

# **Life at an IFI: Understanding, Designing and Debating Macroeconomic Policy**

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## **Term / Language / Credits**

S2 intensive / English / 2

## **Objectives**

This course will provide students with an overview of the work undertaken at an international financial institution such as the IMF. Lectures will analyze macroeconomic linkages and use this framework to discuss prominent issues facing the global economy. The role of global financial institutions, in particular the IMF, will be considered. Students will take part in a mock IMF consultation with country authorities, produce policy memos, and engage in practice job interviews for a position at the IMF. There will be an opportunity for one-on-one consultation before the completion of each assignment.

## **Teaching Methods**

The first five classes will be lectures, although ample opportunity will be provided for questions and discussion.

Class 6 will focus on policy writing and will include a brief presentation on good practices for such writing. Students will complete an in-class assignment and will work, and receive guidance, on their own policy memos.

Classes 7 and 8 will focus on a mock Article IV consultation with country authorities. Each student will have an opportunity to play the roles of both the IMF staff and country officials.

Classes 9 and 10 are structured to allow for on-on-one consultations on policy memos and interview practice and feedback.

The last day (Classes 11 and 12) will be comprised of extended office hours and a series of one-on-one mock job interviews, about 15-20 minutes each.

## **Grading**

Course grades will be based on (i) the policy memo (40 percent); (ii) the interview (40 percent); and the mock Article IV consultation (20 percent).

## **Schedule and Reading List**

### **Monday, July 31 (Orientation)**

Introductions and overview of the aims and set-up of the class. Students will be given a list of potential policy issues to serve as the basis of 2-3 page memos.

### **Tuesday, August 1 (Day 1)**

**Class 1. Macroeconomic policy: an overview.** This class presents a simple macroeconomic framework, emphasizing links between growth, inflation, savings and investment, exchange rates and external imbalances. Examples from ongoing policy debates will be used to illustrate basic concepts.

#### **Required reading**

Blanchard, Olivier, Giovanni Dell’Ariccia and Paolo Mauro, 2010, "Rethinking Macroeconomic Policy," Staff Policy Note SPN/10/03.

IMF, 2015, "Where Are We Headed? Perspectives on Potential Growth," Chapter 3 in *World Economic Outlook*, April.

#### **Optional reading**

IMF, 2015, "Private Investment: What’s the Holdup?" Chapter 4 in *World Economic Outlook*, April.

**Class 2. Fiscal policy.** What is the role for fiscal policy both in terms of supporting long-term growth and in addressing economic cycles? What determines the effectiveness of fiscal policy? What is an appropriate level of debt? How does fiscal policy interact with policies in other areas?

#### **Required reading**

Spillembergo, Antonio, Steven Symansky, and Martin Schindler, 2009, "Fiscal Multipliers," IMF Staff Policy Note, SPN/09/11

IMF, August 5, 2011, "Modernizing the Framework for Fiscal Policy and Public Debt Sustainability Analysis."

#### **Optional reading**

Daniel, James et. al., 2006, "Fiscal Adjustment for Stability and Growth," IMF Pamphlet Series No. 55.

## Wednesday, August 2 (Day 2)

**Policy memos.** By the end of Day 2, students should choose their topics and, if necessary, have them approved. Discussants will also be assigned in class.

**Class 3. Monetary and exchange rate policies.** This class focuses on the role of monetary and exchange rate policies in determining macroeconomic performance. What should be the objectives of monetary policy? How does monetary policy work? Why have many advanced economies undertaken unconventional monetary policies since the Global Financial Crisis? Should monetary policy also seek to address financial risks? What are the pros and cons of fixed vs. floating exchange rate regimes?

### **Required:**

Freedman, Charles, and Douglas Laxton, 1989, "Why Inflation Targeting?" IMF Working Paper WP/09/86

IMF, October 2013, "Impact and Challenges of Unconventional Monetary Policies," IMF Policy Paper

Summers, Lawrence, 2014, "US Economic Prospects: Secular Stagnation, Hysteresis and the Zero Lower Bound," *Business Economics*, Volume 49, No. 2.

### **Optional:**

Blinder, Alan, et. al., 2008, "Central Bank Communication and Monetary Policy: A Survey of Theory and Evidence," ECB Working Paper No 898, May.

Vinals, Jose, Simon Gray, and Kelly Eckhold, "The Broader View: The Positive Effects of Negative Interest Rates," iMFdirect blog, April 10, 2016.

Turner, Adair, "The Case for Monetary Finance—An Essentially Political Issue," November 2015

Helene Rey, 2013, "Dilemma not trilemma: the global cycle and monetary policy independence," Federal Reserve Bank of Kansas City, Proceedings - Economic Policy Symposium - Jackson Hole

**Class 4. Economic crisis.** This class will review the theory of, and experience with, current and capital account crises. What are the typical causes of economic booms and busts? What sorts of real effects are associated with financial crises? What sorts of policy tools can help prevent or deal with the aftermath of crises? What are some key lessons of the recent Global Financial Crisis?

**Required:**

Krugman, Paul, et. al., 1999, "Currency Crises," chapter in *International Capital Flows*, edited by Martin Feldstein (NBER/University of Chicago).

Claessens, Stijn and M. Ayhan Kose, "Financial Crises: Explanations, Types and Implications," IMF Working Paper WP/13/28.

**Optional:**

Claessens, Stijn, et. al, 2010, "Lessons and Policy Implications from the Global Financial Crisis," IMF Working Paper, WP/10/44.

**Thursday, August 3 (Day 3)**

**Class 5. The IMF in the global economy.** The class will discuss the roles of the IMF in the system of global economic governance, with particular attention to crisis prevention and mitigation. The Asian crisis and the recent program with Greece will be highlighted and potential lessons discussed. The IMF's key tool for bilateral surveillance, the Article IV consultation, will also be discussed, in preparation for student participation in the mock consultation on Day 4.

**Required:**

Mussa, Michael and Miguel Savastano, 2000' "The IMF Approach to Economic Stabilization," in NBER Macroeconomics Annual Volume 14.

IMF, Fact Sheets on: Surveillance; Lending; Conditionality; Crisis Lending; How IMF Makes Decisions.

IMF, Guidance Note for Surveillance under Article IV Consultations, May 2015

**Optional:**

Weiss, Martin, 2014, "International Monetary Fund: Background and Issues for Congress," Congressional research Service, July 17, 2014.

IMF Independent Evaluation Office, 2014, "The IMF's Lending Toolkit and the Global Financial Crisis," Background Paper BP/14/11.

Fischer, Stanley, "The Asian Crisis: A View from the IMF," January 1998.

IMF, 2010, "Greece: Ex Post Evaluation of Exceptional Access Under the 2010 Stand-by Arrangement," IMF Country Report No. 13/156, June 2013.

**Class 6. Macroeconomic policy writing.** The class will develop basic principles of good policy writing that can be applied to the assigned policy memo. A

writing exercise will be worked on in class.

**Required:**

IMF, 2015, "Australia Article IV Consultation—Staff Report"

**Friday, August 4 (Day 4)**

**Class 7. *Mock Article IV consultation***

**Class 8. *Mock Article IV consultation, continued***

**Monday, August 7 (Day 5)**

**Class 9. *Policy memos.*** Students should bring to class drafts of their policy memos for discussion and feedback.

**Class 10. *Interview practice.*** Some basic guidelines for a successful interview will be discussed. The professor will conduct short practice interviews with each student and provide feedback.

**Tuesday, August 8 (Day 6).**

***Extended office hours/interviews.*** Students will have scheduled 15-20 minute interviews meant to simulate a panel interview at the IMF. They will be asked to discuss current economic issues, with emphasis on explaining their views within a coherent framework and emphasizing economic linkages.

***Draft policy memos*** are due by the end of the day. Students may stop by during the day for consultations on their memos.