

**The Political Economy of Finance  
(POL411)  
Fall Session 2016**

Carla Norrlof, PhD  
Associate Professor  
Political Science  
Tel. 416-946 0182  
[carla.norrlof@utoronto.ca](mailto:carla.norrlof@utoronto.ca)

Course hours: Tuesday, 16-18  
Course Location: LA214  
Office Location: SS3122  
Office hours: by appointment

**COURSE DESCRIPTION**

The course explains why financial markets exist and how they have evolved by looking at the agents, actors, and institutions that generate demand for them. The consequences of increasingly integrated markets, and the possibility of systemic financial crises are considered as well as the implications and feasibility of regulation.

**Core topics**

1. Consequences of the Globalization of Capital Flows
2. (Ir)rationality of Financial Markets
3. Debt and Geopolitical Power
4. Global Imbalances and Macroeconomic Adjustment
5. Global Currency Status and Competition
6. Financial and Sovereign Debt Crisis

**Course goals**

1. Sharpen analytical skills
2. Understand the interplay of politics and economics

3. Understand major debates on finance and the international monetary system

### ***Evaluation and Due Dates***

#### **GRADING SCHEME:**

Test September 27, 2016 (15%)  
Test, October 11, 2016 (25%)  
Critical Analysis (15%)  
Class Participation (20%)  
Final Test November 29, 2016 (17.5%)  
Debate December 6, 2016 (7.5%)

**TESTS:** There will be two multiple choice tests and one open book test. Further instructions about the format of the open book test will be provided later in the course. The late penalty for turning in the test is as follows: **5 percent** for the first half hour and an additional **2 percent** for every subsequent 15 minutes the test is late.

**CRITICAL ANALYSIS:** A written analysis and oral presentation of 1 week's readings (25% of grade). The written assignment **must contain 3 questions** based on the readings. The maximum length of the written presentation is 1 single spaced page in normal 12 pt. font and standard margins. The critical analysis should be sent to Professor Norrlof via e-mail, as an attached word document, no later than **10 am on the Monday (one day) in advance of the Tuesday** that your oral presentation is due. There is a late penalty of **1 percent** for the first hour and an additional **½ percent** for every subsequent hour the analysis is late. The oral presentation will take place during the Tuesday meeting for which the readings are assigned. Students should **present the 3 questions** (included in the Critical Analysis) **in class** and be prepared to answer questions about the readings.

**CLASS PARTICIPATION:** Students should be prepared to discuss the week's readings. Participation accounts for 15% of your grade. To ensure student privacy and instructor property rights, recording of class sessions is not allowed.

**DEBATE:** On the last day of class, students will debate themes surveyed in the course (7.5%). Further instructions, guidelines and handouts will follow.

**Students must check blackboard regularly for announcements and updates.**

## **PART I: FINANCIAL MARKETS**

WEEK 1 (Sept. 13)

### **A. Introduction & Finance in the International Political Economy**

1. GARRETT, G. (2000): The Causes of Globalization. *Comparative Political Studies* 33(6/7), 941-991.

[http://resolver.scholarsportal.info.myaccess.library.utoronto.ca/resolve/00104140/v33i6-7/941\\_tcog](http://resolver.scholarsportal.info.myaccess.library.utoronto.ca/resolve/00104140/v33i6-7/941_tcog)

2. STALLINGS, B. (2007): The Globalization of Capital Flows: Who Benefits? *Annals of the American Academy of Political and Social Science* 610, 202-216.

[http://resolver.scholarsportal.info.myaccess.library.utoronto.ca/resolve/00027162/v610i0001/201\\_tgocfwb](http://resolver.scholarsportal.info.myaccess.library.utoronto.ca/resolve/00027162/v610i0001/201_tgocfwb)

#### Optional

1. BHAGWATI, J. (1998): The Capital Myth. *Foreign Affairs* 77(3), 7-12.

<http://www.jstor.org.myaccess.library.utoronto.ca/stable/20048871>

2. KOSE, A. M., E. PRASAD, K. ROGOFF and S.-J. WEI (2009): Financial Globalization: A Reappraisal. *IMF Staff Papers* 56(1), 8-62.

<http://www.carlanorrlf.com/wp-content/uploads/2013/03/Financial-Globalization-A-Reappraisal.pdf>

WEEK 2 (Sept. 20)

### **B. Theorizing Financial Markets**

1. MALKIEL, B. (2005): Reflections on the Efficient Market Hypothesis: 30 Years Later. *The Financial Review* 40(1), 1-9.

[http://resolver.scholarsportal.info.myaccess.library.utoronto.ca/resolve/07328516/v40i0001/1\\_rotmh3yl](http://resolver.scholarsportal.info.myaccess.library.utoronto.ca/resolve/07328516/v40i0001/1_rotmh3yl)

2. OLSEN, R. A. (2008): Cognitive Dissonance: The Problem Facing Behavioral Finance. *The Journal of Behavioral Finance* 9, 1-4.

[http://resolver.scholarsportal.info.myaccess.library.utoronto.ca/resolve/15427560/v09i0001/1\\_cdtplibf](http://resolver.scholarsportal.info.myaccess.library.utoronto.ca/resolve/15427560/v09i0001/1_cdtplibf)

3. SCHILLER, R. J. (2003): From Efficient Markets Theory to Behavioral Finance. *Journal of Economic Perspectives* 17(1), 83-104.

<http://www.jstor.org.myaccess.library.utoronto.ca/stable/3216841>

#### Optional

4. MACKENZIE, D. (2005): Opening the Black Boxes of Global Finance. *Review of International Political Economy* 12(4), 555-576.

[http://resolver.scholarsportal.info.myaccess.library.utoronto.ca/resolve/09692290/v12i0004/555\\_otbbogf\\_1](http://resolver.scholarsportal.info.myaccess.library.utoronto.ca/resolve/09692290/v12i0004/555_otbbogf_1)

WEEK 3 (Sept 27)

#### **C. (i) Test**

#### **C. (ii) Multilateral Cooperation and Financial Markets**

1. SIMMONS, B. A. (2001): The International Politics of Harmonization: The Case of Capital Market Regulation. *International Organization* 55(3), 589-620.

[http://resolver.scholarsportal.info.myaccess.library.utoronto.ca/resolve/00208183/v55i0003/589\\_tipohtcocr](http://resolver.scholarsportal.info.myaccess.library.utoronto.ca/resolve/00208183/v55i0003/589_tipohtcocr)

2. KAPSTEIN, E. B. (2005): Architects of Stability? International Cooperation among Financial Supervisors. *Prepared for the Bank for International Settlements 75th Anniversary Conference, Basel, Switzerland*, 1-51.

<http://www.carlanorrlf.com/wp-content/uploads/2013/03/Architects-of-Stability.pdf>

### Optional

1. SINCLAIR, T. J. (2001): The Infrastructure of Global Governance: Quasi-Regulatory Mechanisms and the New Global Finance. *Global Governance* 7, 441-451.

<http://www.jstor.org.myaccess.library.utoronto.ca/stable/27800316>

## **PART II: MONEY, DEBT AND POWER**

WEEK 4 (Oct. 4)

### **A. Debt, Power and Geopolitics**

1. MILNER, H. V. (1993): "American Debt and World Power," *International Journal*, 48.

<http://simplelink.library.utoronto.ca/url.cfm/442370>

2. BROOKS, S. G., J. G. IKENBERRY, and W. C. WOHLFORTH (2013): "Don't Come Home, America: The Case against Retrenchment," *International Security*, 37, 7-51.

<http://www.carlanorrlf.com/wp-content/uploads/2013/03/DontComeHomeAmerica.pdf>

3. LAYNE, C. (2012): "This Time It's Real: The End of Unipolarity and the Pax Americana," *International Studies Quarterly*, 56, 1-11.

<http://www.carlanorrlf.com/wp-content/uploads/2013/03/ThisTimeItsReal.pdf>

4. NORRLOF, C., and W. C. WOHLFORTH (forthcoming 2016): "Is US Grand Strategy Self-Defeating? Deep Engagement, Military Spending and Sovereign Debt," *Conflict Management and Peace Science*.

### Optional

1. MACDONALD, P. K., and J. M. PARENT (2011): "Graceful Decline? The Surprising Success of Great Power Retrenchment," *International Security*, 35, 7-44.

WEEK 5 (Oct. 11)

<< **Term test** >>

WEEK 6 (Oct. 18)

### **B. Global Imbalances and External Debt**

1. COHEN, B. J. (2005): "The Macrofoundations of Monetary Power," in *EUI Working Paper*. Florence: European University Institute.

<http://www.carlanorrlf.com/wp-content/uploads/2013/03/MacroMonetaryPower.pdf>

2. SETSER, B. and N. ROUBINI (2005): How Scary is the Deficit? *Foreign Affairs* 84(4), 194-200.

<http://myaccess.library.utoronto.ca/login?url=http://search.proquest.com.myaccess.library.utoronto.ca/docview/214292273?accountid=14771>

3. LEVEY, D. H. and S. S. BROWN (2005): The Overstretch Myth. *Foreign Affairs* 84(2), 2-7.

<http://myaccess.library.utoronto.ca/login?url=http://search.proquest.com.myaccess.library.utoronto.ca/docview/214290421?accountid=14771>

#### Optional

1. LEVEY, D. H. and S. S. BROWN (2005): Levey and Brown reply. *Foreign Affairs* July/August.

<http://simplelink.library.utoronto.ca/url.cfm/378445>

WEEK 7 (Oct 25)

### **C. International Currency Competition**

1. COHEN, B. J. (2003): Global Currency Rivalry: Can the Euro Ever Challenge the Dollar? *Journal of Common Market Studies* 41(4), 575-595.

<http://www.carlanorrlf.com/wp-content/uploads/2013/03/GlobalCurrencyRivalry.pdf>

2. EICHENGREEN, B. and M. FLANDREAU (2009): The Rise and Fall of the Dollar (or When did the Dollar Replace Sterling as the Leading Reserve Currency?). *European Review of Economic History* 13, 377-411.

<http://www.carlanorrlf.com/wp-content/uploads/2013/03/RiseandFallofDollar.pdf>

3. LEE, J.-W. (2014): "Will the Renminbi Emerge as an International Reserve Currency?," *The World Economy*, 37, 42-62.

#### Optional

4. EICHENGREEN, B. (2013): "Number One Country, Number One Currency?," *The World Economy*, 36, 363-374.

<http://simplelink.library.utoronto.ca/url.cfm/443263>

WEEK 8 (Nov. 1)

### **D. International Currency and Geopolitical Power**

1. BOWLES, P., and B. WANG (2008): "The Rocky Road Ahead: China, the US and the Future of the Dollar," *Review of International Political Economy* 15, 335-353.
2. POSEN, A. (2008): "Why the Euro Will Not Rival the Dollar," *International Finance*, 11, 75-100.
3. KIRSHNER, J. (2008): Dollar Primacy and American Power: What's at Stake? *Review of International Political Economy* 15(3), 418-438.

[http://resolver.scholarsportal.info.myaccess.library.utoronto.ca/resolve/09692290/v15i0003/418\\_dpaapwas](http://resolver.scholarsportal.info.myaccess.library.utoronto.ca/resolve/09692290/v15i0003/418_dpaapwas)

4. LI, Q. (2003): "The Effect of Security Alliances on Exchange-Rate Regime Choices," *International Interactions*, 29, 159-193.

Optional

5. STRANGE, S. (1971): The Politics of International Currencies. *World Politics* 23, 215-231.

<http://www.jstor.org.myaccess.library.utoronto.ca/stable/2009676>

WEEK 9 (Nov. 8)

<< Reading week >>

**PART III: FINANCIAL CRISIS & SOVEREIGN DEBT CRISIS**

WEEK 10 (Nov. 15)

**A. International Currency and the Financial Crisis**

1. NORRLOF, C. (2014): "Dollar Hegemony: A Power Analysis," *Review of International Political Economy* 21(5): 1042-1070

<http://www.tandfonline.com/doi/full/10.1080/09692290.2014.895773#.VK6FD2TF9Xa>

2. GALLAGHER, K. P., and E. SHRESTHA (2012): "The Social Cost of Self-Insurance: Financial Crisis, Reserve Accumulation, and Developing Countries," *Global Policy*, 4, 501-09.
3. PRASAD, E. (2014): "The Dollar Reigns Supreme, by Default," *Finance & Development*, 51, 34-37.
4. TBA

WEEK 11 (Nov. 22)

**B. Financial and Sovereign Debt Crisis**

1. REINHART, C. M. and K. ROGOFF (2008): Is the 2007 US Sub-Prime Financial Crisis So Different? An International Historical Comparison. *American Economic Review* 98(2), 339-344.



<http://myaccess.library.utoronto.ca/login?url=http://search.proquest.com.myaccess.library.utoronto.ca/docview/36929558?accountid=14771>

2. EICHENGREEN, B. (2009): From the Asian Crisis to the Global Credit Crisis: Reforming the International Financial Architecture Redux. *International Economics and Economic Policy* 6, 1-22.

[http://resolver.scholarsportal.info.myaccess.library.utoronto.ca/resolve/16124804/v06i0001/1\\_ftactrtifar](http://resolver.scholarsportal.info.myaccess.library.utoronto.ca/resolve/16124804/v06i0001/1_ftactrtifar)

3. CONGLETON (2009): On the Political Economy of the Financial Crisis and Bailout of 2008-2009. *Public Choice* 140(3-4), 287-317.

[http://resolver.scholarsportal.info.myaccess.library.utoronto.ca/resolve/00485829/v140i3-4/287\\_otpeotfcabo2](http://resolver.scholarsportal.info.myaccess.library.utoronto.ca/resolve/00485829/v140i3-4/287_otpeotfcabo2)

4. SHLEIFER, A. (2003): Will the Sovereign Debt Market Survive? *American Economic Review* 93(2), 85-90.

<http://www.jstor.org.myaccess.library.utoronto.ca/stable/3132205>

#### Optional

1. REINHART, C. M. and K. ROGOFF (2009): International Aspects of Financial-Market Imperfections: The Aftermath of Financial Crises. *American Economic Review* 99(2), 466-472.

<http://simplelink.library.utoronto.ca/url.cfm/378447>

2. NELSON, S. C., and P. J. KATZENSTEIN (2014): "Uncertainty, Risk, and the Financial Crisis of 2008," *International Organization*.
3. OLIVARES-CAMINAL, R. (2010): Sovereign Debt Defaults: Paradigms and Challenges. *Journal of Banking and Regulation* 11(2), 91-94.

<http://myaccess.library.utoronto.ca/login?url=http://search.proquest.com.myaccess.library.utoronto.ca/docview/196012734?accountid=14771>

WEEK 12 (Nov. 29)

<< ***Final test (17.5%)*** >>

WEEK 13 (Dec. 6)

<< ***Debate (7.5%)*** >>