

INTERNATIONAL MONETARY AND FINANCIAL RELATIONS

The American University
School of International Service

SIS-466/666

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Tues, 4:10-5:25;
Wed, 4:55-6:30.

I. Nature and Objectives

We will examine contemporary trends and problems in international monetary and financial relations on an in-depth, sophisticated basis. More specifically, this course deals with exchange rate regimes, balance of payments adjustment, international financial crises and the emerging markets, among other things, via an inter-disciplinary economic theory-political science approach. It is designed as one of two follow-ups to the introductory SIS courses in international economic policy (SIS 385 and SIS 616). This course is designed for both upper-level undergraduates and graduate students interested in doing advanced work in international economic relations. In addition to the traditional academic goals of mastering economic and political concepts, 466/666 seeks to impart practical vocational, i.e., job-market, skills in international economic analysis.

There is **an unconditional prerequisite** for this course: a “working” understanding of the terminology and dynamics of the international monetary system, the balance of payments, exchange rates, international financial flows, and the IMF. The aforementioned introductory international economics courses, a standard undergrad econ department course in international economics, or work experience should suffice as background. Without such background, expect to have great difficulty understanding most of the material to be covered. Furthermore, given the fact that I do not dispense “Gentlemen’s B’s,” the need for the appropriate academic background is **essential**.

Masters students in the IER Field will find many of the “Recommended” readings excellent background for their **Capstone Paper**.

II. Grading and Requirements

The quantity and quality of the work produced by students will be differentiated according to undergraduate or graduate status.

The final examination will count for 40 percent; the brief mid-term quiz will count for 20 percent. To encourage student involvement, class participation counts for 0-12 points (2 bonus points for exceptional contribution). "Participation" is defined as comments, dissent, and asking questions and answering those posed by the instructor, not attendance. Approximately three participation points can be earned from a good oral summary of the research paper (see below).

The final requirement is a term paper that will count for the remaining 30 percent of the grade. It must be on an approved topic, directly related to the subject matter of this course: a contemporary international monetary or financial issue: i.e., a post-1985 development or trend. Students writing on a mainstream, non-arcane subject will have the option of summarizing the paper in a brief oral presentation to the class—if they have a cleared topic and request this presentation **no later than the tenth session**. NO exceptions will be made to this deadline.

All topics must be approved specifically and formally by the instructor. Formal approval occurs when the instructor writes down your approved topic on the class roster If you do not see this done, assume your topic has **not** been cleared. The paper is due on the **eleventh** class session. If your topic is not formally approved, i.e., written down, a forty point grade penalty will be assessed. No extensions will be granted to students who have not discussed their topic with me by the **eighth** week and received formal approval by the **ninth** week. Per my custom, any paper submitted late without a prearranged extension will be penalized grade-wise on a daily, cumulative basis. By the middle of the second week of unexcused lateness, the cumulative penalty passes 40 percent, i.e., a failing grade results; just before the end of the third late week, the penalty rises to 100 percent, i.e. the paper will not be accepted. Students who are eligible for an extension must secure one (a quick and simple matter) no later than the **tenth** week of class, i.e. one week before the paper's due date.

For undergraduates, a paper in the range of 12-13 pages is expected; for graduate students a range of 14-16 pages is expected. Grading criteria for papers will emphasize the thoroughness and relevance of the research, quality of analysis, and quality of the writing style. Students must use discretion and caution when using websites as scholarly sources. Books and journal articles should be at least part of your bibliography, i.e. you are strongly urged to visit the Library and use its resources. Use of Internet sites should be used with great selectivity to avoid non-scholarly sites whose veracity, objectivity, or integrity is questionable. Unless absolutely necessary (this very seldom happens), your bibliography should include sources other than websites. No blogs.

Students are expected to keep current with lectures and the assigned readings. Class attendance is highly advisable for the learning and grading processes, but it is not mandatory. Absence(s) from class does not excuse students from keeping up with the work and adhering to pre-announced deadlines for papers, dates of exams, etc. Bear in mind that there has always been an extremely close correlation between poor attendance and poor grades in this course.

III. Reading Assignments

There are no fully appropriate books to supplement the lectures in this course. Required readings from scattered sources are available either on one of Aladin's data bases, the Internet, or Library Reserves in hard copy and/or E-reserves. (If permission is denied to the Library to post any of the readings online, they will be available in hard copy at the Reserves Desk.)

IV. A.U. Academic Integrity Code

All students are governed by American University's Academic Integrity Code. The Academic Integrity Code details specific violations of ethical conduct that relate to academic integrity. By registering, you have acknowledged your awareness of the Academic Integrity Code, and you are obliged to become familiar with your rights and responsibilities as defined by the code. All of your work (whether oral or written) in this class is governed by the provisions of the Academic Integrity Code. Academic violations include but are not limited to: plagiarism, inappropriate collaboration, dishonesty in examinations whether in class or take-home, dishonesty in papers, work done for one course and submitted to another, deliberate falsification of data, interference with other students' work, and copyright violations. The adjudication process and possible penalties are listed in American University's Academic Integrity Code booklet, which is also available on the American University website. Being a member of this academic community entitles each of us to a wide degree of freedom and the pursuit of scholarly interests; with that freedom, however, comes a responsibility to uphold the high ethical standards of scholarly conduct.

V. Lecture Schedule

CLASS SESSION

ONE: INTRODUCTION: INTERNATIONAL FINANCIAL DATA ANALYSIS AND OVERVIEW OF GLOBAL ECONOMIC CONDITIONS

TWO: THE FOREIGN EXCHANGE MARKET

-S. Y. Cross, "All about the Foreign Exchange Market in the United States," Federal Reserve Bank of New York, chs. 2 & 3; available at: www.newyorkfed.org/education/addpub/usfxm.

-E. Truman, "International Economic Policy: The Role of Exchange Rates," Federal Reserve Discussion Paper, July, 1989; on Reserve.

**THREE &
FOUR : FIXED, PEGGED, AND FLOATING EXCHANGE RATE SYSTEMS:
THEORY AND PRACTICE**

- B. Eichengreen, *Globalizing Capital*, 1996, pp. 136-152; on Reserve.
- Council of Economic Advisers, "Currency Markets and Exchange Rates," pp. 149-166, *Economic Report of the President, 2007*; available at www.whitehouse.gov/cea/ch7-erp07.pdf.
- R. Dunn, "The Many Disappointments of Flexible Exchange Rates," in *International Trade and Finance Readings*, R. Baldwin and J.D. Richardson, eds., pp. 268-289; on Reserve.
- M. Labonte, "Fixed Exchange Rates, Floating Exchange Rates, and Currency Boards..." Congressional Research Service Report RL31204, Jan. 23, 2004; pp. 1-20; available at the "CRS Reports" database on Aladin).

Highly Recommended:

- S. Y. Cross, "All About the Foreign Exchange Market in the United States," Federal Reserve Bank of New York, Ch. 10; available on the Internet at www.newyorkfed.org/education/addpub/usfxm.

**FIVE: POLICY RESPONSES TO EXCHANGE RATE INSTABILITY:
CASE STUDY OF SHARP SWINGS IN THE VALUE OF THE
DOLLAR, 1981-1987**

- S. D. Cohen, "The System Responds to Exchange Rate and Trade Balance Disequilibria," 1985-6," Ch. 10 of *The Making of U.S. International Economic Policy*, fifth edition, 2000; on Reserve.
- R. Solomon, *Money on the Move*, 1999, Ch. 1; on Reserve.
- S. D. Cohen, "G-7 Con Job," *The International Economy*, Nov./Dec. 1988, pp. 83-86; on Reserve.

Highly Recommended:

- S. D. Cohen, "U.S. Foreign Exchange Rate Policymaking, 1977-78," in S.D. Cohen and R. Meltzer, *U.S. International Economic Policy in Action* (Praeger, 1982), pp. 15-63.
- Y. Funabashi, *Managing the Dollar: From the Plaza to the Louvre*. (IIE, 1988) chs. 1, 8, and 9.

**SIX: THE BIGGEST CURRENT ACCOUNT DISEQUILIBRIUM IN
HISTORY: THE UNITED STATES, 1995 THRU TODAY**

- McKinsey & Co., "The U.S. Imbalancing Act: Can the Current Account Deficit Continue?," June, 2007, pp.17-29, 61-73; available at www.mckinsey.com/mgi/publications/US_imbalancing_act/index.asp.

- C. Mann, "Perspectives on the U.S. Current Account Deficit and Its Sustainability," *Journal of Economic Perspectives*, 2002; at www-personal.umich.edu/~kathrynd/JEP.Mann.02.pdf (note: it is a hyphen after "www" not a period; also available on Aladin @ JESTOR).
- Levey, D. and S. Brown, "The Overstretch Myth," *Foreign Affairs*, Mar/Apr, 2005; available on Aladin at ABI/INFORM database.
- Setser, B. et al, "How Scary Is the Deficit?" *Foreign Affairs*, Jul/Aug, 2005; available on ABI/INFORM database.
- Bernanke, B., "The Global Saving Glut and the U.S. Current Account Deficit," speech of Apr. 14, 2005; available at www.federalreserve.gov/boarddocs/speeches/2005/200503102/default.htm.
- R. Blecker, *Beyond the Twin Deficits*, 1992, pp. 17-21 and Chs. 2-3; on Reserve.

Highly Recommended:

- M. Dooley, et al, "An Essay on the Revived Bretton Woods System, Sept., 2003; at www.NBER.org/papers/w9971/
- A. Greenspan, speech of Nov. 20, 2003; available at www.federalreserve.gov/; use news and events/speeches links.
- R. Blecker, "The Ticking Debt Bomb: Why the U.S. International Financial Position is Not Sustainable," *Economic Institute Briefing Paper*, June, 1999; available at www.epinet.org/content.cfm/briefingpapers_debtbomb.
- M. Labonte, et al, "America's Growing Current Account Deficit: Its Cause and What It Means for the Economy," Congressional Research Service Report; updated annually and a very good non-technical overview; use a search engine to find on-line.
- R. Z. Lawrence, "The U.S. Current Account Deficit," testimony of 12/10/99; at [omit [www.](http://www.unt.edu)]-
<http://govinfo.library.unt.edu/tdrc/hearings/10dec99/rlawrence.pdf>.

SEVEN: QUIZ and LECTURE CATCH-UP

EIGHT: APOCALYPSE NOW? IS A HUGE DECLINE IN THE VALUE OF THE DOLLAR IN THE OFFING AND WHAT WILL IT ACHIEVE? [Or, "Will I Ever Be Able to Afford to Travel in Europe Again?"]

- A. Greenspan, Remarks of Nov. 19, 2004, available at www.federalreserve.gov/; use link marked news and events/speeches.
- R. Cooper, "Living with Global Imbalances: A Contrarian View," November, 2005, pp. 1-6; at www.economics.harvard.edu/faculty/cooper/files/globalimbalances.pdf.
- S.D. Cohen, "The Super Power as Super-Debtor," in *Trade*,

Interdependence and Security,” National Bureau of Asian Research, pp. 29-56, 61-63; on Reserve.

Highly Recommended:

- C. F. Bergsten, “The IMF and Exchange Rates,” testimony of May 9, 2004; at www.iie.com/publications/papers/bergsten0504-2.htm.
- S. Roach, “Global: Why the World Needs a Weaker Dollar”; at www.morganstanley.com/views/gef/archive/2004/20041119-Fri.html.

SPRING BREAK

NINE: EUROPEAN MONETARY UNION and the EURO

- M. Feldstein, "The Case against EMU," *The Economist*, June 13, 1992, pp. 9-22; available on Aladin’s ABI/INFORM database.
- T. Pugel, *International Economics*, 13th edition, 2007, pp. 620-629; on Reserve.
- B. Bernanke, “The Euro at Five,” speech of Feb. 26, 2004; at www.federalreserve.gov; use news and events/speeches link.
- C. Wyplosz, “European Monetary Union: The Dark Sides of a Major Success,” *Economic Policy*, April, 2006, on ABI/Inform data base.

Highly Recommended:

- W. Becker, “EMU Watch: Four Years of the Euro,” Deutsche Bank Research, 28 March, 2003, Intro and Sections 1-13 and 17-19; at www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000053292.pdf; if this doesn’t connect, go to www.dbresearch.com and use site’s “full text search” function-- paper will appear for the date 28.03.2003.
- R. Solomon, “Economic and Monetary Integration in Europe,” Ch. 3 of *Money on the Move*, 1999.
- M. Feldstein, "The Political Economy of the European Economic and Monetary Union....," *Journal of Economic Perspectives*, Fall, 1997.
- B. Eichengreen, “The Euro through a Glass Darkly,” Sept., 2003; available on Aladin, www.ciaonet.org/wps/eib02/eib02.html.

**TEN: FINANCIAL CRISES IN THE EMERGING MARKETS:
PART I--THE 1980's LATIN AMERICAN DEBT CRISIS**

- B. J. Cohen, "U.S. Debt Policy in Latin America," from *In the Shadow the Debt*, 1992, pp. 153-171; on Reserve.
- K. Lissakers, *Banks, Borrowers, and the Establishment*, 1991, Chs. 2, 8; on Reserve.
- T. Pugel, *International Economics*, 13th edition, 2007, pp. 489-513, on Reserve.

Highly Recommended:

- J. Sachs, "International Policy Coordination: The Case of the Developing Country Debt Crisis," pp. 233-276 of M. Feldstein, ed., *International Economic Cooperation*.
- E. Fried and P. Trezise, *Third World Debt –The Next Phase* (Brookings, 1989), pp. 3-16; 39-43; 69-76.

REMINDER: Research Paper Due on the Eleventh Session

ELEVEN**& TWELVE: FINANCIAL CRISES IN THE EMERGING MARKETS: PART II--
ASIAN CONTAGION AND BEYOND**

- P. Kenen, "Causes and Consequences of the Recent Crises, Ch. 2 of *The International Financial Architecture*, 2001, pp. 13-47; on Reserve.
- J. Winters, "Asia and the 'Magic' of the Marketplace," *Current History*, Dec., 1998; at www.currenthistory.com/archivedec98/winters.html.
- M. Feldstein, "Refocusing the IMF," *Foreign Affairs*, March- April, 1998; available on the ABI/INFORM database.
- J. Sachs, "IMF Orthodoxy Isn't What Southeast Asia Needs," (to be distributed in class).
- A. Greenspan, speech of March 3, 1998; available at www.federalreserve.gov/boarddocs/speeches/1998/19980303.htm.
- R. Wade, "The Asian Debt and Development Crisis of 1997, Causes and Consequences," *World Development*, Vol. 26, 1998; on Reserve.
- J. Stiglitz, *Globalization and Its Discontents*, 2002, ch. 4; On Reserve.
- M. Thomas, "Getting Debt Relief Right," *Foreign Affairs*, Sep/Oct, 2001; available on ABI/Inform database.

Highly Recommended:

- R. Moreno, G. Pasadillo, and E. Remolona, "Asia's Financial Crisis: Lessons and Policy Responses," *Federal Reserve Bank of San Francisco Working Paper*, July, 1998; pp1-24 at www.ideas.repec.org/p/fip/fedfpb/98-02.html.
- J. Stiglitz, "Road to Recovery," July 17, 1998, at www.worldbank.org/; use the Bank' search engine: Stiglitz, "Road to Recovery."
- Joint Economic Committee, "Features and Policy Implications of Recent Currency Crises," Nov., 2001; available at www.house.gov/jec/crises.pdf.

**THIRTEEN
& FOURTEEN: THE INTERNATIONAL MONETARY FUND: THE
PROBLEM OR THE SOLUTION OR JUST IRRELEVANT?**

- E. Truman, "International Monetary Fund Reform: An Overview of the Issues," Sept. 23, 2005, pp. 7-17; at www.g24.org/Trum0905.pdf.
- D. Kapur, "The IMF: A Cure or a Curse?" *Foreign Policy*, summer, 1998, pp. 114-128; available on the CIAOnet or JSTOR database.
- K. Rogoff, "The IMF Strikes Back," *Foreign Policy*, Jan.-Feb., 2003; available on the ABI/Inform database.
- J. Stiglitz, "Failure of the Fund," *Harvard International Review*, Summer, 2001; available on ABI/Inform database.
- S. Fisher, "The IMF and the Asian Crisis," speech of March, 20, 1998; available at www.imf.org/external/np/speeches/1998/032098/htm.
- Z. Minton-Beddoes, "Why the IMF Needs Reform," *Foreign Affairs*, May-June, 1995, pp. 123-133; available on the Academic Lexis-Nexis database.

Highly Recommended:

- G. Bird, "The International Monetary Fund and Developing Countries," *International Organization*, Summer, 1996, pp. 477-511.
- J. Stiglitz, *Globalization and Its Discontents*, 2002, chs. 2 & 3, pp. 23-88.
- J. Amuzegar, "The IMF under Fire," *Foreign Policy*, Fall, 1986.
- J. F. Hornbeck, "IMF Reform and the International Financial Institutions Advisory Commission," *CRS Report* dated 1/5/01; www.nsceonline.org/NLE/CRS/abstract.cfm?NLEid=16916.
- J. Sachs, "The 'M' Stands for Mediocrity, A Report Card on the IMF," *The International Economy*, July-Aug., '94, pp.34-36.
- "IMF in Focus"* *IMF Survey, Supplement*, Sept., 2006; at www.imf.org/external/pubs/ft/survey/2006/090106.pdf.

DEBT RELIEF (Time permitting)

- Jubilee Plus, "What Is the HIPC Initiative?," available at www.jubileeplus.org/hipc/what_is_hipc.htm/.
- R. Cooper, "Chapter 11 for Countries?" *Foreign Affairs*, Jul/Aug, 2002; available on the Lexis-Nexis Academic database.
- W. Easterly, "Debt Relief," *Foreign Policy*, Nov/Dec., 2001; on the ABI/Inform database.

FIFTEEN: FINAL EXAM