EC377.01

THE WORLD ECONOMY:
FROM THE GOLD STANDARD TO GLOBALIZATION

Syllabus

Spring 2011

Lectures:
Tuesday and Thursday, 10:30 – 11:45 am; McElroy Commons, Room 237

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Office Hours: Tuesday, 3:30 – 5:30 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 19th 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 discuss the causes of the recent U.S. and international crisis and the challenges it poses for policymakers. 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 did European monetary unification affect policy interactions between the U.S. and Europe? How did 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? How should policymakers in the U.S. and elsewhere respond to the recent crisis? What are the causes and possible consequences of the ongoing crisis in Europe’s Economic and Monetary Union?
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*, second edition, by Barry Eichengreen, Princeton University Press, Princeton, 2008, available 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. (Another excellent book that discusses several topics we will cover is Jeffry A. Frieden’s *Global Capitalism: Its Fall and Rise in the Twentieth Century*, W. W. Norton & Company, 2007.)

**Important**

This course is for students who are seriously interested in international economics, who are willing to do a considerable amount of reading, and who are ready to use math tools that are standard for undergraduates all over the world. Macroeconomic Theory is a serious prerequisite. If you forgot your macro and want to take this course, you should review your Macro Theory textbook or notes as soon as possible. The same holds for Calculus. This course is not for students who are simply looking for a course to complete the requirements of the major (or the minor) without any real interest in the field of international economics. It is not for students who are simply filling their schedules at the last minute with whatever courses happen to be available.

**Teaching Assistant**

There is a TA for this course. His name is Alessandro Barattieri. He will be an important resource for you: He will hold weekly office hours (day, time, and location TBA) and some review sessions. His e-mail address is barattie@bc.edu; phone: 617-552-3372.

**Course Requirements**

**Midterm exam**: There will be an in-class midterm exam on Thursday, March 3.

**Final exam**: There will be a final exam on a date/time TBA. The final exam will include questions on the pre-midterm material.

**Homework assignments**: There will be six 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: 45 percent;
- Homework assignments: 25 percent.
Both exams will be closed-books, closed-notes. There will be no make-up exams except for documented medical reasons.

**Class Attendance**

Although I will not treat it as a formal requirement, class attendance is expected at Boston College, and I will collect attendance data. These data will contribute to my decisions on borderline situations at the end of the semester.

**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:

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 for the course.

**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. Do not try to memorize the material. Focus on understanding.

You should take full advantage of the resources at your disposal: Come to my office hours regularly when you have questions. Go to Alessandro’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 Alessandro’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 Alessandro 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. Alessandro 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.

**A Seminar That May Be of Interest to You**

If you are interested, you should consider attending the International Economic Policy and Political Economy (IEPPE) seminar. The speakers in this seminar will give presentations on present-day policy-relevant questions, many of which we will discuss in this course. Some of the speakers will be scholars whose work you will learn about in this course. The seminar meets on Monday afternoons, 4:00-5:30 pm, Higgins Hall 225 (except when otherwise noted in the schedule). There is an introductory meeting on the first Monday of the semester. After that, the seminar meets only when there are scheduled speakers. You can find the schedule and information on the speakers at http://fmwww.bc.edu/EC-j/SemS2011/EC.ILA.S2011.php. You are all welcome to attend. If you are especially interested, this seminar is offered as the one-credit, pass/fail course EC295.01 (it will be offered also next year). See my web page for the requirements. E-mail me if you want me to add you to the seminar’s mailing list (even if you are not taking it for credit).

**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.

The Bretton Woods System
Textbook, Chapter 4.

Policy Tradeoffs and Monetary Cooperation under Alternative Exchange Rate Regimes

Floating Exchange Rates
Textbook, Chapter 5.

Monetary Integration in Europe
Textbook, Chapter 5.

Exchange Rate and Financial Crises
Textbook, Chapters 5 and 6.

Policy Challenges at the Dawn of the New Millennium
Textbook, Chapter 6.

The Crisis of 2007-2010 (and beyond?)
A valuable online source on the economy and the crisis is Nouriel Roubini’s Global Economics website: http://www.roubini.com. In particular, see also the Global Macro EconoMonitor blog: http://www.roubini.com/globalmacro-monitor, which collects contributions by a number of leading authors.

Another excellent source on current economic events is the vox web site: http://www.voxeu.org. This too collects contributions by many leading scholars.

**Additional Readings**

Following are suggested additional readings on various topics that you may be interested in exploring further.

**The Gold Standard and the Great Depression**


**The Bretton Woods System**


**Models of Exchange Rate Regimes and Policy Interdependence**


**Monetary Integration in Europe**


London.


Exchange Rate and Financial Crises
Ito, Takatoshi, and Anne O. Krueger, Editors (2001): Regional and Global Capital Flows:
Jeanne, Olivier, and Jeromin Zettelmeyer (2001): “International Bailouts, Moral Hazard, and
Kaminsky, Graciela L., Carmen M. Reinhart, and Carlos A. Végh (2003): “The Unholy Trinity of
Economic Perspectives 13: 3-20.
Radelet, Steven, and Jeffrey Sachs (1998): “The East Asian Financial Crisis: Diagnosis, Remedies,

The Euro’s Role in Global Financial Markets and U.S.-Europe Policy Interdependence in the
EMU Era
Rate Policy of the EMU,” CEPR, London.
Eichengreen, Barry (1997): European Monetary Unification: Theory, Practice, and Analysis, MIT
Press, Cambridge (selected parts).
Eichengreen, Barry, Editor (1998): Transatlantic Economic Relations in the Post-Cold War Era,
Brookings Institution Press, Washington, D.C.
Eichengreen, Barry, and Fabio Ghironi (2002): “Transatlantic Trade-Offs in the Age of Balanced
Budgets and European Monetary Union,” Open Economies Review 13: 381-411.
Portes, Richard, and Hélène Rey (1998): “The Emergence of the Euro as an International
Currency,” Economic Policy 26: 305-343 (including comments).

Policy Tradeoffs for Emerging Market Economies
Press, Cambridge (selected parts).
Landing in the North, Sudden Stop in Emerging Markets?” Journal of Policy Modeling 28:
605-613.
Fraga, Arminio (2004): “Latin America since the 1990s: Rising from the Sickbed?” Journal of
Economic Perspectives 18: 89-106.

China and India
Datt, Gaurav, and Martin Ravallion (2002): “Is India’s Economic Growth Leaving the Poor
Economic Policy 51: 575-627 (including comments).
Rodrik, Dani, and Arvind Subramanian (2004): “From ‘Hindu Growth’ to Productivity Surge: The
Roy, Tirthankar (2002): “Economic History and Modern India: Redefining the Link,” Journal of
Working Paper 5935.

Russia and the Former Soviet Bloc
Transition,” Journal of Economic Perspectives 16: 77-100.
Transition,” Journal of Economic Perspectives 16: 51-76.
Desai, Padma (2005): “Russian Retrospectives on Reforms from Yeltsin to Putin,” Journal of
Economic Perspectives 19: 87-106.
Perspectives 16: 101-124.
Policy 45: 61-118 (including comments).
10: 25-44.
Europe, Journal of Economic Perspectives 5: 3-161.
16: 29-50.
Shleifer, Andrei, and Daniel Treisman (2005): “A Normal Country: Russia after Communism,”
Perspectives 16: 3-28.

Japan
Hoshi, Takeo, and Anil K. Kashyap (2004): “Japan’s Financial Crisis and Economic Stagnation,”
Economic Perspectives, 4th Quarter, 42-55.
Posen, Adam, and Ryoichi Mikitani, Editors (2000): Japan’s Financial Crisis and Its Parallels to
U.S. Experience, Institute for International Economics, Washington, DC.

Prospects for Europe


**Global Imbalances and the U.S. External Position**


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


**The Crisis of 2007-2010 (and beyond?)**


Additional readings on this topic that could be of interest to you can be downloaded from the fall 2010 IEPPE seminar schedule at http://fmwww.bc.edu/EC-j/SemF2010/EC.ILA.f2010.php. As noted above, this spring’s schedule will also feature presentations that you should find interesting.

**Macroeconomics after the Financial Crisis**


