015). "International Reserves and Gross Capital Flows Dynamics", *Journal of International Money and Finance* 60, pp. 151-171
<https://www.sciencedirect.com/science/article/pii/S0261560615001527>
- Bacchetta, Philippe, Kenza Benhima, and Yannick Kalantzis (2014). "Optimal Exchange Rate Policy in a Growing Semi-Open Economy", *IMF Economic Review* 62, pp. 48-76.
<http://www.palgrave-journals.com/imfer/journal/v62/n1/pdf/imfer20146a.pdf>
- Basu, Suman, Atish Ghosh, Jonathan Ostry, and Pablo Winant (2018). "Managing Capital Outflows with Limited Reserves", *IMF Economic Review* 66(2), pp. 333-374.
<https://link.springer.com/content/pdf/10.1057%2Fs41308-018-0055-7.pdf>
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- Fratzscher, Marcel, Oliver Gloede, Lukas Menkhoff, Lucio Sarno, and Tobias Stöhr (2017). "When is foreign exchange intervention effective? Evidence from 33 countries", CEPR discussion paper 12510.
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<http://www.imf.org/~media/Files/Publications/WP/2017/wp17155.ashx>
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- Scheubel, Beatrice, Livio Stracca, and Cédric Tille (2019). "Taming the global financial cycle: What role for the global financial safety net?", *Journal of International Money and Finance* 94, pp. 160-182.
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3) International banking

3.1) Transmission through banks

- Amiti, Mary, Patrick McGuire, and David Weinstein (2019). "International Bank Flows and the Global Financial Cycle", *IMF Economic Review* 67(1) pp. 61-108.
<https://link.springer.com/content/pdf/10.1057%2Fs41308-018-0072-6.pdf>
- Bénétrix, Agustín, Robert McCauley, Patrick McGuire and Goetz von Peter (2019). "Financial deglobalisation in banking?", *Journal of International Money and Finance* 94, pp. 116-131.
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3.2) Recent developments

- Aiyar, Shekhar, Charles W Calomiris, and Tomasz Wieladek (2015). "Bank Capital Regulation: Theory, Empirics, and Policy", *IMF Economic Review* 63, pp. 955-983.
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- Avdjiev, Stefan, Catherine Koch, Patrick McGuire, and Goetz von Peter (2018). "Transmission of monetary policy through global banks: whose policy matters?", BIS Working Papers No 737
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<http://link.springer.com/content/pdf/10.1057%2Fimfer.2015.38.pdf>
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<http://www.nber.org/papers/w24126>
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- Goldberg, Linda (2018). "Complexity in Banking: Stock-taking and Way Forward", Keynote for Central Bank of Ireland / Banque de France Conference on Global Financial Linkages.
<https://www.newyorkfed.org/medialibrary/media/newsevents/speeches/2018/Goldbergpresentation.pdf>
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<https://www.imf.org/~media/Files/Publications/WP/2018/wp1897.ashx>
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4) Financial frictions and international transmission

4.1) Overborrowing and pecuniary externality

- Bianchi, Javier, Emine Boz, and Enrique Mendoza (2013). "Macroprudential Policy in a Fisherian Model of Financial Innovation", *IMF Economic Review* 60, pp 223-269.
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