

# *Financial Globalization and Regional Monetary*

## *Integration*

### *Syllabus*

*Winter 2009/2010*

*Professor Shinichi Nakabayashi*

*Graduate School of Public Policy, University of Tokyo*

#### **COURSE OVERVIEW**

This course will study the global financial crisis and regional monetary integration by using the theory of open economy macroeconomics, banking regulation, and the optimum currency area. Economic analysis of banking regulation (or lack thereof) offers answers as to what went wrong during the sub-prime loan crisis, and ensuing global financial crisis post Lehman Brothers collapse. We will look at issues of moral hazard and adverse selection in the context of credit risk transfer and government supported enterprises, touching upon ongoing regulatory reform discussions regarding pro-cyclicality, compensation practices, and cross-border cooperation. The transmission mechanism of monetary policy will be explored in order to judge the effectiveness of policy responses aimed at avoiding economic stagnation. We will use the theory of macroeconomic policy and coordination as a foundation from which current affairs, the global economic landscape, and government policy responses are evaluated.

Regional monetary integration has progressed at the same time as financial market globalization, and international capital flows have dramatically increased their volume and speed. Will this integration mitigate or aggravate a national economy's vulnerability to sudden reversal of international capital flows? We will look into the case of Latvia, which maintains its peg to the Euro under severe economic conditions, and examine the possibilities surrounding monetary integration in East Asia.

This class is open to students who are interested in international finance and financial regulation and want to deepen their understanding of the current economic situation through the study of relevant economic theory. Students who wish to work in internationally focused organizations,

including the government, financial industry, and think tanks will find the course timely and useful.

## **SCHEDULING**

The course meets on Fridays in Room 8 at the 6<sup>th</sup> floor of the Second Administration Building from 4:50 to 6:30pm.

There will be guest lectures on Friday, Oct 23 and Nov 27.

## **REQUIREMENTS**

Basic knowledge of micro- and macro- economics is required. Basic knowledge of statistics and econometrics will be helpful. Before each class, you are expected to read the relevant articles, copies of which will be provided at least one week before the class. To facilitate discussion during class, a reporter will be assigned for each article. Duties of the reporter include: preparing a one page summary (printed on both sides if necessary) of newly learned material, unresolved questions, and several discussion points. The discussion points should be based on the article and specific enough so that no one could answer them without reading the article beforehand. By the end of October, you will be grouped according to your interests. On December 4, each group will report an outline of their study topic for 15/20 minutes, distributing a summary sheet. On January 22, each group will make a final PPT presentation of 15 minutes followed by 3 minutes of Q&A.

Presentations have to be prepared by all members of each group through a series of internal discussions outside of class. Presentations can be made either by a representative within the group, or by each member of the group, each contributing to different sections. Reflection of comments expressed at the meeting or written comments sent by e-mail right after the meeting is highly encouraged. Each group will be required to submit a final report of at least 20 pages in length, double spaced, by Tuesday, February 9 at 3:00pm. Each member should make clear his/her contribution to group paper by specifying his/her allocated part of the submitted report.

Presentations and final reports should include quantitative data and economic analysis. The final report should consist of the raising of economic questions, surveys of previous economic studies, and the group's discussion / analysis of the pertinent issues. If possible, the extension of economic models or regression analysis should be used. If you would like to use an English editor to brush up your report, please contact Matt well in advance.

## **GRADING**

Class Participation: 25%

Individual Assignment (Reporter of Reading Assignment): 25%

Group Presentation: 25%

Final Report: 25%

## **CONTACT INFORMATION**

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## **TOPICS and READING ASSIGNMENT**

**Fri. Oct 2 Course Introduction**

Orientation of topics

**Fri. Oct 9 Banking Regulation and International Financial System**

Economic Analysis of Banking Regulation: *Mishkin, 2007; pgs. 279-307*

The International Financial System: *Mishkin, 2007; pgs.459-490*

**Thurs. Oct 15 Introduction to Econometrics (optional) 6:40-8:20pm**

*Introductory Econometrics, Wooldridge, chps. 1 & 3, Appendix A & C*

Problems: 1.2; 3.9; 3.12; C.6. (i)~(v)

**Fri. Oct 16 The Subprime and Credit Risk Transfer**

*Back from the Brink: Romer, Sept 24, 2009*

*The Subprime Solution: Shiller; pgs. 1-27*

*Credit Risk Transfer: The Joint Forum of Basel Committee, IOSCO, and IAIS, pgs.1-30*

Fri. Oct 23 3:00-4:00pm **Ambassador of Ukraine, Room 3, 7<sup>th</sup> Floor**

**The Global Financial Crisis and the Ukrainian Economy: Policy Responses**

Fri. Oct 23 **U.S. Housing Bubbles and Governance of Fannie Mae and Freddie Mac**

Guest Lecture by Mr. Masahiro Kobayashi, Senior Economist, Research and Survey Department,  
Japan Housing Finance Agency

Thurs. Oct 29 **Application of Econometrics (optional) 6:40-8:20pm**

*Aid, Policies, and Growth: Burnside & Dollar, 2000*

*The Mystery of the Vanishing Benefits: An Introduction to Impact Evaluation: Ravallion, 2001*

Fri. Oct 30 **Financial Crises and IMF's Responses**

Developing Countries: Growth, Crisis, and Reform: Krugman & Obstfeld; pgs.621-663

*The Asian Currency Crisis and the International Monetary Fund, 10 Years Later: Overview,*  
Takatoshi Ito, 2007

Fri. Nov 6 **Macroeconomic Policy and International Coordination**

Transmission Mechanism of Monetary Policy: *Mishkin, 2007; pgs.583-611*

Macroeconomic Policy and Coordination under Floating Exchange Rates: *Krugman & Obstfeld; pgs.532-564*

Lessons from Asset Price Fluctuations for Monetary Policy: *WEO Oct 2009, chp. 3*

Fri. Nov 13 **No Class**

Fri. Nov 20 **Banking Crises and the Resolution of Failed Banks**

**Guest Lecture by Mr. Kawakami, Deposit Insurance Corporation of Japan (pending)**

Financial Crisis, Capital Outflows and Monetary Policy Responses: Simple Analytics with  
Reference to East Asia: Rajan

Fri. Nov. 27 3:00-4:40pm **Dr. Mieko Nishimizu, Former Vice President, World Bank Group,  
Room 3, 7<sup>th</sup> Floor**

<http://www.sophiabank.co.jp/english/about/partners/nishimizu.html>

Fri. Nov 27 4:50-6:30pm **Regional Monetary Integration**

Monetary Integration in Asia?: *In Regional Monetary Integration: Kenen & Meade, 2008;*  
*pgs. 147-178*

Overview of Financial and Monetary Cooperation in East Asia: Kuroda; In *Financial  
Development and Integration in East Asia, ed. Ahn, Ito, Kawai, Park, 2003*

*The Euro at Ten: Pisani-Ferry & Posen, 2009, pgs.1-22*

Fri. Dec 4 **Presentation of the Outline of the Group Study**

Dec 11 & 18, January 8 & 15 **Each group chooses reading materials.**

Individual member reports a selected reading material related to group study and facilitates discussion.

Fri. Jan 22 **Final Presentation**

Students cross-examine other groups' performance, judging clarity, relevance, policy implications, hypothesis testing, and creativity.

**SUGGESTED READINGS:**

**Theory of Money and International Finance, Macroeconomics**

*The Economics of Money, Banking, and Financial Markets: Mishkin, 2007*

*International Economics: Krugman & Obstfeld, 2009, Part 3 & 4*

*Financial Crises, Liquidity, and the International Monetary System: Tirole, 2002*

*The Road Ahead for the Fed, ed. Cioricari & Taylor, 2009*

*Financial Policy and Central Banking in Japan: Cargill, Hutchison, Ito, 2000*

*Depressions and Slumps: In Macroeconomics: Blanchard, 2007, chp. 20; pgs. 491-510*

**Globalization**

*Globalizing Capital: Eichengreen, 2008*

*The Next Great Globalization: Mishkin, 2006*

*In Defense of Globalization, Bhagwati, 2007*

*Why Globalization Works: Martin Wolf, 2006*

*Financial Globalization: A Reappraisal*: Prasad, Rogoff, et al. IMF Working Paper, WP/06/189, 2006

### **Financial Crises: Causes, Lessons, and Solutions**

*Latvia: Letter of Intent for IMF-supported Program*, July 27, 2009

*Latvia: Request for Stand-By Arrangement—Staff Report*, Jan 2009

Latvia's currency crisis is a return of Argentina's: Roubini's Global EconoMonitor, Jun 10, 2009

*The Great Crash 1929: Galbraith, 1954*

*Manias, Panics, and Crashes: Kindleberger, 1978*

*Global Imbalances and the Lessons of Bretton Woods: Eichengreen, 2007*

*Fixing Global Finance: Martin Wolf, 2008*

*The Subprime Panic*: Gorton; NBER Working Paper 14398, 2008

Six Errors on the Path to the Financial Crisis: Blinder; NY Times, Jan. 25, 2009

A global perspective on the great financial insurance run: Causes, consequences, and solutions: Caballero, Jan 23, 2009, VOX

*Information, Liquidity, and the Ongoing Panic of 2007*: Gorton, NBER Working Paper 14649, 2009

*The Credit Crisis: Conjectures about Causes and Remedies*: Diamond & Rajan, NBER Working Paper 14739, 2009

*World Economic Outlook, Oct 2009, IMF*

Restarting Securitization Markets, *chp. 2*

Market Interventions during the Financial Crisis: How Effective and How to Disengage? *Global Financial Stability Report, chp. 3*

In *GFSR Oct 2009, IMF*

*A Strategy for Renormalizing Fiscal and Monetary Policies in Advanced Economies*: Cottarelli & Vinals, IMF Staff Position Note, SPN/09/22, 2009

Global Financial Crisis and Policy Issues That Need to be Addressed: Yoshino, Policy Update 034, RIETI

Rescuing and Rebuilding the US Economy: A Progress Report: Summers, July 17, 2009

*Decoupling from the East Toward the West? :Analyses of Spillovers to the Baltic Countries*: Obiora, IMF Working Paper, WP/09/125, 2009

### **Regulatory Reform**

*Global Financial Regulation, Davies & Green, 2008*

*Banking on Basel: The Future of International Financial Regulation: Tarullo, 2008*  
*Report on the Financial Stability Forum on Addressing Procyclicality in the Financial System: FSF, April 2009*  
*FSF Principles for Sound Compensation Practices: FSF, April 2009*  
*FSF Principles for Cross-border Cooperation on Crisis Management, FSF, April 2009*  
*Financial Regulatory Reform: U.S. Treasury, June 2009*

### **Regional Monetary Integration**

*Regional Monetary Integration: Kenen & Meade, 2008*  
*The Euro at Ten: The Next Global Currency? : Pisani-Ferry & Posen, 2009*  
*The Eastern Enlargement of the Eurozone, eds. Dabrowski & Rostowski, 2006*  
*Regional Integration in East Asia and Europe: Convergence or divergence? eds. Fort & Webber, 2006*  
*Financial Development and Integration in East Asia, eds. Ahn, Ito, Kawai, Park, 2003*  
*Currency and Contest in East Asia: The Great power Politics of Financial Regionalism: William Grimes, 2009*

### **SOME SUGGESTIONS FOR ADDITIONAL READING ON CURRENT EVENTS**

The International Monetary Fund: <http://www.imf.org>  
Ministry of Finance Japan on G20, G7, and ASEAN+3: [www.mof.go.jp/english/](http://www.mof.go.jp/english/)  
Financial Services Agency: [www.fsa.go.jp/en/](http://www.fsa.go.jp/en/)  
*The Economist* Magazine: <http://www.economist.com>  
Financial Times: [www.ft.com](http://www.ft.com)  
The New York Times: [www.nytimes.com](http://www.nytimes.com)  
Roubini's Global Economics Monitor: <http://www.rgemonitor.com/>  
NBER: [www.nber.org](http://www.nber.org)  
VOX: Research-based policy analysis: [www.voxeu.com](http://www.voxeu.com)  
Peterson Institute: Real Time Economic Issues Watch: <http://www.petersoninstitute.org/realtime/>  
Council on Foreign Relations: Geoeconomic Studies: <http://www.cfr.org/thinktank/greenberg/>  
Greg Mankiw's Blog: <http://gregmankiw.blogspot.com/>  
Willem Buiters's Blog: <http://blogs.ft.com/maverecon/>