

EC377.01

**THE WORLD ECONOMY:
FROM THE GOLD STANDARD TO GLOBALIZATION**

Syllabus

Spring 2008

Lectures:

Tuesday and Thursday, 10:30 – 11:45 am; Carney Hall, Room 203

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Office Hours: Tuesday, 2:30 – 4:30 pm, and by appointment

Welcome

Feel free to address me as Fabio. You can of course address me as Professor Ghironi if you prefer to do so. You can find out a lot about me by visiting my web site.

Course Objectives and Description

This course explores the history and functioning of international monetary arrangements and economic relations from the early 20th century to the present day. We will study the operation of the Gold Standard, the Bretton Woods exchange rate regime in place after World War II, the collapse of this regime and the advent of flexible exchange rates, the choice of European countries to stabilize their exchange rates and eventually implement a monetary union, and exchange rate and financial crises in Europe, Asia, and Latin America. We will address the pros and cons of macroeconomic policy coordination across countries and the policy tradeoffs for emerging market economies. Questions that will be studied include: What was the role of the Gold Standard in the Great Depression? Why did the Bretton Woods regime of fixed exchange rates collapse at the beginning of the 1970s? Why did some European countries decide to give up their currencies and form a monetary union? How does European monetary unification affect policy interactions between the U.S. and Europe? How does the advent of the euro affect the position of the dollar in the international financial system? What are the consequences of financial and trade globalization? What is the role of China and other emerging economies in the evolving world economy?

The course will explore these and other questions by combining history, political economy, and economic theory. We will alternate lectures that discuss historical events with lectures of more theoretical nature, in which we will explore the working of different exchange rate and policy

regimes by means of mathematical models. The theoretical material will require familiarity with calculus. Other than this, the only formal prerequisite for this course is Macroeconomic Theory (EC202 or EC204). Students who have already been exposed to international economics are likely to find some parts of this course easier, but I will explain everything taking nothing more than calculus and macro theory for granted.

There is a background textbook for this course: *Globalizing Capital: A History of the International Monetary System*, by Barry Eichengreen, Princeton University Press, Princeton, 1996, available in paperback edition at the Boston College bookstore. (For brevity, I refer to the textbook simply as “Textbook” in the list of topics and readings below.) I will use this textbook as background reference, but the lectures will be based also on my own summary of a number of other sources. I will make my lecture notes available as the course progresses, and I will distribute copies of the most important articles. I will expect all students to have studied textbook and lecture notes, and to have read the articles I will indicate, for the midterm and final exams.

Teaching Assistant

There is a TA for this course. His name is Massimo Giovannini. He will be an important resource for you: He will hold weekly office hours (day and time TBA) and some review sessions. His office is room 462F in 21 Campanella Way, e-mail: giovanma@bc.edu, phone: 617-552-6462.

Course Requirements

Midterm exam: There will be an in-class midterm exam on Thursday, February 28.

Final exam: There will be a final exam on a date/time TBA.

Homework assignments: There will be two homework assignments during the semester.

The weights of these requirements in your final course grade will be as follows:

Midterm exam:	30 percent;
Final exam:	50 percent;
Homework assignments:	20 percent.

Both exams will be closed-books, closed-notes. There will be no make-up exams except for documented medical reasons.

Academic Integrity

The following is official Boston College policy on academic integrity:

“Boston College values the academic integrity of its students and faculty. It is your responsibility to familiarize yourself with the university’s policy on academic integrity: [http:// www.bc.edu/integrity](http://www.bc.edu/integrity). If you have any questions, always consult your professor.

Violations of academic integrity will be reported to your class dean and judged by the academic integrity committee in your school. If you are found responsible for violating the policy, penalties may include a failing grade as well as possible probation, suspension, or expulsion, depending on the seriousness and circumstances of the violation.”

The following is my addendum:

Any form of cheating will result in a zero score for the relevant test. Cheating in the final exam will automatically result in a failing grade.

Advice

This is a course where it will be important to stay on top of the material regularly. Study the textbook and lecture notes, and read the articles I will indicate, without accumulating delay. Work through the math intensive parts of the course with pencil and paper, making sure that you can reproduce and understand all derivations.

You should take full advantage of the resources at your disposal: Come to my office hours regularly when you have questions. Go to Massimo's office hours. Ask him for review sessions (how many are held will depend also on your demand). Do not feel uncomfortable asking the same question in my office hours and in Massimo's. We are excited about the material of this course and we want to do our best to make sure you learn as much as possible from it.

You should also always feel free to ask questions in class. Lively class discussions are always fun.

However, you should not e-mail me questions that require answers that are longer than one line. E-mail is an extremely inefficient way to handle such questions. It is much better to meet in person and discuss things in office hours or appointments.

If you want to schedule an appointment, you should give me sufficient advance notice and not send me e-mails asking if you can see me on the same day or the next day. For better or worse, my life is extremely busy, and it will usually be impossible for me to accommodate short notices. (I also find short-notice requests rude.)

You will be asked and expected to work hard for this course. But you can expect that Massimo and I will be doing the same, and you will find that we are happy to go the extra mile to make sure you learn if you come to our office hours with your questions or schedule an appointment to see us. You should especially take advantage of our availability if you feel overwhelmed by the math-intensive parts of the course.

You should not panic if you see low numerical scores for your midterm or homework assignments. Massimo and I will assign only numerical scores for individual parts of the course requirements – no letter grades. No reason to panic if your score looks lower than you are used to. If you are concerned, come see me and you will usually find out that you are doing better than you think. Keep in mind that I am happy to reward hard work with good letter grades at the end of the course. But I do want to see hard work.

Topics and Readings

Following is the list of topics I would like to cover with associated readings (how many topics we will cover will depend on the evolution of the course). As the course progresses, I will indicate which readings are indeed required. The reading list below is also meant as a research tool for those of you who will want to explore one or more topics in depth. I certainly do not expect to cover all the readings in the list.

Note: As you will see, even if the title of this course is “The World Economy: From the Gold Standard to Globalization,” there are some glaring omissions: We will not focus on Africa, for

instance. This reflects the effect of time constraints on the selection of topics we can realistically hope to cover. If you have a special interest in Africa (or other topics we will not cover) at the end of the course, feel free to ask me for suggestions about readings.

Globalization and Capital Flows in Historical Perspective

Nayyar, Deepak (2006): "Globalisation, History and Development: A Tale of Two Centuries," *Cambridge Journal of Economics* 30: 137-159.

Eichengreen, Barry (2004): *Capital Flows and Crises*, MIT Press, Cambridge (Chapter 2).

The Gold Standard

Textbook, Chapter 2.

The Great Depression

Textbook, Chapter 3.

Other readings on these two topics include:

Bernanke, Ben S. (2004): *Essays on the Great Depression*, Princeton University Press, Princeton.

Calomiris, Charles W. (1993): "Financial Factors in the Great Depression," *Journal of Economic Perspectives* 7: 61-85.

Eichengreen, Barry (1992): The Origins and Nature of the Great Slump Revisited, *Economic History Review* 45: 213-239.

Eichengreen, Barry (1995): *Golden Fetters*, Oxford University Press, Oxford.

Eichengreen, Barry, and Marc Flandreau, Editors (1997): *The Gold Standard in Theory and History*, Routledge, London.

Margo, Robert A. (1993): "Employment and Unemployment in the 1930s," *Journal of Economic Perspectives* 7: 41-59.

Obstfeld, Maurice, Jay C. Shambaugh, and Alan M. Taylor (2004): "Monetary Sovereignty, Exchange Rates, and Capital Controls: The Trilemma in the Interwar Period," *IMF Staff Papers* 51: 75-108.

Romer, Christina D. (1993): "The Nation in Depression," *Journal of Economic Perspectives* 7: 19-39.

Temin, Peter (1993): "Transmission of the Great Depression," *Journal of Economic Perspectives* 7: 87-102.

The Bretton Woods System

Textbook, Chapter 4.

The following book is also an excellent source on the Bretton Woods system:

Bordo, Michael D., and Barry Eichengreen, Editors (1993): *A Retrospective on the Bretton Woods System: Lessons for International Monetary Reform*, University of Chicago Press, Chicago.

Modeling Fixed versus Managed Exchange Rates

Canzoneri, Matthew B., and Dale W. Henderson (1991): *Monetary Policy in Interdependent Economies: A Game-Theoretic Approach*, MIT Press, Cambridge.

Giavazzi, Francesco, and Alberto Giovannini (1989): "Monetary Policy Interactions Under Managed Exchange Rates," *Economica* 56: 199-214.

Post-War European Recovery

Eichengreen, Barry (2006): *The European Economy since 1945: Coordinated Capitalism and*

Beyond, Princeton University Press, Princeton (selected parts).

The Advent of Floating Exchange Rates

Textbook, Chapter 5.

Monetary Cooperation versus Non-Cooperation under Floating Exchange Rates

Canzoneri, Matthew B., and Dale W. Henderson (1991): *Monetary Policy in Interdependent Economies: A Game-Theoretic Approach*, MIT Press, Cambridge.

Persson, Torsten, and Guido Tabellini (1995): "Double Edged Incentives: Institutions and Policy Coordination," in Grossman, Gene, and Kenneth Rogoff, Editors, *Handbook of International Economics*, Vol. III, Elsevier, Amsterdam.

Monetary Integration in Europe

Textbook, Chapter 5.

Other readings on this topic include:

Buiter, Willem, Giancarlo Corsetti, and Paolo Pesenti (1998): *Financial Markets and European Monetary Cooperation: The Lessons from the 92-93 Crisis*, Cambridge University Press, London.

Buiter, Willem, Giancarlo Corsetti, and Paolo Pesenti (1998): "Interpreting the ERM Crisis: Country-Specific and Systemic Issues," *Princeton Studies in International Finance* 84.

Buti, Marco, and André Sapir, Editors (2003): *EMU and Economic Policy in Europe: The Challenge of the Early Years*, Edward Elgar, Cheltenham.

Feldstein, Martin (1997): "The Political Economy of the European Economic and Monetary Union: Political Sources of an Economic Liability," *Journal of Economic Perspectives* 11: 23-42.

Ghironi, Fabio, and Francesco Giavazzi (1998): "Currency Areas, International Monetary Regimes, and the Employment-Inflation Tradeoff," *Journal of International Economics* 45: 259-296.

Giavazzi, Francesco, and Alberto Giovannini (1989): *Limiting Exchange Rate Flexibility: The European Monetary System*, MIT Press, Cambridge.

Kenen, Peter B. (1995): *Economic and Monetary Union in Europe: Moving Beyond Maastricht*, Cambridge University Press, London.

Mihov, Ilian (2001): "Monetary Policy Implementation and Transmission in the European Monetary Union," *Economic Policy* 33: 369-406 (including comments).

Obstfeld, Maurice, and Kenneth Rogoff (1995): "The Mirage of Fixed Exchange Rates," *Journal of Economic Perspectives* 9: 73-96.

Torres, Francisco, Editor (1996): *Monetary Reform in Europe*, Universidade Católica Editora, Lisbon.

Wyplosz, Charles (1998): "EMU: Why and How It Might Happen," *Journal of Economic Perspectives* 11: 3-22.

The Euro's Role in Global Financial Markets and U.S.-Europe Policy Interdependence in the EMU Era

Begg, David, Francesco Giavazzi, and Charles Wyplosz (1997): "Options for the Future Exchange Rate Policy of the EMU," CEPR, London.

Dominguez, Kathryn M. E. (2006): "The European Central Bank, the Euro, and Global Financial Markets," *Journal of Economic Perspectives* 20: 67-88.

Eichengreen, Barry (1997): *European Monetary Unification: Theory, Practice, and Analysis*, MIT Press, Cambridge (selected parts).

Other readings on this topic include:

- Eichengreen, Barry, Editor (1998): *Transatlantic Economic Relations in the Post-Cold War Era*, Brookings Institution Press, Washington, D.C.
- Eichengreen, Barry, and Fabio Ghironi (2002): "Transatlantic Trade-Offs in the Age of Balanced Budgets and European Monetary Union," *Open Economies Review* 13: 381-411.
- Portes, Richard, and Hélène Rey (1998): "The Emergence of the Euro as an International Currency," *Economic Policy* 26: 305-343 (including comments).

Exchange Rate and Financial Crises

Textbook, Chapter 5.

Eichengreen, Barry (2004): *Capital Flows and Crises*, MIT Press, Cambridge.

Other readings on this topic include:

- Bordo, Michael D., and Anna J. Schwartz (1996): "Why Clashes between Internal and External Stability Goals End in Currency Crises," *Open Economies Review* 7: 437-468.
- Calvo, Guillermo A. (2005): *Emerging Capital Markets in Turmoil: Bad Luck or Bad Policy?* MIT Press, Cambridge.
- Caprio, Gerard, and Patrick Honohan (1999): Restoring Banking Stability: Beyond Supervised Capital Requirements," *Journal of Economic Perspectives* 13: 43-64.
- Corsetti, Giancarlo, Paolo Pesenti, and Nouriel Roubini (1999): "What Caused the Asian Currency and Financial Crisis?" *Japan and the World Economy* 3: 305-373.
- Dooley, Michael P., and Jeffrey A. Frankel, Editors (2003): *Managing Currency Crises in Emerging Markets*, University of Chicago Press, Chicago.
- Edwards, Sebastian, Gerardo Esquivel, and Graciela Márquez, Editors (2007): *The Decline of Latin American Economies*, University of Chicago Press, Chicago.
- Edwards, Sebastian, and Jeffrey A. Frankel, Editors (2003): *Preventing Currency Crises in Emerging Markets*, University of Chicago Press, Chicago.
- Eichengreen, Barry (2003): "Restructuring Sovereign Debt," *Journal of Economic Perspectives* 17: 75-98.
- Fischer, Stanley (1999): "On the Need for an International Lender of Last Resort," *Journal of Economic Perspectives* 13: 85-104.
- Ghosh, Atish R., Anne-Marie Gulde, and Holger C. Wolf (2000): "Currency Boards: More Than a Quick Fix?" *Economic Policy* 31: 269-335 (including comments).
- Ito, Takatoshi, and Anne O. Krueger, Editors (2001): *Regional and Global Capital Flows: Macroeconomic Causes and Consequences*, University of Chicago Press, Chicago.
- Jeanne, Olivier, and Jeromin Zettelmeyer (2001): "International Bailouts, Moral Hazard, and Conditionality," *Economic Policy* 33: 407-432 (including comments).
- Kaminsky, Graciela L., Carmen M. Reinhart, and Carlos A. Végh (2003): "The Unholy Trinity of Financial Contagion," *Journal of Economic Perspectives* 17: 51-74.
- Mishkin, Frederic S. (1999): "Global Financial Instability: Framework, Events, Issues," *Journal of Economic Perspectives* 13: 3-20.
- Radelet, Steven, and Jeffrey Sachs (1998): "The East Asian Financial Crisis: Diagnosis, Remedies, Prospects," *Brookings Papers on Economic Activity* 1: 1-74.
- Rogoff, Kenneth (1999): "International Institutions for Reducing Global Financial Instability," *Journal of Economic Perspectives* 13: 21-42.
- Sturzenegger, Federico, and Jeromin Zettelmeyer (2007): *Debt Defaults and Lessons from a Decade of Crises*, MIT Press, Cambridge.

Policy Tradeoffs for Emerging Market Economies

Calvo, Guillermo A. (2005): *Emerging Capital Markets in Turmoil: Bad Luck or Bad Policy?* MIT

Press, Cambridge (selected parts).

Calvo, Guillermo A., and Frederic S. Mishkin (2003): "The Mirage of Exchange Rate Regimes for Emerging Market Countries," *Journal of Economic Perspectives* 17: 99-118.

Other readings on this topic include:

Calvo, Guillermo A., and Ernesto Talvi (2006): "The Resolution of Global Imbalances: Soft Landing in the North, Sudden Stop in Emerging Markets?" *Journal of Policy Modeling* 28: 605-613.

Fraga, Arminio (2004): "Latin America since the 1990s: Rising from the Sickbed?" *Journal of Economic Perspectives* 18: 89-106.

Mishkin, Frederic S. (2006): *The Next Great Globalization*, Princeton University Press, Princeton.

China and India

Frankel, Jeffrey A., and Shang-Jin Wei (2007): "Assessing China's Exchange Rate Regime," *Economic Policy* 51: 575-627 (including comments).

Rodrik, Dani, and Arvind Subramanian (2004): "From 'Hindu Growth' to Productivity Surge: The Mystery of the Indian Growth Transition," NBER Working Paper 10376.

Obstfeld, Maurice (2007): "The Renminbi's Dollar Peg at the Crossroads," *Bank of Japan Monetary and Economic Studies* 25: 29-56.

Perkins, Dwight (2006): "China's Recent Economic Performance and Future Prospects," *Asian Economic Policy Review* 1: 16-41.

Other readings on this topic include:

Ahluwalia, Montek S. (2002): "Economic Reforms in India Since 1991: Has Gradualism Worked?" *Journal of Economic Perspectives* 16: 67-88.

Datt, Gaurav, and Martin Ravallion (2002): "Is India's Economic Growth Leaving the Poor Behind?" *Journal of Economic Perspectives* 16: 89-108.

Roy, Tirthankar (2002): "Economic History and Modern India: Redefining the Link," *Journal of Economic Perspectives* 16: 109-130.

Sachs, Jeffrey, and Wing T. Woo (1997): "Understanding China's Economic Performance," NBER Working Paper 5935.

Ysuf, Shahid (1994): "China's Macroeconomic Performance and Management during Transition," *Journal of Economic Perspectives* 8: 71-92.

Russia and the Former Soviet Bloc

Roland, Gérard (2002): "The Political Economy of Transition," *Journal of Economic Perspectives* 16: 29-50.

Shleifer, Andrei, and Daniel Treisman (2005): "A Normal Country: Russia after Communism," *Journal of Economic Perspectives* 19: 151-174.

Svejnjar, Jan (2002): "Transition Economies: Performance and Challenges," *Journal of Economic Perspectives* 16: 3-28.

Other readings on this topic include:

Berglof, Erik, and Patrick Bolton (2002): "The Great Divide and Beyond: Financial Architecture in Transition," *Journal of Economic Perspectives* 16: 77-100.

Boeri, Tito, and Katherine Terrell (2002): "Institutional Determinants of Labor Reallocation in Transition," *Journal of Economic Perspectives* 16: 51-76.

Desai, Padma (2005): "Russian Retrospectives on Reforms from Yeltsin to Putin," *Journal of*

- Economic Perspectives* 19: 87-106.
- Estrin, Saul (2002): "Competition and Corporate Governance in Transition," *Journal of Economic Perspectives* 16: 101-124.
- Fischer, Stanley, Ratna Sahay, and Carlos A. Végh (1996): "Stabilization and Growth in Transition Economies: The Early Experience," *Journal of Economic Perspectives* 10: 45-66.
- Guriev, Sergei, and Andrei Rachinsky (2005) "The Role of Oligarchs in Russian Capitalism," *Journal of Economic Perspectives* 19: 131-150.
- Levy Yeyati, Eduardo (2006): "Financial Dollarization: Evaluating the Consequences," *Economic Policy* 45: 61-118 (including comments).
- Murrell, Peter (1996): "How Far Has the Transition Progressed?" *Journal of Economic Perspectives* 10: 25-44.
- Murrell, Peter, Editor (1991): Symposium on Economic Transition in the Soviet Union and Eastern Europe, *Journal of Economic Perspectives* 5: 3-161.

Japan

- Hoshi, Takeo, and Anil K. Kashyap (2004): "Japan's Financial Crisis and Economic Stagnation," *Journal of Economic Perspectives* 18: 3-26.
- Svensson, Lars E. O. (2003): "Escaping from a Liquidity Trap and Deflation: The Foolproof Way and Others," *Journal of Economic Perspectives* 17: 145-166.

Other readings on this topic include:

- Flath, David (2000): *The Japanese Economy*, Oxford University Press, Oxford.
- Kashyap, Anil K. (2002): "Sorting Out Japan's Financial Crisis," *Federal Reserve Bank of Chicago Economic Perspectives*, 4th Quarter, 42-55.
- Posen, Adam, and Ryoichi Mikitani, Editors (2000): *Japan's Financial Crisis and Its Parallels to U.S. Experience*, Institute for International Economics, Washington, DC.

Prospects for Europe

- Blanchard, Olivier J. (2004): "The Economic Future of Europe," *Journal of Economic Perspectives* 18: 3-26.
- Wyplosz, Charles (2006): "European Monetary Union: The Dark Sides of a Major Success," *Economic Policy* 46: 207-261 (including comments).

Other readings on this topic include:

- Alesina, Alberto, and Roberto Perotti (2004): "The European Union: A Politically Incorrect View," *Journal of Economic Perspectives* 18: 27-48.
- Alesina, Alberto, and Francesco Giavazzi (2006): *The Future of Europe: Reform or Decline*, MIT Press, Cambridge.
- Lane, Philip R. (2006): "The Real Effects of European Monetary Union," *Journal of Economic Perspectives* 20: 47-66.
- Lane, Philip R., and Gian Maria Milesi-Ferretti (2007): "Europe and Global Imbalances," *Economic Policy* 51: 519-573 (including comments).
- Saint-Paul, Gilles (2004): "Why Are European Countries Diverging in Their Unemployment Experience?" *Journal of Economic Perspectives* 18: 49-68.

The U.S. External Position and Today's Global Imbalances

- Krugman, Paul (2007): "Will There Be a Dollar Crisis?" *Economic Policy* 51: 435-467 (including comments).
- Obstfeld, Maurice (2005): "America's Deficit, the World's Problem," *Bank of Japan Monetary and*

Economic Studies 23: 25-36.

Other readings on this topic include:

Blanchard, Olivier J., Francesco Giavazzi, and Filipa Sa (2005): "International Investors, the U.S. Current Account, and the Dollar," *Brookings Papers on Economic Activity* 1:2005, 1-65 (including comments).

Eichengreen, Barry (2007): *Global Imbalances and the Lessons of Bretton Woods*, MIT Press, Cambridge.

Gros, Daniel (2006): "Why the U.S. Current Account Deficit Is Not Sustainable," *International Finance* 9: 241-260.

Hausman, Ricardo, and Federico Sturzenegger (2006): "Why the U.S. Current Account Deficit Is Sustainable," *International Finance* 9: 223-240.

Hausman, Ricardo, and Federico Sturzenegger (2007): "The Missing Dark Matter in the Wealth of Nations and Its Implications for Global Imbalances," *Economic Policy* 51: 469-518 (including comments).

Obstfeld, Maurice, and Kenneth Rogoff (2005): "Global Current Account Imbalances and Exchange Rate Adjustments," *Brookings Papers on Economic Activity* 1:2005, 67-146 (including comments).

Globalization and Exchange Rate Regimes the Beginning of the 21st Century

Eichengreen, Barry, and Raul Razo-Garcia (2006): "The International Monetary System in the Last and Next 20 Years," *Economic Policy* 47: 393-442 (including comments).

Rodrik, Dani (2000): "How Far Will International Economic Integration Go?" *Journal of Economic Perspectives* 14: 177-186.

Other readings on this topic include:

Edwards, Sebastian (1999): "How Effective Are Capital Controls?" *Journal of Economic Perspectives* 13: 65-84.

Edwards, Sebastian, Editor (2007): *Capital Controls and Capital Flows in Emerging Economies*, University of Chicago Press, Chicago.

Feenstra, Robert C. (1998): "Integration of Trade and Disintegration of Production in the Global Economy," *Journal of Economic Perspectives* 12: 31-50.

Harrison, Ann, Editor (2007): *Globalization and Poverty*, University of Chicago Press, Chicago.

Obstfeld, Maurice (1998): "The Global Capital Market: Benefactor or Menace?" *Journal of Economic Perspectives* 12: 9-30.

Obstfeld, Maurice, Jay C. Shambaugh, and Alan M. Taylor (2004): The Trilemma in History: Tradeoffs among Exchange Rates, Monetary Policies, and Capital Mobility, NBER Working Paper 10396.