

INTERNATIONAL MACROFINANCE

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Office hours: TBA

OBJECTIVE

This course, designed with the needs of **graduate** business students in mind, analyzes the complex, and so often nowadays very subtle yet very powerful, interactions among policy-makers (governments and central banks), financial markets and the macroeconomy. It is essentially a course about the overall economic environment in which economic agents –governments, central banks, firms, financial institutions, investors, households— operate. It is about identifying the major forces at work in the global economy and financial markets; understanding their complex interactions; recognizing the dilemmas they pose to national and international policy-makers; and identifying the risks and opportunities they create for all economic agents.

By necessity, the course covers many diverse topics, such as, business cycles and long-run growth, inflation, unemployment, balance of payments, exchange rates, international capital flows, stabilization policies, and the interactions between financial markets and the “real” economy. Special emphasis is placed on interest rates and exchange rates, as well as on the role of asset prices in the conduct of economic policy.

In addition, it draws extensively on economic history and the current international environment in order to tie the conceptual tools to the “real world”. Among the interesting cases examined are Japan’s prolonged economic and financial fragility, the LTCM crisis and the sub-prime mortgage meltdown in the USA, the policy dilemmas associated with the Euro, Greece’s debt-deflation and risk of euro-exit, and crisis-contagion across countries and financial markets.

Essentially, the course aims at teaching how to anticipate macroeconomic developments in the fast-changing global economy, taking into account financial conditions. As such, it is also a good introduction to the emerging field of *macroprudential regulation and supervision*. Specialized courses later in the program will teach how to design business and investment strategies to cope with the *risks* these developments entail *and* (possibly) profit from the *opportunities* they create.

BOOKS & READINGS

Κυβερνήσεις, Χρηματαγορές και Μακροοικονομία, Άγγελος Α. Αντζουλάτος, Εκδόσεις ΔΙΠΛΟΓΡΑΦΙΑ, Οκτώβριος 2011.

The book will be complemented with numerous articles from the financial press and the academic literature. The articles from the financial press, in particular, will help tie the course to the “real world”, as well as to monitor our progress in understanding global economic and financial developments and their impact on businesses. So will “market intelligence” gathered from major financial institutions, international organizations, central banks, as well as BLOOMBERG and THOMSON-REUTERS (in the lab).

To put into perspective current economic trends and frictions, as well as the ongoing financial-market volatility, the following books are highly recommended (as *leisure* reading).

Hall of Mirrors – The Great Depression, the Great Recession, and the Uses –and Misuses– of History, by Barry Eichengreen (2015), Oxford University Press.

After the Music Stopped – The financial crisis, the response, and the work ahead, by Alan S. Blinder (2014), Penguin Books

End this Depression Now, by Paul Krugman (2012), Norton.

The Age of Diminished Expectations, by Paul Krugman, third edition (1997), The MIT Press.

Manias, Panics and Crashes – A History of Financial Crises, by Charles P. Kindleberger, revised edition (1989), Basic Books, Inc..

Globalizing Capital – A History of the International Monetary System, by Barry Eichengreen (1996), Princeton University Press, New Jersey.

ORGANIZATION & GRADING

1. Grading: *Final Exam*: 100%. Class participation will help in border-line grades.
2. Three asterisks (***) denote required readings, two (**) strongly suggested readings and one (*) suggested readings.
3. Understanding the objectives and policy instruments of major players in the international economic arena is of paramount importance for forward-looking business people. It is highly recommended that the students visit the web pages of such players, like the IMF (International Monetary Fund) to learn about them. The addresses of some of them follow:
 - ✓ www.imf.org International Monetary Fund (IMF)
 - ✓ www.oecd.org Organization for Economic Cooperation & Development (OECD)
 - ✓ www.bis.org Bank for International Settlements (BIS)
 - ✓ www.federalreserve.gov Board of Governors of the Federal Reserve System
 - ✓ www.ecb.int European Central Bank (ECB).
4. Valuable market intelligence and economic analyses can be found in the online publications of the above organizations, as well as in the following sites (the list, of course, is far from exhaustive)
 - ✓ www.newyorkfed.org Federal Reserve Bank of New York
 - ✓ www.economist.com The Economist
 - ✓ www.ft.com Financial Times

COURSE OUTLINE

1. **INTRODUCTION** (~½ week) Chapter 1**, Chapter 20*
 - a) MONITORING ECONOMIC & FINANCIAL DEVELOPMENTS – PROBLEMS AND CHALLENGES
 - b) SOME INVESTMENT DILEMMAS
 - Current State of the World Economy
 - Chapter 1 in the latest World Economic Outlook (available at www.imf.org)**
 - Who “runs” the World Economy & Financial Markets?
 - Accurate vs. Useful Forecasts
 - The Role of Expectations
 - c) COURSE DESCRIPTION
2. **BASIC CONCEPTS** (~2½ weeks)
 - a) NATIONAL INCOME ACCOUNTING: MEASURING GNP/GDP Sections 2.1 – 2.2***
 - *Policy Concerns*: Measuring Wellbeing
 - *Practical Issues*:
 - Measurement Problems
 - Data Revisions
 - Seasonal Adjustment
 - b) A CLOSER LOOK AT THE EXTERNAL ACCOUNTS OF A COUNTRY Sections 2.3 – 2.4***
 - Foreign Assets vs. Foreign Liabilities
 - GNP vs. GDP and Current Account vs. Net Exports
 - Current Account, Capital Flows Account, Balance of Payments
 - Financing Current Account Deficits: Challenges & Dilemmas
 - *Policy Concerns*: The Sustainability of Current Account Deficits
 - c) THE SAVING – INVESTMENT IDENTITY Section 2.5***

- *Policy Concerns:*
 - Is Global Saving Too Low? Too High?
 - Is a Current Account Deficit Necessarily Bad?
- d) PRICE INDICES & INFLATION Sections 3.1***, 3.2*, 3.3 – 3.5***
 - *Practical Issues:* Measurement Problems
- e) REAL INTEREST RATE Sections 4.1 – 4.2***, 4.3 – 4.4**
 - *Policy Concerns:*
 - Why Save in Hyper-Inflation Countries?
 - Financial Liberalization and Real Interest Rates
 - High Interest Rates During Stabilizations
- f) INFLATION, HYPERINFLATION, DEFLATION Sections 5.1***, 5.2 – 5.3**, 5.4 – 5.5***
 - *Policy Concerns:*
 - Japan's Deflation
 - Eurozone's 'flirt' with deflation in the aftermath of the financial and debt crisis
 - Inflation and Currency Values: First Attack
- g) BUSINESS CYCLES Sections 6.1 – 6.3***, 6.4 – 6.5**
 - ✓ For references about *international business-cycle indicators* visit the OECD web site at www.oecd.org/std/li1.htm and select the "Un Update of OECD Leading Indicators" in the "Related Information" field.

3. SHORT-RUN DYNAMICS – I: THE IS/LM MODEL (~3 weeks)

- a) MICRO-FOUNDATIONS Chapter 7***
- b) EQUILIBRIUM IN THE REAL SECTOR (GOODS & SERVICES MARKET) Chapter 8**
- c) IS/LM MODEL: EQUILIBRIUM & SCENARIO ANALYSIS Chapter 9***, Sections 10.1 – 10.2***
- d) MONETARY & FISCAL POLICY: A FIRST LOOK Sections 10.3 – 10.4***
 - *Policy Concerns:*
 - The Monetary Policy Transmission Mechanism
 - Monetary Policy: Too Little, Too Late?
 - Monetary Policy: When "Orthodox" Policies Fail...
- e) OTHER ANALYSES Section 10.5***
 - Taxes: To Cut or Not To Cut?
 - The Role of Expectations
 - The Stock Market and Other Asset Markets
 - International Transmission of Business Cycles: A First look
- f) BUDGET DEFICITS AND GOVERNMENT DEBT Section 10.6***

4. MONETARY POLICY (~2 weeks)

- a) INTRODUCTION TO BANKING Sections 11.3 – 11.5**
- b) MONEY SUPPLY & THE ROLE OF THE BANKING SYSTEM Sections 11.1 – 11.2***, 11.6***
 - *Policy Concerns:* Monetary Policy and Financial Stability
- c) MONETARY POLICY – TOOLS, INSTRUMENTS, CONSTRAINTS Sections 12.1 – 12.3***
 - *Practical Issues:* Monetary Policy Guideposts
- d) ASSET PRICES & MONETARY POLICY: ENDOGENOUS CREDIT CYCLES, BUBBLES, CRISES Section 12.4***

- e) CENTRAL BANK INDEPENDENCE
- f) THE EUROPEAN CENTRAL BANK AND THE US FEDERAL RESERVE SYSTEM Visit Web pages**

5. SHORT-RUN DYNAMICS – II: THE MUNDELL-FLEMING MODEL (~4 weeks)

- a) EXCHANGE RATES: NOMINAL VS. REAL; BILATERAL VS. EFFECTIVE Sections 13.1 – 13.3***
- b) INFLATION AND EXCHANGE RATES Section 13.4***
- c) EXCHANGE-RATE REGIMES – DESCRIPTION AND HISTORY Sections 13.5**
 - *Policy Concerns: What Is The “Right” Exchange Rate Regime?*
- d) INTEREST RATE PARITY – THE ROLE OF EXCHANGE-RATE EXPECTATIONS Sections 14.1 – 14.4***
 - *Practical Issues:*
 - Interest Rate Convergence in the EMU
 - Self-fulfilling Devaluation Expectations
 - Measuring the Credibility of Monetary (& Exchange Rate) Policy
 - Greece’s Benchmark Government Bond Spread
 - Taking Calculated Risks in Emerging Markets
 - The Role of Capital Controls
- e) MODELING THE CAPITAL – FLOWS ACCOUNT Section 14.5***
- f) EQUILIBRIUM IN THE FOREIGN EXCHANGE MARKET Sections 15.1 – 15.3***
- g) THE MUNDELL-FLEMING MODEL Section 15.4***
- h) EXCHANGE-RATE REGIME AND THE EFFECTIVENESS OF MACROECONOMIC POLICY Section 15.5***
- i) EXTERNAL DISTURBANCES Section 15.6***
- j) THE MUNDELL-FLEMING MODEL – EXTENSIONS I Chapter 16**
 - Small Country – Capital Controls & Sterilization
 - Large Country – Scenario Analysis
 - Other Exchange Rate Regimes
 - The Perverse Incentives of Fixed Exchange Rates
 - The ‘Impossible Trinity’
- k) THE MUNDELL-FLEMING MODEL – EXTENSIONS II CHAPTER 17*
 - International Capital Flows – Pros & Cons
 - Capital Controls – Forms, Goals, Effectiveness
 - Currency Crises Section 17.4***
 - Fixed & Floating Exchange Rates – Comparative Analysis
 - Greece’s Grexit Dilemma
- l) UNDERSTANDING EXCHANGE RATE DYNAMICS SECTION 17.5*
- m) THE INTERNATIONAL MONETARY SYSTEM CHAPTER 18*

6. THE ECONOMY IN THE LONG-RUN: PRODUCTIVITY & GROWTH (~1½ weeks) Sections 19.1 – 19.3***

- a) LABOR MARKET: EQUILIBRIUM & COMPARATIVE STATICS
 - *Measurement Problems: Accuracy & Reliability of Productivity Measures*
 - *Policy Concerns: What Drives Productivity?*
- b) STRUCTURAL VS. CYCLICAL UNEMPLOYMENT
- c) LABOR-MARKET AND OTHER SUPPLY-SIDE REFORMS

- “The Lisbon Strategy”
- *Policy Concerns:*
 - Long-Run Unemployment – Any Magic Cure?
 - What Drives Growth?

7. LONG-RUN DYNAMICS – GOODS, MONEY, FOREIGN EXCHANGE AND LABOR MARKETS (~½ week)
Sections 19.4 – 19.5***

- a) ADJUSTMENT TO LONG-RUN EQUILIBRIUM: PRICES & EXCHANGE RATES
- b) INFLATION & UNEMPLOYMENT; THE PHILIPS CURVE
- c) MONETARY POLICY & LONG-RUN UNEMPLOYMENT
- d) STABILIZATION POLICY: PROSPECTS & PROBLEMS

8. TOPICS IN INTERNATIONAL ECONOMICS (~½ week)

- a) THE EMERGING ECONOMIC ENVIRONMENT Chapter 20**