

**The Political Economy of Finance  
(POL 411)  
Fall Session 2010**

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Course hours: 4-6 pm  
Location: LA 340  
Office hours Tuesday 4-5 pm

**COURSE DESCRIPTION**

The course explains why financial markets exist, and how they have evolved, by looking at the agents, actors, and institutions that generate a 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.

**Requirements:** Midterm test (40%), Final test (10%), Critical analysis (20%), Simulation Exercise and Reflection paper (30%)

***Important dates***

Registration date: Last day to add this course is September 26, 2010

Drop date: Last day to drop the course without academic penalty is November 3, 2010

Last day of class: December 1, 2010

Test: An in-class test will be held on **October 20, 2010** (40% of grade) and **December 1, 2010** (10% of grade).

Critical Analysis: An **oral and written presentation** of 1 week's readings (20% of grade). The **oral presentation** will take place during the Wednesday meeting for which the readings are assigned. The **maximum length** of the **written presentation** is **1 single spaced page** (in normal 12 pt. font and standard margins). The written presentation of the critical analysis should be sent to Professor Norrlof via **e-mail** as an attached word document no later than **11am**, on the **Monday**, preceding the week your oral presentation is due. **There is a late penalty of 5 percent for every half hour the analysis is late.**

The analysis should cover all the compulsory readings for the week. It should be critical, meaning it should not be a descriptive summary but should relate the readings through your special point of view. The best way for you to produce such a document is to position yourself in terms of the readings and ask whether you agree with the assumptions and conclusions the authors draw. Are there valuable lessons to be learned? What is missing? What is the relationship between the texts?

Case study: An in-class simulation will be held on **November 17** (30% of grade). You will be graded on your participation and preparation for this exercise, as well your contribution to the debriefing on **November 24**, including the 1 page reflection paper you are expected to prepare for that occasion. Like with the Critical Analysis, the **maximum length** of the **reflection paper** is **1 single spaced page** in normal 12 pt. font and standard margins. Requirements for the simulation and reflection paper will be clarified later in the term.

## **PART I: THE DEMAND FOR FINANCIAL MARKETS AND AN INTERNATIONAL MONETARY SYSTEM**

WEEK 1 (Sept. 15)

### **A. Introduction**

WEEK 2 (Sept. 22)

### **B. Finance and the International Monetary System in the International Political Economy**

1. GARRETT, G. (2000): The Causes of Globalization. *Comparative Political Studies* 33(6/7), 941-991.
2. STALLINGS, B. (2007): The Globalization of Capital Flows: Who Benefits? *Annals of the American Academy of Political and Social Science* 610, 202-216.
3. LANGLEY, P. (2008): The Everyday Life of Global Finance: Saving and Borrowing in Anglo-America *IPEG papers in Global Political Economy*(5), 1-23.

### Optional

1. STRANGE, S. (1981): The World's Money: Expanding the Agenda for Research. *International Journal* 36(4), 691-712.
2. BHAGWATI, J. (1998): The Capital Myth. *Foreign Affairs* 77(3), 7-12.
3. KOSE, A. M., E. PRASAD, K. ROGOFF and S.-J. WEI (2009): Financial Globalization: A Reappraisal. *IMF Staff Papers* 56(1), 8-62.

WEEK 3 (Sept. 29)

### **C. Theorizing Financial Markets**

1. MALKIEL, B. (2005): Reflections on the Efficient Market Hypothesis: 30 Years Later. *The Financial Review* 40(1), 1-9.
2. OLSEN, R. A. (2008): Cognitive Dissonance: The Problem Facing Behavioral Finance. *The Journal of Behavioral Finance* 9, 1-4.
3. VAN DER SAR, N. L. (2004): Behavioral Finance: How Matters Stand. *Journal of Economic Psychology* 25, 425-444.

Optional

1. SCHILLER, R. J. (2003): From Efficient Markets Theory to Behavioral Finance. *Journal of Economic Perspectives* 17(1), 83-104.
2. MACKENZIE, D. (2005): Opening the Black Boxes of Global Finance. *Review of International Political Economy* 12(4), 555-576.

**PART II: THE SUPPLY OF FINANCIAL MARKETS AND AN INTERNATIONAL MONETARY SYSTEM**

WEEK 4 (Oct. 6)

**A. 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.
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.
3. SCHOLTE, J. A. (2002): Governing Global Finance. *CSGR Working Paper* 88(2), 1-24.

Optional

1. HELLEINER, E. (2009): Reregulation and Fragmentation in International Financial Governance. *Global Governance*, 16-22.
2. SINCLAIR, T. J. (2001): The Infrastructure of Global Governance: Quasi-Regulatory Mechanisms and the New Global Finance. *Global Governance* 7, 441-451.

WEEK 5 (Oct. 13)

**B. Multilateral Cooperation and the International Monetary System**

1. SETSER, B. and N. ROUBINI (2005): How Scary is the Deficit? *Foreign Affairs* 84(4), 194-200.
2. COHEN, B. J. (2005): "The Macrofoundation of Monetary Power," in *EUI Working Paper*. Florence: European University Institute.
3. 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.

Optional

1. LEVEY, D. H. and S. S. BROWN (2005): The Overstretch Myth. *Foreign Affairs* 84(2), 2-7.
2. LEVEY, D. H. and S. S. BROWN (2005): Levey and Brown reply. *Foreign Affairs* July/August.
3. NORRLOF, C. (2008): Strategic Debt. *Canadian Journal of Political Science* 41(2), 1-25.

WEEK 6 (Oct. 20)

<< Midterm test >>

WEEK 7 (Oct. 27)

**C. Multilateral Cooperation and Key Currency**

1. COHEN, B. J. (2003): Global Currency Rivalry: Can the Euro Ever Challenge the Dollar? *Journal of Common Market Studies* 41(4), 575-595.
2. HELLEINER, E. (2008): Political Determinants of International Currencies: What Future for the US Dollar? *Review of International Political Economy* 15(3), 354-378.
3. KIRSHNER, J. (2008): Dollar Primacy and American Power: What's at Stake? *Review of International Political Economy* 15(3), 418-438.

### Optional

1. STRANGE, S. (1971): The Politics of International Currencies. *World Politics* 23, 215-231.
2. NORRLOF, C. (2009): Key Currency Competition: The Euro versus the Dollar. *Cooperation and Conflict* 44(4), 1-23.

## **PART III: DISEQUILIBRIUM IN FINANCIAL MARKETS AND THE INTERNATIONAL MONETARY SYSTEM: FINANCIAL CRISIS**

WEEK 9 (Nov. 10)

### **A. Financial 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.
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.
3. Shleifer, Andrei. 2003. "Will the Sovereign Debt Market Survive?" *American Economic Review* 93(2), 85-90.

### Optional

1. CONGLETON (2009): On the Political Economy of the Financial Crisis and Bailout of 2008-2009. *Public Choice* 140(3-4), 287-317.
2. 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.
3. Olivares-Caminal, Rodrigo. 2010. "Sovereign Debt Defaults: Paradigms and Challenges." *Journal of Banking and Regulation* 11(2), 91-94.

**PART IV: CASE STUDY: SIMULATION**

WEEK 10 (Nov. 17)

**B. Case Study: Simulation**

*<< Material to be distributed >>*

WEEK 11 (Nov. 24)

**B. Case Study: Analysis/Debriefing**

*<< Post-Simulation Reflection Papers Due >>*

WEEK 12 (Dec. 1)

**C. Test**