EC377.01

THE WORLD ECONOMY:
FROM THE GOLD STANDARD TO GLOBALIZATION

Syllabus

Spring 2008

Lectures:
Tuesday and Thursday, 10:30 – 11:45 am; Carney Hall, Room 203

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Office Hours: Tuesday, 2:30 – 4:30 pm, and by appointment

Welcome

Feel free to address me as Fabio. You can of course address me as Professor Ghironi if you prefer to do so. You can find out a lot about me by visiting my web site.

Course Objectives and Description

This course explores the history and functioning of international monetary arrangements and economic relations from the early 20th century to the present day. We will study the operation of the Gold Standard, the Bretton Woods exchange rate regime in place after World War II, the collapse of this regime and the advent of flexible exchange rates, the choice of European countries to stabilize their exchange rates and eventually implement a monetary union, and exchange rate and financial crises in Europe, Asia, and Latin America. We will address the pros and cons of macroeconomic policy coordination across countries and the policy tradeoffs for emerging market economies. Questions that will be studied include: What was the role of the Gold Standard in the Great Depression? Why did the Bretton Woods regime of fixed exchange rates collapse at the beginning of the 1970s? Why did some European countries decide to give up their currencies and form a monetary union? How does European monetary unification affect policy interactions between the U.S. and Europe? How does the advent of the euro affect the position of the dollar in the international financial system? What are the consequences of financial and trade globalization? What is the role of China and other emerging economies in the evolving world economy?

The course will explore these and other questions by combining history, political economy, and economic theory. We will alternate lectures that discuss historical events with lectures of more theoretical nature, in which we will explore the working of different exchange rate and policy
regimes by means of mathematical models. The theoretical material will require familiarity with calculus. Other than this, the only formal prerequisite for this course is Macroeconomic Theory (EC202 or EC204). Students who have already been exposed to international economics are likely to find some parts of this course easier, but I will explain everything taking nothing more than calculus and macro theory for granted.

There is a background textbook for this course: *Globalizing Capital: A History of the International Monetary System*, by Barry Eichengreen, Princeton University Press, Princeton, 1996, available in paperback edition at the Boston College bookstore. (For brevity, I refer to the textbook simply as “Textbook” in the list of topics and readings below.) I will use this textbook as background reference, but the lectures will be based also on my own summary of a number of other sources. I will make my lecture notes available as the course progresses, and I will distribute copies of the most important articles. I will expect all students to have studied textbook and lecture notes, and to have read the articles I will indicate, for the midterm and final exams.

**Teaching Assistant**

There is a TA for this course. His name is Massimo Giovannini. He will be an important resource for you: He will hold weekly office hours (day and time TBA) and some review sessions. His office is room 462F in 21 Campanella Way, e-mail: giovanma@bc.edu, phone: 617-552-6462.

**Course Requirements**

**Midterm exam:** There will be an in-class midterm exam on Thursday, February 28.

**Final exam:** There will be a final exam on a date/time TBA.

**Homework assignments:** There will be two homework assignments during the semester.

The **weights** of these requirements in your final course grade will be as follows:

- Midterm exam: 30 percent;
- Final exam: 50 percent;
- Homework assignments: 20 percent.

Both exams will be closed-books, closed-notes. There will be no make-up exams except for documented medical reasons.

**Academic Integrity**

The following is official Boston College policy on academic integrity:

“Boston College values the academic integrity of its students and faculty. It is your responsibility to familiarize yourself with the university’s policy on academic integrity: http://www.bc.edu/integrity. If you have any questions, always consult your professor.

Violations of academic integrity will be reported to your class dean and judged by the academic integrity committee in your school. If you are found responsible for violating the policy, penalties may include a failing grade as well as possible probation, suspension, or expulsion, depending on the seriousness and circumstances of the violation.”

The following is my addendum:

2
Any form of cheating will result in a zero score for the relevant test. Cheating in the final exam will automatically result in a failing grade.

**Advice**

This is a course where it will be important to stay on top of the material regularly. Study the textbook and lecture notes, and read the articles I will indicate, without accumulating delay. Work through the math intensive parts of the course with pencil and paper, making sure that you can reproduce and understand all derivations.

You should take full advantage of the resources at your disposal: Come to my office hours regularly when you have questions. Go to Massimo’s office hours. Ask him for review sessions (how many are held will depend also on your demand). Do not feel uncomfortable asking the same question in my office hours and in Massimo’s. We are excited about the material of this course and we want to do our best to make sure you learn as much as possible from it.

You should also always feel free to ask questions in class. Lively class discussions are always fun.

However, you should not e-mail me questions that require answers that are longer than one line. E-mail is an extremely inefficient way to handle such questions. It is much better to meet in person and discuss things in office hours or appointments.

If you want to schedule an appointment, you should give me sufficient advance notice and not send me e-mails asking if you can see me on the same day or the next day. For better or worse, my life is extremely busy, and it will usually be impossible for me to accommodate short notices. (I also find short-notice requests rude.)

You will be asked and expected to work hard for this course. But you can expect that Massimo and I will be doing the same, and you will find that we are happy to go the extra mile to make sure you learn if you come to our office hours with your questions or schedule an appointment to see us. You should especially take advantage of our availability if you feel overwhelmed by the math-intensive parts of the course.

You should not panic if you see low numerical scores for your midterm or homework assignments. Massimo and I will assign only numerical scores for individual parts of the course requirements – no letter grades. No reason to panic if your score looks lower than you are used to. If you are concerned, come see me and you will usually find out that you are doing better than you think. Keep in mind that I am happy to reward hard work with good letter grades at the end of the course. But I do want to see hard work.

**Topics and Readings**

Following is the list of topics I would like to cover with associated readings (how many topics we will cover will depend on the evolution of the course). As the course progresses, I will indicate which readings are indeed required. The reading list below is also meant as a research tool for those of you who will want to explore one or more topics in depth. I certainly do not expect to cover all the readings in the list.

*Note:* As you will see, even if the title of this course is “The World Economy: From the Gold Standard to Globalization,” there are some glaring omissions: We will not focus on Africa, for
instance. This reflects the effect of time constraints on the selection of topics we can realistically hope to cover. If you have a special interest in Africa (or other topics we will not cover) at the end of the course, feel free to ask me for suggestions about readings.

**Globalization and Capital Flows in Historical Perspective**

**The Gold Standard**
Textbook, Chapter 2.

**The Great Depression**
Textbook, Chapter 3.

Other readings on these two topics include:


**The Bretton Woods System**
Textbook, Chapter 4.

The following book is also an excellent source on the Bretton Woods system:


**Modeling Fixed versus Managed Exchange Rates**

**Post-War European Recovery**
Eichengreen, Barry (2006): *The European Economy since 1945: Coordinated Capitalism and
Beyond, Princeton University Press, Princeton (selected parts).

The Advent of Floating Exchange Rates
Textbook, Chapter 5.

Monetary Cooperation versus Non-Cooperation under Floating Exchange Rates

Monetary Integration in Europe
Textbook, Chapter 5.

Other readings on this topic include:


The Euro’s Role in Global Financial Markets and U.S.-Europe Policy Interdependence in the EMU Era

Other readings on this topic include:


**Exchange Rate and Financial Crises**

Textbook, Chapter 5.


Other readings on this topic include:


**Policy Tradeoffs for Emerging Market Economies**

Press, Cambridge (selected parts).

Other readings on this topic include:


**China and India**


Other readings on this topic include:


**Russia and the Former Soviet Bloc**


Other readings on this topic include:


Desai, Padma (2005): “Russian Retrospectives on Reforms from Yeltsin to Putin,” *Journal of
Economic Perspectives 19: 87-106.

Japan

Other readings on this topic include:

Prospects for Europe

Other readings on this topic include:

The U.S. External Position and Today’s Global Imbalances
Obstfeld, Maurice (2005): “America’s Deficit, the World’s Problem,” Bank of Japan Monetary and
Other readings on this topic include:


**Globalization and Exchange Rate Regimes the Beginning of the 21st Century**

Other readings on this topic include: