

ECON 425

TOPICS IN MONETARY ECONOMICS: THE INTERNATIONAL MONETARY SYSTEM FROM THE GOLD STANDARD TO COVID-19

Syllabus

Spring 2020

Lectures:

Zoom Meetings on Monday and Wednesday
3:30 – 5:20 pm U.S. PST
Recorded Meetings will be available on Canvas

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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

We are in tumultuous times, in which central banks and governments are taking unprecedented economic policy actions in response to the COVID-19 crisis. This course will be centered around studying and discussing the economic aspects of this crisis and the economic policy responses that the United States and other countries are implementing. We will study these events and actions through the lens of history and theory, learning from the experiences of past periods and from economic models. These will help us understand lessons from the past and develop insights into today’s events.

We will study questions like: Would the United States be better off responding to the current crisis if we were still on a Gold Standard arrangement? What do we learn from the experience of the Great Depression? What about a Bretton-Woods-type international monetary system? Are European countries better off going through this crisis as members of the euro? What about emerging economies? What is the role of international economic policy coordination? What do we learn from

past sovereign debt crises that is informing current policymaking? We will use a combination of history, economic theory, and political economy to address these and other questions.

The goal of the course is going to be for you to develop an understanding of domestic and international economic aspects of the crisis, of how the conduct of macroeconomic policy affected events in the past, and of how policymakers are thinking about events today.

Approach and Prerequisites

The theoretical material in this course will require familiarity with multivariate calculus and with solving constrained optimization problems. 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 explain everything taking nothing more than calculus and intermediate macro for granted.

Readings, Reading Expectation, and a Book You May Want to Buy Anyway

The key material for this course will be slides/notes that will be posted online in Canvas and in my teaching webpage, <http://faculty.washington.edu/ghiro/teaching.html>. These slides/notes will be the only required readings other than items I will ask you to read for homework exercises. Besides the book I mention below, the slides/notes are based on papers freely accessible online from the links at <http://faculty.washington.edu/ghiro/umonecreadings.html> as long as you are logged into the UW network. When I ask you to read a set of slides in advance of a lecture, please give me your best effort to do that. Before the COVID-19 crisis erupted, I had indicated the following book as required textbook: *Globalizing Capital: A History of the International Monetary System*, third edition, by Barry Eichengreen, Princeton University Press, Princeton, 2019. I no longer require you to read this book, but you will still want to do it if you become interested in the topics of this course. It is only about 250-pages long (small pages), very well written, and completely non-technical.

Important

This course is for students who are seriously interested in international monetary economics 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.

Course Requirements

I will be assigning homework exercises at a frequency that will depend on how the course progresses. Each homework exercise will be graded on a scale 0-100 (for longer homework exercises, randomly selected parts—the same parts for each student—will be graded). Your lowest homework score will be dropped, and your overall homework score will be computed as the average of your remaining homework scores.

There will be take home midterm and final exams. The midterm exam will be assigned on April 29. The final exam will be assigned during Final Examination Week, on a day to be determined. You may consult all course materials and standard Internet resources when taking these exams, but your work must be original and you may not solicit or obtain assistance from or provide assistance to

other people for any specific content on the exam. Activities considered cheating include copying or closely paraphrasing content from websites and discussing exam questions with other students. The exams will be graded on a scale 0-100. All exams will be checked for originality and copied content, and anyone found cheating will be assigned a zero score for the exam.

Your overall score for the course will be determined using a weighted average of your overall homework score and the exam scores, weighted as follows:

| | |
|-------------------------|-------------|
| Overall homework score: | 30 percent. |
| Midterm exam score: | 20 percent. |
| Final exam score: | 50 percent. |

Your overall score for the course will determine the grade between 0 and 4 that I will assign at the end.

Grader, Grading Procedure, and Questions on Grading

There is a Grader for this course. Her name is Priyanka Saraf. She will grade your homework assignments, the 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 Priyanka's competence fully in this process. Therefore, if you have questions about her grading, you should discuss them initially with her, and approach me only if the issue remains unresolved. Priyanka's e-mail address is psaraf30 "at" uw "dot" edu. You should carbon-copy me on all correspondence with her. 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 Priyanka's grading, you should contact me directly.

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.

Religious Accommodations Policy

Please see the UW's [Religious Accommodations Policy](https://registrar.washington.edu/staffandfaculty/religious-accommodations-policy/) (<https://registrar.washington.edu/staffandfaculty/religious-accommodations-policy/>). Accommodations must be requested within the first two weeks of this course using the [Religious Accommodations Request form](https://registrar.washington.edu/students/religious-accommodations-request/) (<https://registrar.washington.edu/students/religious-accommodations-request/>).

Letters of Recommendation

You should let me know by the end of the quarter if you think that you may be interested in a letter of recommendation from me next year. Exogenous constraints imply that my availability for this task will have to be very limited, and I will not be able to accommodate letter requests that I receive during or after the summer from students with whom there was no prior discussion of this topic.

Advice

Please do your best to stay on top of the material regularly. 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: Join the Zoom Office Hours meeting to ask your 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 will do my best to make sure you learn as much as possible from it.

You should also always feel free to ask questions during our Zoom Lectures. Lively class discussion is always fun.

However, you should not e-mail me questions that require answers that are longer than one or two lines. E-mail is an extremely inefficient way to handle such questions. It is much better to arrange a Zoom conversation to discuss your questions. I will do my best to give you maximum flexibility for Zoom appointment scheduling, but please do not expect that I will be able to accommodate same-day or next-day appointment requests. Reasonable advance notice will be important.

The circumstances of this quarter create new and unique challenges. My priority will be to give you a course that can be a valuable learning experience under these circumstances. I will give you all the flexibility I can give, but I will expect that we all put our best effort into the course, subject to the constraints created by situations that may evolve in unpredictable ways. Expect that there will be glitches. Let us all be prepared to handle them with grace.

#EconTwitter

Your homework assignments will occasionally involve reading and working on documents written by economists thinking about the crisis. There is an active community of economists on Twitter (#EconTwitter). I am one of them, mostly retweeting material I find interesting and occasionally contributing my own thoughts. There is pretty high probability that material I will ask you to read will show up on Twitter, and articles and conversations there may also be sources of fun discussions for us in our Zoom meetings. If you are interested in this, my Twitter handle is [@FabioGhironi](https://twitter.com/FabioGhironi).

Topics and Readings

Following is the list of topics I plan to cover and of the main sources on which my slides/notes are based. Remember: The sources I list are not required readings. I am listing them just so you have the information as background. When there is no source listed, the slides/notes are just based on my own knowledge of the topic. How deep we go in the list of topics will depend on how the course unfolds.

Topic 1: Flattening Curves

Gourinchas, Pierre-Olivier (2020): “Flattening the Pandemic and Recession Curves,” in Baldwin, Richard, and Beatrice Weder di Mauro (eds.), *Mitigating the COVID Economic Crisis: Act Fast and Do Whatever It Takes*, VovEU.org e-book, CEPR Press, pp 31-40.

Topic 2: Macroeconomic Policy in the Time of Coronavirus

Bullard, James (2020): “Expected U.S. Macroeconomic Performance during the Pandemic Adjustment Period,” Federal Reserve Bank of St. Louis, March 23.

Fornaro, Luca, and Martin Wolf (2020): “COVID-19 Coronavirus and Macroeconomic Policy,” CEPR DP 14529.

Topic 3: Determination and Intertemporal Sustainability of Net Foreign Debt

Topic 4: What If We Were Still on the Gold Standard?

Eichengreen, Barry, and Marc Flandreau (1997): “Editors’ Introduction,” in Eichengreen, Barry, and Marc Flandreau (eds.), *The Gold Standard in Theory and History*, Routledge, London, pp. 1-23.

Krugman, Paul R. (1991): “Target Zones and Exchange Rate Dynamics,” *Quarterly Journal of Economics* 106: 669-682.

Topic 5: Lessons from the Great Depression and the Global Financial Crisis of 2007-08

Almunia, Miguel, Agustín S. Bénétrix, Barry Eichengreen, Kevin H. O’Rourke, and Gisela Rua (2010): “From Great Depression to Great Credit Crisis: Similarities, Differences and Lessons,” *Economic Policy* 62: 219-265 (including comments).

Bernanke, Ben S. (1995): “The Macroeconomics of the Great Depression: A Comparative Approach,” *Journal of Money, Credit and Banking* 27: 1-28.

Eichengreen, Barry (1984): “Central Bank Cooperation under the Interwar Gold Standard,” *Explorations in Economic History* 21: 64-87.

Lenza, Michele, Huw Pill, and Lucrezia Reichlin (2010): “Monetary Policy in Exceptional Times,” *Economic Policy* 62: 295-339 (including comments).

Topic 6: The Bretton Woods System and the Transition to Floating Exchange Rates

Bordo, Michael D. (1993): “The Bretton Woods International Monetary System: A Historical Overview,” in 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.

Eichengreen, Barry (2019): *Globalizing Capital: A History of the International Monetary System*, third edition, Princeton University Press, Princeton, Chapter 5.

Topic 7: Why Do Many Countries Still Find It Desirable to Limit Exchange Rate Flexibility?

Giavazzi, Francesco, and Marco Pagano (1988): “The Advantage of Tying One’s Hands: EMS Discipline and Central Bank Credibility,” *European Economic Review* 32: 1050-1082.

Topic 8: Policy Tradeoffs and International Monetary Cooperation under Alternative Exchange Rate Regimes

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

Topic 9: Non-Cooperative versus Cooperative Monetary Policy Responses to Global Crises

Topic 10: Europe: Why the Euro? Would Countries Be Better Off Without It in the Current Circumstances? Lessons from the Euro Area 2010-2015 Sovereign Debt Crisis.

Baldwin, Richard, and Francesco Giavazzi, eds. (2015): *The Eurozone Crisis: A Consensus View of the Causes and a Few Possible Solutions*, VoxEU.org e-book, CEPR Press.

Blanchard, Olivier J. (2020): “Italy, the ECB, and the Need to Avoid Another Euro Crisis,” in Baldwin, Richard, and Beatrice Weder di Mauro (eds.), *Mitigating the COVID Economic Crisis: Act Fast and Do Whatever It Takes*, VovEU.org e-book, CEPR Press, pp 49-50.

Eichengreen, Barry (2019): *Globalizing Capital: A History of the International Monetary System*, third edition, Princeton University Press, Princeton, Chapters 5 and 7.

Lane, Philip R. (2020): “The Monetary Policy Package: An Analytical Framework,” in Baldwin, Richard, and Beatrice Weder di Mauro (eds.), *Mitigating the COVID Economic Crisis: Act Fast and Do Whatever It Takes*, VovEU.org e-book, CEPR Press, pp 139-144.

Topic 11: Developing and Emerging Economies: From Sudden Stops to the COVID-19 Crisis

Eichengreen, Barry (2019): *Globalizing Capital: A History of the International Monetary System*, third edition, Princeton University Press, Princeton, Chapter 6.

Paloyo, Alfredo R. et al. (2020): “A Philippine Social Protection and Economic Recovery Plan,” *mimeo*, March 22.