IBUS 4303 - INTERNATIONAL MONETARY AND FINANCIAL ISSUES

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Classes: Wednesdays 3:30-6:00pm  
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COURSE DESCRIPTION AND OBJECTIVES:

International monetary issues were never contained within a border; however, globalization and financial integration of markets has made the financial world fairly flat. Shocks reverberate throughout the system and weaknesses in one currency or a loss of confidence in one part of the financial architecture will have far-reaching implications.

This course aims to examine the nature of financial shock, and it looks in depth at how the authorities deal with financial problems. It is useful to review the open macro-economic framework that underpins the financial sector to enable students to accurately study the financial crises. This review and a look at the role of financial oversight institutions will help us look at the crises in Mexico, Korea, Argentina and Greece. The role of the dollar and the central banks will be discussed and analyzed. The course will ultimately look at the risks currently facing the international monetary and financial system, and will look at the emerging roles of new economic players in the global system.

The objective of the course is to enable students to better understand what they read about, see, and witness in the global financial arena. A solid understanding of intermediate macroeconomics is very helpful, although the first few classes will review this for those who have forgotten their macroeconomic fundamentals.

GRADING CRITERIA:  
25% = Midterm Assigned Paper (due March 6th)  
25% = Team Assignment  
10% = Individual FT contributions, small assignments, classroom participation  
40% = Final Exam (May 6th)
COURSE REQUIREMENTS & THE APPROACH TO LEARNING:

Text: James Gerber, INTERNATIONAL ECONOMICS, Addison-Wesley (Sixth Edition is preferred)

Assigned readings: Available on Blackboard, but cases should be obtained by students via the Harvard Course Pack.

Class attendance: Attendance is not optional and excessive absences will be noted.

Classroom participation: Participation makes up part of your grade and is strongly recommended. Normal GWU rules apply with respect to integrity and decorum.

Facebook can wait: In a lecture format it is important to take notes, not go through FB. Web surfing and emailing during class is discouraging and is punishable by death!

Guest Speakers: We may have a couple of guest speakers, TBD as the semester progresses.

ASSIGNMENTS:

- CLASS 3.
  February 1, 2017: **Hand-in Assignment**: Due before class.
  Please answer the following questions in one paragraph each, put your name on the pages and submit before class. The three questions are as follows:

  1. What should be the impact in the US and abroad of “tapering,” the reduction of and eventual reversal of quantitative easing?
  2. Do high savings rates in China inevitably mean that China will run a current account surplus and for how long?
  3. Why is it unlikely that the US$-Japanese yen exchange rate will be different in Tokyo than it will be in New York?

- CLASS 4 – CLASS 8.
  February 8th – March 8th: **FT Class Assignment**: Due in class.
  Each class from Class 4 to Class 8 will have an assignment. 3-4 students will be assigned each class to bring in a FT or equivalent article and discuss. The selected students should be prepared to explain the article to the class and why it’s relevant. Articles can also come from the WSJ or another source; however, the FT on-line is available free to all GW students and is convenient.

- MID-TERM ASSIGNMENT IS DUE MARCH 6th WITHOUT EXCEPTION:
  Analyze what could have been done differently in the case of Greece. Review IMF Report and other sources to come a judgment about what the government, IMF and Euro-authorities should have done differently. The paper (5 single-spaced pages in length) should be in your own words, sources noted, and should demonstrate that you understand the concepts driving crises and the lessons learned. **Further instructions will be given in class.**
CLASS 9.
March 22, 2017: Volcker Rule Assignment
Students to prepare a one-page either in favor or opposed to the enactment of the Volcker Rule, and be prepared to defend your position in a class debate.

CLASS 11 – CLASS 13.
April 5th – April 19th: Two-Person Team Assignment Presentation.
Select and present an FT or WSJ article, discuss its ramifications, and lead the class discussion by asking two thought-provoking questions. Use a 5 page PowerPoint and hand in a written version of the PowerPoint on behalf of the team. Three teams to present, each for 30 minutes.

CLASS SCHEDULE

CLASS 1: January 18, 2017: INTRODUCTION

Lecture Topic:
- How Has the Global Economy and Its Financial System Changed over the past decade?
  - Basic review of macroeconomics in an international setting—concepts and terms that we will be using

Before Class: You should review your macro textbook as a refresher.

Reading Assignments for Next Class:
1. Gerber’s International Economics: Chapters 11, 9 and 10

CLASS 2: January 25, 2017

Lecture Topic:
- Open Economy Macro, the Balance of Payments, and the Exchange Rate.
- Reviewing concepts needed for analyzing global issues.

Reading Assignments for Next Class:
1. Gerber: Chapters 2, 12
2. Capital Controls in Chile in the 1990s, HBS Case # 9-075-031
3. Leipziger: Oxford Handbook on Development, Chap. 49

CLASS 3: February 1, 2017

Lecture Topic:
- What might be the impact of the gradual reversal of quantitative easing in the US?
- A Review of What Central Banks Do and How They Do It
- The Cases of Chile and Brazil and Managing Capital Flows
- Global Financial Issues and Institutions - The Role of the IMF, World Bank, and FSB

ASSIGNMENT DUE FOR THIS CLASS

Reading Assignments for Next Class:
1. Gerber: Chap. 13
2. The US Financial Crisis, The Economist (on blackboard)
3. Google view of the financial crisis by Ben Bernanke, Brad de Long and Tyler Cowen for class discussion

CLASS 4: February 8, 2017

Lecture Topic:
- What Do We Know About Financial Crises?
  - What are its causes and impacts?
  - What can we learn from the US financial crisis?
  - How do crises spread?

ASSIGNMENT DUE FOR THIS CLASS

Reading Assignments for Next Class:
1. Mexico Case: The Tequila Crisis, HBS Case # 9-702-093
2. Liliana Rojas-Suarez paper on macro resilience

CLASS 5: February 15, 2017

Lecture Topic:
- The Tequila Crisis and Its Lessons
- Latin American Risks and Challenges

ASSIGNMENT DUE FOR THIS CLASS

Reading Assignments for Next Class:
1. Gerber: Chap. 16
3. The East Asia Financial Crisis, HBS Case # 9-074-045

CLASS 6: February 22, 2017

Lecture Topic:
- The Korean Economy and the Crisis of 1997 and Its Lessons

ASSIGNMENT DUE FOR THIS CLASS
Reading Assignments for Next Class:
  1. *Gerber: Chap. 16*
  2. *Argentina: Anatomy of a Financial Crisis, Thunderbird Case A03-04-0006*

**CLASS 7: March 1, 2017**

*Lecture Topic:*
- The End of Convertibility and the Corralito

**ASSIGNMENT DUE FOR THIS CLASS**

Reading Assignments for Next Class:
  1. *Gerber: Chap. 14*
  2. *Crisis in Cyprus: Was It Different This Time, Ivey Case W13369 (HBS)*

**MID-TERM ASSIGNMENT IS DUE MARCH 6th WITHOUT EXCEPTION:**

- Paper Length: 5 single-spaced pages
- Analyze what the IMF, the Economic Commission, and the ECB should have done differently in the case of Greece. What should the government have done differently? What lessons did we learn from Argentina and Korea that might be relevant here? What’s next for Greece?
- The paper should be in your own words, sources noted, and should demonstrate that you understand the concepts behind the crisis, why solutions haven’t worked and the lessons for other countries facing such problems.

**CLASS 8: March 8, 2017**

*Lecture Topic:*
- Greece and the Euro Crisis

**ASSIGNMENT DUE FOR THIS CLASS**

*Other:* Team Assignments for April to be set (2 students per team)

Reading Assignments for Next Class:
  1. *Gerber: Chap. 12 reread*
  3. *Crisis in Cyprus: Was It Different This Time, Ivey Case W13369 (HBS)*
  4. *Google the Volcker Rule and be prepared to debate it.*
CLASS 9: March 22, 2017

Lecture Topic:
- Lessons Learned from Banking and Financial Crises
- Modes of Prevention
- Warning Signals and Responses

Video: Colbert Report

ASSIGNMENT DUE FOR THIS CLASS

Other: Reconfirm Team Assignments for April to be set (2 students per team)

Reading Assignments for Next Class:
2. Eswar Prasad, The Dollar Trap, Chaps. 2, 12, 13

CLASS 10: March 29, 2017

Lecture Topic:
- Risk, Contagion and Regulation
- The Dollar, Euro, and Renminbi and the Future of the System

Reading Assignments for Next Class:
None. Work on Team Assignments.

NO READING ASSIGNMENTS PAST THIS POINT

CLASS 11: April 5, 2017

ASSIGNMENT DUE FOR THIS CLASS

CLASS 12: April 12, 2017

ASSIGNMENT DUE FOR THIS CLASS

CLASS 13: April 19, 2017

ASSIGNMENT DUE FOR THIS CLASS

CLASS 14: April 26, 2017: GENERAL DISCUSSION AND REVIEW

MAY 10, 2017:
Final Exam