**Regional Monetary and Financial Cooperation: Intra and inter EU regions**

Objective: To provide a solid economic foundation on understanding what monetary and financial cooperation entails, including through making use of basic economic principles and by applying them to explain monetary and financial cooperation of the EU and beyond.

By the end the semester, it is expected that students will not only be able understand papers published by regional and global monetary institutions, but also to analyze the underlying economic logic and critically assess the validity of their conclusions.

* Each lecture will be followed by either a discussion on an article (non-technical) or practical hands-on data analysis (using excel).
* Main text book are: Blanchard, Amighini, Giavazzi, **Macroeconomics: A European Perspective** (Pearson Education Ltd 2010) and Krugman, Obstfeld, Melitz, **International Economics: Theory and Policy** (Tenth Edition)
* The articles noted below are optional and are provided purely for those who are interested to pursue the topics further.
* No knowledge in math is required except for very basics (ability to read a simple equation); charts and figures will be the main instruments used.

Evaluation: for final exam and other tests, understanding of the lecture note will be sufficient. However, since each lecture will cover a variety of topics, specific references to text book chapters are shown for those who are interested in pursuing certain issues further. Finally, for those who are considering to pursue further study in monetary and financial economics, references to non-technical articles are also added to each lecture details as shown below.

**I. Understanding the Fundamentals of an Economy**

**Lecture 1. The real economy: Historical perspectives, National income accounting and BOP**

1. A short history of global economy
2. What GDP represents and how it is related to balance of payments
3. Factors of production and its impact on GDP growth

Practice: Lecture 1 Annex (exercise on national income accounting)

Krugman Chapter 1: What is International Economics About?

Chapter 13: National Income Accounting and the Balance of Payments

Chapter 19: International Monetary System: An Historical Overview

Blanchard Chapter 1: A tour of the world

Chapter 2: A tour of the book

Chapter 11: The facts of growth

Chapter 12: Saving, capital accumulation and output

Chapter 13: Technological progress and growth

Articles

How should we measure the Digital Economy?

<https://hbr.org/2019/11/how-should-we-measure-the-digital-economy>

GDP is Not a measure of Human well-being

<https://hbr.org/2019/10/gdp-is-not-a-measure-of-human-well-being>

**Lecture 2. The Foreign exchange market: Settlement of underlying trade and finance**

1. A few basics in the foreign exchange market (an asset approach)
2. How the exchange rate affects the national accounts
3. International trade and coordination of trade and finance

Practice: Lecture 2 Annex (exercise on Net savings and financial accounts)

Krugman Chapter 14: Exchange Rates and the Foreign Exchange Market: An asset approach

Blanchard Chapter 6 The IS-LM model in an open economy

Chapter 18.1-4 Economic policy in an open economy

Chapter 19: Exchange rate regimes

Levy Chapter 21: Asset-based theories of exchange rates

Articles:

Macroeconomic Policy Coordination and the Generation of World Effective Demand

<https://www.brookings.edu/wp-content/uploads/2016/06/g20_guerrieri.pdf>

US declares victory in G20 growth versus austerity debate

<https://www.ft.com/content/155ae592-6f93-11e6-a0c9-1365ce54b926>

**Lecture 3. The financial market**

1. The money market in the short and long run
2. The financial market: Bond and stocks
3. International portfolio investment

Practice: Lecture 3 Annex (Assessing financial assets and liabilities of two Euro countries)

Krugman Chapter 15: Money, Interest Rates, and Exchange Rates

Blanchard Chapter 4: Financial markets

Levy Chapter 15: Portfolio Investment

Articles:

A Century of Global Equity Market Correlations, D Quinn and H Voth, American Economic Review: Papers and Proceedings 2008, 535-540 <https://econ-papers.upf.edu/papers/1119.pdf>

What are Money Markets? R. Dodd, Article in Finance and Development, IMF <https://www.imf.org/external/Pubs/FT/fandd/basics/pdf/dodd-money-markets.pdf>

**Lecture 4. Inflation and PPP**

1. Long run steady state condition: exchange rate and price level
2. The real economy in the long run; Phillips curve and the natural rate
3. Monetary policy effect on growth and inflation

Practice: Lecture 4 Annex (Advanced vs EM countries’ PPP comparison)

Krugman Chapter 16: Price level and the Exchange rate in the Long Run

Blanchard Chapter 9: The natural rate of unemployment and the Phillips curve

Chapter 10: Inflation, activity and nominal money growth

Articles: IMF, “Chronic Unemployment in the Euro Area”, World Economic Outlook <https://fac.comtech.depaul.edu/jwoo1/courses/chronic-unemployment.pdf>

Long-term Unemployment after the Great Recession: Causes and Remedies, Bentolia, S. and M. Jansen, VoxEU, November, 2016 <https://voxeu.org/content/long-term-unemployment-after-great-recession-causes-and-remedies>

Week 5: Presentations

**II. The Monetary Cooperation**

**Lecture 6. Understanding Equilibrium: Open economy, output and asset market equilibrium**

1. The IS-LM framework: formalizing the linkages
2. Open economy (short term)
3. Adjustments in open economy (medium term)

Practice: The International transmission of monetary policy (especially of the euro) Lector 6 Lane\_speech.pdf (pages 1-7)

Krugman Chapter 17: Output and the Exchange Rate in the Short Run

Chapter 16 Appendix

Blanchard Chapter 5: Goods and financial markets: The IS-LM model

Chapter 6: The IL-LM model in an open economy

Chapter 8: Putting all markets together: The AS-AD model

Articles: The international Transmission of Euro Area Monetary Policy Shocks, N. Jannsen and M. Kelin, Kiel Institute for the World Economy, WP 1718 July 2011 <https://www.files.ethz.ch/isn/131105/the-international-transmission-of-euro-area-monetary-policy-shocks.pdf>

The international transmission of monetary policy, C. Buch et al, Deutche Bundesbank Discussion Paper No. 16/2018 <https://www.bundesbank.de/resource/blob/742744/f5189bb439b5b7ed59dd862acdd268d3/mL/2018-06-11-dkp-16-data.pdf>

**Lecture 7 Monetary Policy: Gold standard, monetary policy in a fixed vs flexible exchange rate**

1. Monetary policy and central bank balance sheet
2. Exchange rate regimes and the impact of monetary policy
3. Interest parity condition and imperfect asset substitutability

Practice: The International transmission of monetary policy (especially of the euro) Lector 6 Lane\_speech.pdf (pages 8-13)

Krugman Chapter 18: Fixed Exchange Rates and Foreign Exchange Intervention

Blanchard Chapter 15: Financial markets and expectations

Chapter 17: Expectations, output and policy

Chapter 18: Economic policy in an open economy

Chapter 19: Exchange rate regimes

Levy Chapter 15 and 18?

Frieden, Jeffry (2016), Lessons for the euro from early American monetary and financial history, Brugel

Sterilized Intervention in Emerging market economies, R. Lavigne, Bank of Canada Discussion Paper 2008-4 <https://www.econstor.eu/obitstream/10419/66910/1/571723330.pdf>

Panel discussion on monetary and fiscal policy mix:

[https://www.imf.org/external/np/seminars/eng/2016/monetaryfiscal/pdf/051916.pdf Panel 1](https://www.imf.org/external/np/seminars/eng/2016/monetaryfiscal/pdf/051916.pdf%20Panel%201)

Why euro area fell into liquidity trap

<https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210628~695f98b30c.en.html>

The IMF (Still) Cannot Quit Fiscal Consolidation <https://www.cfr.org/blog/imf-still-cannot-quit-fiscal-consolidation>

**Lecture 8. International Finance: Capital market and instruments (somewhat difficult)**

1. International capital market: scope and participants
2. Basics of various derivatives
3. International Banks and regulations

Practice: What would happen if China started selling off its treasury portfolio? <https://www.cfr.org/blog/what-would-happen-if-china-started-selling-its-treasury-portfolio>

Krugman Chapter 20: Financial Globalization: Opportunity and Crisis

Blanchard Chapter 18: Economic policy in an open economy

Eun Chapter 14: Interest Rate and Currency Swaps

Levy Chapter 3: Forward exchange

Chapter 4: Currency futures and options markets

Chapter 12: Hedging risk and exposure

Articles: Assessing Global Financial Risks, Chapter I, Global Financial Stability Report September 2006 <https://www.imf.org/en/Publications/GFSR/Issues/2016/12/31/Market-Developments-and-Issues>

Managing financial globalization: a guide for developing countries based on the recent literature, S Wei, ADBI Working Paper No. 804, Jan 2018, ADBI <https://www.adb.org/sites/default/files/publication/399286/adbi-wp804.pdf>

**Lecture 9. The financial market evolution in Europe and optimal currency**

1. The IMS serving as the linkage of two economies
2. Optimum currency area and the Euro
3. Test of resilience of the Euro area

Practice: The Euro Paradox: Explaining the Resilience of the Single Currency <https://www.swp-berlin.org/publications/products/arbeitspapiere/AP_012018_EuroParadox_Tokarski.pdf>

(4 views on the euro)

Krugman Chapter 21: Optimal currency area and the Euro

Blanchard Chapter 25: European economic and monetary integration

Chapter 26: The euro: the ins and the outs

Levi: Chapter 22: Alternative systems of exchange rates

Chapter 23: The international financial system: Past, present, and future

Articles: Baldwin Richard and Francesco Giavazzi (2015), The Eurozone Crisis: A Consensus View of the Causes and a Few Possible Solutions, VoxEU, September

Robert Mundell and the Theoretical Foundation for the European Monetary Union, A. Swoboda, Views and Commentaries, IMF <https://www.imf.org/en/News/Articles/2015/09/28/04/54/vc121399>

**Week 10: Group Presentations**

**III. International Financial architecture**

**Lecture 11. The European Central Bank—Regional monetary cooperation**

1. The history and the main functions of the ECB
2. Conventional and unconventional monetary policy
3. Latest developments and remaining challenges

Practice: Euro Area Staff Country Report, C. Maintaining Monetary Easing to Guard Against Low Inflation (pdf page 26-29) Lecture 11 Euro\_IMF report.pdf

Main references are from the European Central Bank and the European Union

Articles: Buti, M. et al (2016), Fiscal Space and Low Interest Rates: A Eurozone Perspective, VoxEU, November

The monetary policy toolbox: evidence from the euro area, P. Lane, ECB, Feb 2020 <https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp200221~d147a71a37.en.html>

Unconventional fiscal and monetary policy at the zero lower bound, I. Schnabel, ECB Feb 2021

<https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210226~ff6ad267d4.en.html>

**Lecture 12. The International Monetary Fund—Global monetary cooperation**

1. Beginning and the evolving role of the IMF Monetary cooperation
2. The core mandate and the resources to do back it up
3. Recent issues and challenges

Practice: Greece: Staff Report on Request for Stand-By Arrangement, May 2010, IMF (pdf pp1-20, 28-30)

IMF documents and articles

Articles: The IMF is losing influence – and for that it must share the blame, Mohamed El-Erian, The Guardian, Nov 20, 2019 <https://www.theguardian.com/business/2019/nov/20/how-the-imf-can-stay-relevant>

IMF pushing G20 for clear path to donate reserves to poor countries -Okamoto, David Lawder, Reuters, July 10, 2021 <https://www.reuters.com/business/exclusive-imf-pushing-g20-clear-path-donate-reserves-poor-countries-okamoto-2021-07-09/>

**Lecture 13. G20 and international monetary cooperation**

1. The Plaza Accord (monetary policy coordination)
2. Global imbalance
3. The G20 and latest discussions

Practice: 2017 External Sector Report, IMF Policy Paper July 2017, Lecture 13 External Stabililty\_IMF report (pdf p9-16)

IMF and G20 documents

Krugman chapter 19 appendix on policy coordination

Secular Stagnation in the open economies, G. Eggertsson, N Mehrotra, L. Summers, NBER Working Paper 22172 April 2016 <https://www.nber.org/system/files/working_papers/w22172/w22172.pdf>

Secular stagnation: A view from the Eurozone, J. Jimeno et al, ECPR, VoxEU, August 2014 <https://voxeu.org/article/secular-stagnation-view-eurozone>

**Week 14: Catch up class**

**Week 15: Final examination**