ECON 425

TOPICS IN MONETARY ECONOMICS:
THE INTERNATIONAL MONETARY SYSTEM
FROM THE GOLD STANDARD TO GLOBALIZATION

Syllabus

Spring 2019

Lectures:
Monday and Wednesday, 3:30 – 5:20 pm; Benson Hall, Room 115

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Office Hours: Monday, 1:30 – 3:20 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 website.

Course Description and Objectives

This course explores the history and functioning of international monetary arrangements and economic relations from the 19th 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 discuss the causes of the recent U.S. and international crisis, the crisis of the Euro Area, and the challenges they posed—and still pose—for policymakers. We will address the pros and cons of macroeconomic policy coordination across countries and the policy tradeoffs for emerging market economies. And we will discuss how protectionism affects macroeconomic outcomes. 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 did European monetary unification affect policy interactions between the U.S. and Europe? How did 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? What caused the global financial crisis of 2007-2009 and how did policymakers respond? What are the causes and possible consequences of the crisis of the Euro Area? What are the challenges currently facing policymakers in the U.S. and elsewhere? How does protectionism affect the exchange rate and the macroeconomy?

The goal of the course is for students to develop an understanding of international economic and monetary relations as they evolved over time in response to different historical conditions and challenges facing policymakers. Students will gain a perspective on the pros and cons of alternative monetary policy arrangements and the potential gains from economic policy coordination in historical context.

Approach and Prerequisites

The course will explore the questions mentioned above (and others) 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 Intermediate Macroeconomics (ECON 301), with a minimum grade of 2.0. 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 intermediate macro for granted.

Textbook and Other Readings

There is a required background textbook for this course: Globalizing Capital: A History of the International Monetary System, second edition, by Barry Eichengreen, Princeton University Press, Princeton, 2008, available at the University 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 readings. You can access most of them online at http://faculty.washington.edu/ghiro/umonecreadings.html. You should have free access to the readings linked there from the University of Washington network. I will distribute in class copies of the readings not available online. I will also post my lecture notes online in my teaching web page, http://faculty.washington.edu/ghiro/teaching.html. Homework assignments and the Midterm Exam will also be posted there (after they have been assigned in class).

Reading Expectation

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.

Important

This course is for students who are seriously interested in international monetary economics, who are willing to do a considerable amount of reading, and who are ready to use math tools that are standard for undergraduates all over the world. Intermediate Macroeconomics is a serious prerequisite. If you forgot your macro and want to take this course, you should review your macro textbook or notes as soon as possible. The same applies to Calculus. This course is not for students without any real interest in international economics. It is not for students who are simply filling their schedules at the last minute with whatever courses happen to be available.
Course Requirements

Midterm exam: There will be an in-class midterm exam on Wednesday, May 1.

Final exam: There will be a final exam on Thursday, June 13, 2:30 – 4:20 pm, in Benson Hall, Room 115. The final exam will include questions on the pre-midterm material.

Both exams will be closed-books, closed-notes. You should bring your own bluebooks (or greenbooks) for the exams. If a student is absent from an exam (midterm and/or final), I will follow the guidelines available at http://www.washington.edu/students/reg/examguide.html (see Point 3). Illness of the student will have to be documented.

Midterm and final exams will be graded on a scale 0-100.

Homework assignments: There will be six homework assignments during the quarter. Two randomly determined questions or parts per homework (the same questions/parts for each student) will be graded on a scale 0-10. The two lowest scores for the quarter will be dropped and the remaining ten scores will be added together to determine your total homework score, which will be between 0 and 100.

Your overall score for the course will be determined using a weighted average of your midterm exam score, final exam score, and total homework score. The weights of the requirements in your overall score will be as follows:

Midterm exam score: 40 percent;
Final exam score: 45 percent;
Total homework score: 15 percent.

Your overall score will determine your grade for the course.

Grader, Grading Procedure, Questions on Grading, and “No-Panic”

There is a Grader for this course. His name is Kovid Puria. He will grade your homework assignments, midterm exam, and part of the final exam. I will grade the other part of the final exam, and I will determine your grade for the course based on your scores as described above.

I trust Kovid’s competence fully in this process. Therefore, if you have questions about his grading, you should discuss them initially with him, and approach me only if the issue remains unresolved. Kovid’s e-mail address is kpuria@uw.edu. You should carbon-copy me on all correspondence with him. If you have questions on the part of the final exam that I will grade, or questions on your grade for the course that do not involve Qiliang’s grading, you should contact me directly.

You should not panic if you see low numerical scores for exams or homework assignments. You will receive only numerical scores between 0 and 100 for exams and between 0 and 10 for homework questions/parts—no 0-4 grades. No reason to panic if you receive a score that is lower than you are used to. If you are concerned about your overall situation in the course, come see me during office hours or an appointment, 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 grades at the end of the course. But I do want to see hard work.
**Academic Integrity**

The University of Washington values the academic integrity of its students and faculty. For Student Academic Responsibility and the consequences of misconduct, see http://depts.washington.edu/grading/pdf/AcademicResponsibility.pdf.

The following is the Economics Department policy on Academic Conduct:

Academic integrity is the cornerstone of the Department’s rules for student conduct and evaluation of student learning. Students accused of academic misconduct will be referred directly to the Office of Community Standards and Student Conduct for disciplinary action pursuant to the Student Conduct Code and, if found guilty, will be subject to sanctions. Sanctions range from a disciplinary warning, to academic probation, to immediate dismissal for the Department and the University, depending on the seriousness of the misconduct. Dismissal can be, and has been, applied even for first offenses. Moreover, a grade of zero can be assigned by the instructor for the course.

My own addendum: Any form of cheating will definitely result in a zero score for the relevant assignment or exam.

**Where to Leave Documents for Me**

If you need to leave a document for me (say, a homework assignment that you forgot to give me in class), please do not leave it under my office door. Leave it in my mailbox in the Economics Department main office (Savery Hall, Room 305). Thank you.

**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. Do not try to memorize the material. Focus on understanding.

You should take full advantage of the resources at your disposal: Come to my office hours regularly when you have questions. Do not feel uncomfortable asking the same question more than once—for instance, in class and office hours. I am excited about the material of this course, and I want to do my 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 discussion is 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, I am 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 I will be doing the same, and you will find that I am happy to go the extra mile to make sure you learn if you
come to office hours with your questions or schedule an appointment. You should especially take advantage of this if you feel overwhelmed by the math-intensive parts of the course.

**An Additional Resource (or Some Shameless Self-Promotion)**

I took a (for me) giant leap into modernity in June of 2015 and signed up for a Twitter account (@FabioGhironi). Contrary to my initial skepticism, I have been finding it a very useful source of information. Several of my tweets consist of retweeting columns and op-ed articles I find especially interesting on current economic events, occasionally adding my own musings. The themes in the articles can often be connected to things we discuss in this course. If you are on Twitter and read the articles I tweet about, they may give you ideas for fun discussions in class or office hours.

**Topics and Readings**

Following is the list of topics I plan to cover with associated readings (how deep we go in the list 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.

*Note:* As you will see, there will be some glaring omissions from our coverage of developments in the global economy: 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), feel free to ask me for suggestions about readings.

**Topic 1: The Gold Standard**

Textbook, Chapter 2.


**Topic 2: The Great Depression**

Textbook, Chapter 3.


**Topic 3: The Bretton Woods System**

Textbook, Chapter 4.


**Topic 4: Policy Tradeoffs and Monetary Cooperation under Alternative Exchange Rate Regimes**


Topic 5: Floating Exchange Rates
Textbook, Chapter 5.

Topic 6: Monetary Integration in Europe
Textbook, Chapter 5.

Topic 7: Exchange Rate and Financial Crises
Textbook, Chapters 5 and 6.

Topic 8: Policy Challenges at the Dawn of the New Millennium
Textbook, Chapter 6.


Topic 10: The Euro Area Crisis and Its Global Implications
Kashyap, Anil (2015): “A Primer on the Greek Crisis: The Things You Need to Know from the Start until Now,” manuscript, University of Chicago.

Topic 11: Secular Stagnation

Topic 12: Protectionism and the Macroeconomy

A valuable, free online source of interesting readings on the global economy is Nouriel Roubini’s EconoMonitor website. In particular, see http://www.economonitor.com/channel/global-macro.

Another excellent source on current economic events is the VoxEU website, which collects contributions from many leading scholars: http://www.voxeu.org.
For analysis of international economic developments by International Monetary Fund staff economists, see the IMF’s World Economic Outlook at http://www.imf.org/external/ns/cs.aspx?id=29.

Additional Readings

Following are suggested additional readings on various topics that you may be interested in exploring further. (We will not be covering these readings in class.)


The Gold Standard and the Great Depression


The Bretton Woods System


To learn about a crucial “ingredient” for how the Bretton Woods system (and not only that) evolved, I also recommend this other book by Benn Steil: *The Marshall Plan: Dawn of the Cold War*, Simon & Schuster, New York (2018).

Models of Exchange Rate Regimes and Policy Interdependence


Monetary Integration in Europe


The Euro’s Role in Global Financial Markets and U.S.-Europe Policy Interdependence in the EMU Era: Some Pre-Crisis Perspectives
Exchange Rate and Financial Crises Pre-2007

Policy Tradeoffs for Emerging Market Economies
China and India


On China, see also the Symposium in the Fall 2012 issue of the *Journal of Economic Perspectives*.

Russia and the Former Soviet Bloc


Japan

Global Imbalances and the U.S. External Position

See also W. Max Corden’s article in the section on “China and India.”

Globalization and Exchange Rate Regimes

**Europe’s Outlook before the Euro Area Crisis**

**The Crises of 2007-...**
Eichengreen, Barry (2012): “Implications of the Euro’s Crisis for International Monetary Reform,”

On Financial Regulation after the Crisis, see also the Symposium in the Winter 2011 issue of the Journal of Economic Perspectives.


History of the International Monetary System After World War II

Macroeconomics after the Global Crisis

If you are interested in the ongoing discussions on the future of macroeconomics, I also recommend the *Oxford Review of Economic Policy* symposium issue on “Rebuilding Macroeconomic Theory” (January 2018): https://academic.oup.com/oxrep/issue/34/1-2. It includes contributions by Olivier Blanchard, Paul Krugman, Joseph Stiglitz, and others (me too).

The Bretton Woods Institutions at 70