

August 21, 2018

AEM 4545/ECON 3545

International Finance and Macroeconomics

Fall 2018

Professor Eswar Prasad

This course will examine the determinants of international capital flows and their consequences for growth and volatility. Basic analytical models in open economy macroeconomics and international finance, including those related to exchange rate dynamics, will be covered. The course will analyze the challenges created by rising global financial integration for monetary policy, financial regulation, and other policies. Emerging market perspectives on these issues will be emphasized, with a special focus on the economies of China and India. The course will also discuss growth prospects for emerging markets, the myriad domestic and external challenges that they face in sustaining high growth, and the implications for the world at large. One module will cover the implications of new financial technologies for central banking and international finance. *Students will be required to write an independent research paper.*

- Prerequisites: Intermediate-level courses in macroeconomics, international economics, and econometrics/statistics.
- Lecture hours: Wednesdays, 10:10 a.m. – 12:35 p.m.
173 Warren Hall
- Grading: Letter grade only. Grade will be based on assignments, research paper, and class participation
- Credits: 3
- Teaching Assistant: Isha Agarwal (ia233)
469 Uris Hall
- TA's Office Hours: Wednesday & Thursday, 3:00–4:00 pm.
- Course Support: Laura Hufnagel (ljh255)
201 Warren Hall
- Prof's Office Hours: By appointment (through Laura Hufnagel)

COURSE SCHEDULE

Lecture 1: August 29

Lecture 2: September 5

Topic: Economic Growth, The New World Economic Order

Emerging Markets: Resilience and Growth Amidst Global Turmoil: Chapters 4-6.

Ahmed, Shaghil, 2017, “China’s Footprints on the Global Economy,” speech at the Second IMF and Federal Reserve Bank of Atlanta Workshop on China’s Economy.

Bosworth, Barry, and Susan Collins, 2008, “Accounting for Growth: Comparing China and India,” *Journal of Economic Perspectives*, Vol. 22:1, pp. 45-66.

“China’s Economic Rise: History, Trends, Challenges, and Implications for the United States,” Congressional Research Service Report, 2018.

Clark, Hunter, Maxim Pinkovskiy, and Xavier Sala-i-Martin, 2017, “China’s GDP Growth May be Understated,” *NBER Working Paper* No. 23323.

Dynan, Karen, and Louise Sheiner, 2018, “GDP as a Measure of Economic Well-being,” *Brookings Institution Report*.

Gordon, James, and Poonam Gupta, 2004, “Understanding India’s Services Revolution,” *IMF Working Paper* No. 04/171.

Jia, Yandong, and Jun Nie, 2017, “Has China’s Growth Reached a Turning Point?” *The Macro Bulletin*, Federal Reserve Bank of Kansas City.

Kose, M. Ayhan, and Eswar Prasad, 2010, “Emerging Markets Come of Age,” *Finance & Development*, Vol. 47:4, pp. 6-10.

Kose, M. Ayhan, Franziska Ohnsorge, and Lei Sandy Ye, 2017, “Capital Slowdown,” *Finance & Development*, Vol. 54:2, pp. 36-39.

Prasad, Eswar, 2009, “Is China’s Growth Miracle Built to Last?” *China Economic Review*, Vol. 20:1, pp. 103-123.

Prasad, Eswar, 2011, “Rebalancing Growth in Asia,” *International Finance*, Vol. 14:1, pp. 27-66.

We will have guest presentations about data resources available at Cornell to work on topics related to international finance and open economy macro. Some data issues (and potential pitfalls) will also be discussed.

Hands-on Training Session on Data Visualization using Excel and Stata
September 5-6, 7:30 – 9:00 pm

Lecture 3: September 12

Topic: Balance of Payments, Exchange Rates

The Dollar Trap: Chapter 5, pages 63-67. Chapter 4.

Callen, Timothy, 2007, “PPP Versus the Market: Which Weight Matters,” *Finance and Development*, Vol. 44:1.

Catao, Luis, 2007, “Why Real Exchange Rates,” *Finance and Development*, Vol. 44:3, pp. 46-47.

Engel, Charles, and John H. Rogers, 1996, “How Wide is the Border?” *The American Economic Review*, Vol. 86:5, pp. 1112-1125.

Mankiw, Gregory, N., 2002, *Macroeconomics*, fifth edition, Worth Publishers. Section 5.3, pp. 127-141. [On reserve at the library]

Pakko, Michael R., and Patricia S. Pollard, 1996, “For Here or To Go? Purchasing Power Parity and the Big Mac,” Federal Reserve Bank of St. Louis *Review*, Vol. 78(1), pp. 3-22

Lecture 4: September 19

Topic: Monetary Policy, Exchange Rate Regimes

“A Day in the Life of the FOMC: An Inside Look at the Federal Reserve’s Monetary Policymaking Body,” Blog, Federal Reserve Bank of Philadelphia.

Goodfriend, Marvin, and Eswar Prasad, 2007, “A Framework for Independent Monetary Policy in China,” *CEifo Economic Studies*, Vol. 53:1, pp. 2-41.

Kamber, Güneş, and Madhusudan Mohanty, 2018, “Do Interest Rates Play a Major Role in Monetary Policy Transmission in China?” *Bank for International Settlements Working Paper* No. 714.

Labonte, Marc, 2018, “Monetary Policy and the Federal Reserve: Current Policy and Conditions,” Congressional Research Service Report.

Prasad, Eswar, 2010, “After the Fall: Central Banking in the Aftermath of the Financial Crisis,” *Finance & Development*, Vol. 47:2, pp. 22-26.

Reinhart, Carmen M., and Kenneth S. Rogoff, 2004, “The Modern History of Exchange Rate Arrangements: A Reinterpretation,” *Quarterly Journal of Economics*, Vol. 119:1, pp. 1-48.

Rule, Garreth, 2015, “Understanding the Central Bank Balance Sheet”, Handbook No. 32, Centre for Central Banking Studies.

Lecture 5: September 26

Topic: Capital Controls, Capital Account Liberalization

The Dollar Trap: Chapters 3, 4, 10.

Abraham, Facundo, and Sergio L. Schmukler, 2017, “Financial Globalization: A Glass Half Empty?” *World Bank Policy Research Working Paper* No. 8194

Kose, Ayhan, and Eswar Prasad, 2004, “Liberalizing Capital,” *Finance and Development*, Vol. 41:3, pp. 50-51.

Kose, Ayhan M., Eswar Prasad, Kenneth Rogoff, and Shang-Jin Wei, 2007, “Financial Globalization: Beyond the Blame Game,” *Finance and Development*, Vol. 44:1, pp. 9-13.

Lane, Philip R., and Gian M Milesi-Ferretti, 2017, “International Financial Integration in the Aftermath of Global Financial Crisis,” *IMF Working Paper* No. 17/115.

Lund, Susan and Phillip Harle, 2017, “Global Finance Resets,” *Finance and Development*, Vol. 54:4.

McCauley, Robert N., Agustín S. Bénétrix, Patrick McGuire, and Goetz von Peter, 2017, “Financial Deglobalization in Banking?” *Bank for International Settlements Working Paper* No. 650.

Prasad, Eswar, 2009, “Some New Perspectives on India’s Approach to Capital Account Liberalization,” *Brookings India Policy Forum*, Volume 5 (2008/09).

Prasad, Eswar, and Shang-Jin Wei, 2005, “China’s Approach to Capital Inflows: Patterns and Possible Explanations,” *IMF Working Paper* No. 05/79

Rey, Hélène, 2014, “Capital Account Management,” in *What Have We Learned? Macroeconomic Policy After the Crisis* edited by George Akerlof, Olivier Blanchard, David Romer and Joseph Stiglitz, MIT Press, Spring 2014: 307-314.

Rodrik, Dani, 1998, “Who Needs Capital-Account Convertibility?” *Essays in International Finance*, No. 207 (Princeton, NJ: Princeton University Press).

Stiglitz, Joseph, 2004, “Capital-Market Liberalization, Globalization, and the IMF,” *Oxford Review of Economic Policy*, Vol. 20:1, pp. 57– 71.

Lecture 6: October 3**Topic: Currency Wars, Monetary Policy Spillovers, and Global Governance**

The Dollar Trap: Chapters 7-9, 11

Ahmed, Shaghil, Brahim Coulibaly, and Andrei Zlate, 2017, “International Financial Spillovers to Emerging Market Economies: How Important are Economic Fundamentals?” *Journal of International Money and Finance*, Vol. 76, pp. 133-152.

Eichengreen, Barry, and Poonam Gupta, 2015, “Tapering Talk: The Impact of Expectations of Reduced Federal Reserve Security Purchases on Emerging Markets,” *Emerging Markets Review*, pp. 1-15.

Mishra, Prachi, Papa N’Diaye, and Lam Nguyen, 2017, “Effects of Fed Announcements on Emerging Markets: What Determines Financial Markets’ Reactions?” forthcoming *IMF Economic Review*.

Rai, Vikram, and Lena Suchanek, 2014, “The Effect of the Federal Reserve’s Tapering Announcements on Emerging Markets,” *Bank of Canada Working Paper* No. 2014-50.

Lecture 7: October 10**Topic: Finance and its Role in Growth**

Agarwal, Isha, and Eswar Prasad, 2018, “A Vision and Action Plan for Financial Sector Development and Reforms in India,” *Brookings Institution Report*.

Allen, Franklin, Jun, Qian, and Meijun Qian, 2005, “Law, Finance, and Economic Growth in China,” *Journal of Financial Economics*, Vol. 77, pp. 57-116.

Bodenhorn, Howard, 2016, “Two Centuries of Finance and Growth in the United States, 1790-1980,” *NBER Working Paper* No. 22652.

Barajas, Adolfo, Martin Cihak, and Ratna Sahay, 2017, “A Broader Reach,” *Finance & Development*, Vol. 54:1, pp 34-36.

Chamon, Marcos, and Eswar Prasad, 2010, “Why are Saving Rates of Urban Households in China Rising?” *American Economic Journal – Macroeconomics*, Vol.2:1, pp. 93-130.

Debt and (Not Much) Deleveraging, McKinsey Report, 2015

Dobson, Wendy, and Anil Kashyap, 2006, “The Contradiction in China's Gradualist Banking Reforms,” *Brookings Papers on Economic Activity*, pp. 103-148.

Loayza, Norman, Amine Ouazad, and Romain Ranciere, 2017, “Financial Development, Growth, and Crisis: Is There a Trade-Off?” *World Bank Policy Research Working Paper* No. 8237

Prasad, Eswar, and Raghuram Rajan, 2008, “Next Generation Financial Reforms for India,” *Finance and Development*, Vol. 45:3, pp. 23-27.

Lecture 8: October 17

Topic: International Transmission of Business Cycles and Financial Cycles

Emerging Markets: Resilience and Growth Amidst Global Turmoil: Chapters 8-9.

Dervis, Kemal, 2012, “Convergence, Interdependence and Divergence,” *Finance and Development*, Vol. 49:3.

Kalemli-Ozcan, Sebnem, Elias Papaioannou, and Fabrizio Perri, 2013, “Global Banks and Crisis Transmission,” *Journal of International Economics*, Vol. 89:2, pp:495-510.

Kose, M. Ayhan, Christopher Otrok, and Eswar Prasad, 2008, “How Much Decoupling? How Much Converging?” *Finance and Development*, Vol. 45:2.

Obstfeld Maurice, Jonathan D. Ostry, and Mahvash S. Qureshi, 2018, “Global Financial Cycles and the Exchange Rate Regime: A Perspective from Emerging Markets,” *AEA Papers and Proceedings*, 108:499-504

Rey, Hélène, 2015, “Dilemma Not Trilemma: The Global Financial Cycle and Monetary Policy Independence,” *NBER Working Paper* No. 21162.

Lecture 9: October 24

Topic: The Battle Among Reserve Currencies

The Dollar Trap: Chapters 12-15.

Gaining Currency: Chapters 2, 5-6.

Kroeber, Arthur, 2011, “The Chinese Yuan Grows up Slowly: Fact and Fiction about China’s Currency Internationalization,” Policy Paper. Washington: New America Foundation.

Lardy, Nicholas, and Patrick Douglass, 2011, “Capital Account Liberalization and the Role of the Renminbi,” Working Paper 11-6. Washington: Peterson Institute for International Economics.

Prasad, Eswar, 2017, “A Middle Ground,” *Finance & Development*, Vol. 54:1, pp 30-33.

Prasad, Eswar, and Lei Ye, 2016, "China's Efforts to Expand the International Use of the Renminbi," *Brookings Institution Report*.

Yu, Yongding, 2012, "Revisiting the Internationalization of the Yuan," *ADB Working Paper No. 366*.

**Special Evening Sessions for Proposal Presentations
October 23-24, 7:30-9:30 p.m.**

Lecture 10: October 31

Topic: Prospects for the World Economy

Adler, Gustavo, and Romain Duval, 2017, "Stuck in a Rut," *Finance & Development*, Vol. 54:1, pp. 10-13.

Crafts, Nicholas, 2017, "Whither Economic Growth," *Finance & Development*, Vol. 54:1, pp. 1-6.

James, Harold, 2017, "Bretton Woods to Brexit," *Finance & Development*, Vol. 54:3, pp. 4-9

Prasad, Eswar, 2009, "Is China's Growth Miracle Built to Last?" *China Economic Review*, Vol. 20:1, pp. 103-123.

Prasad, Eswar, 2017, "Path to Influence," *Finance & Development*, Vol. 54:3, pp. 22-25

Pritchett, Lant, and Lawrence H. Summers, 2014, "Asiaphoria Meets Regression to the Mean," *NBER Working Paper No. 20573*.

More readings to be added later.

Lecture 11: November 7

Topic: TBD

Lecture 12: November 14

Topic: New Financial Technologies I --Implications for Finance

Adriano, Andreas, 2018, "A Short History of Crypto Euphoria," *Finance & Development*, Vol. 55:2, pp. 20-21.

Benos, Evangelos, Rodney Garratt, and Pedro Gurrola-Perez, 2017, "The Economics of Distributed Ledger Technology for Securities Settlement," *Bank of England Working Paper No. 670*.

James, Harold, 2018, "Lucre's Allure," *Finance & Development*, Vol. 55:2, pp. 17-19.

Nakamoto, Satoshi, 2008, "Bitcoin: A Peer-to-Peer Electronic Cash System," *Working Paper*.

Schilling, Linda, and Harald Uhlig, 2018, "Some Simple Bitcoin Economics," *NBER Working Paper* No. 24483

November 21
Thanksgiving holiday

Lecture 13: November 28

Topic: New Financial Technologies II --Implications for Central Banking

Agustín, Carstens, 2018, "Money in the Digital Age: What Role for Central Banks," *Bank for International Settlements Speech*.

Bech, Morten, and Rodney Garratt, 2017, "Central Bank Cryptocurrencies," *Bank for International Settlements Quarterly Review*, pp. 55–70.

Committee on Payments and Market Infrastructures, 2015, "Digital Currencies," *Bank for International Settlements Publication*.

Committee on Payments and Market Infrastructures, 2018, "Central Bank Digital Currencies," *Bank for International Settlements Publication*.

Engert, Walter, and Ben S.C. Fung, 2017, "Central Bank Digital Currency: Motivations and Implications," *Bank of Canada Staff Discussion Paper* No. 2017-16.

Fung, S.C. Ben, and Hanna Halaburda, 2016, "Central Bank Digital Currencies: A Framework for Assessing Why and How," *Bank of Canada Staff Discussion Paper* No. 2016-22.

Ingves, Stefan, 2018, "Going Cashless," *Finance & Development*, Vol. 55:2, pp. 11-12

Prasad, Eswar, 2018, "Central Banking in a Digital Age: Stock-Taking and Preliminary Thoughts," *Brookings Institution Report*.

Schnabel, Isabel, and Hyun Song Shin, 2018, "Money and Trust: Lessons from the 1620s for Money in the Digital Age," *Bank for International Settlements Working Paper* No. 698.

BACKGROUND READINGS & REFERENCE MATERIALS

REQUIRED:

Gaining Currency: The Rise of the Renminbi, Eswar Prasad, Oxford University Press, October 2016.

The Dollar Trap: How the U.S. Dollar Tightened its Grip on Global Finance, Eswar Prasad, Princeton University Press, 2014.

RECOMMENDED:

China's Efforts to Expand the International Use of the Renminbi, Eswar Prasad, Brookings Institution Report, February 2016.

Collapse and Revival: Understanding Global Recessions and Recoveries, M. Ayhan Kose and Marco Terrones, 2015.

Dealing with China, Hank Paulson, Twelve (Hachette Group), 2015.

Emerging Markets: Resilience and Growth Amidst Global Turmoil, M. Ayhan Kose and Eswar Prasad, Brookings Institution Press, 2010.

Markets Over Mao: The Rise of Private Business in China, Nicholas R. Lardy, Peterson Institute Press, 2014.

An Uncertain Glory, Amartya Sen and Jean Dreze, Allen Lane, 2013.

Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries, Jagdish Bhagwati and Arvind Panagariya, Public Affairs, 2013.

SUGGESTED FOR BROADER PERSPECTIVES:

India After Gandhi: The History of the World's Largest Democracy, Ramachandra Guha, HarperCollins, 2007.

On China, Henry Kissinger, Penguin Books, 2012 (original edition, 2011).

Dealing with China: An Insider Unmasks the New Superpower, Henry M. Paulson, Jr., Hachette Book Group, 2016 (original edition, 2015)

Destined for War: Can America and China Escape Thucydides's Trap?, Graham Allison, Houghton Mifflin Harcourt, 2017

COURSE ASSIGNMENTS AND REQUIREMENTS

Common Points about Formatting, Submission of Assignments

1. All text double-spaced (except footnotes and references to be single-spaced).
2. Use Times New Roman 12-point font or other font with similar size (important: assignments with smaller font size won't be accepted), at least 1" margins on all sides.
3. Follow formatting instructions for tables and figures.
4. Put on the subject line "4545: Assignment I" or whatever the relevant document is.
5. Email documents in pdf format to Isha Agarwal (ia233).
6. Put your name at the top right corner on front page of each assignment.

Indicative Grade Allocation

Assignment I (Macro Data: Basic):	5 percent
Assignment II (GDP Comparisons):	5 percent
Assignment III (Trade, Exchange Rate):	5 percent
Assignment IV (Capital Flows):	5 percent
Assignment V (Critique of News Article)	5 percent
[Top four grades of assignments I-V will be used to determine final grade (20 percent)]	

Assignment VI (Data Note):	<i>10 percent</i>
Assignment VII (Research Note):	<i>15 percent</i>
Assignments VIII-X (Research Proposal, First Draft, Final Draft):	<i>50 percent (10+15+25)</i>

Class Participation:	<i>5 percent</i>
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Assignment Schedule

Number	Description	Handed out	Due date / time
I.	Macro Data: Basic	Aug. 29	Sept. 4 / 10 a.m.
II.	GDP Comparisons	Sept. 5	Sept. 10 / 10 a.m.
[Hands-on Training Sessions: Excel and Stata, Sept. 5-6, 7:30–9:00 pm]			
III.	Trade, Exchange Rate	Sept. 12	Sept. 17 / 10 a.m.
IV.	Interest Rates	Sept. 19	Sept. 24 / 10 a.m.
V.	News Note	Sept. 26	Oct. 1 / 10 a.m.
VI.	Data Note	Oct. 3	Oct. 9 / 10 a.m.
VII.	Research Note	Oct. 10	Oct. 15 / 10 a.m.
VIII.	Research Proposal	Oct. 17	Oct. 29 / 10 a.m.
[Special sessions on Oct. 23-24 @ 7:30-9:30 p.m. to present proposals]			
IX.	First Draft	Oct. 31	Nov. 13 / 10 a.m.
X.	Final Draft	Nov. 14	Dec. 3 / 10 a.m.