



Hobby School of Public Affairs  
UNIVERSITY OF HOUSTON

**POLC 6397 SPRING 2023**  
**SPECIAL TOPICS IN PUBLIC POLICY**  
**POLITICAL ECONOMY OF TRADE AND FINANCE**

DAY & TIME, LOCATION: Wednesday, 10:00am–1:00pm, S102  
INSTRUCTOR (EMAIL, OFFICE): Pablo M. Pinto (ppinto@central.uh.edu, S242)  
OFFICE HOURS: By appointment

**DESCRIPTION:** This course offers an introductory survey to positive political economy analysis, using applications to policymaking in international trade and finance. The study of the design, adoption and implementation of policies aimed at regulating the flow of goods and services, and the flow of financial capital requires an analytical framework for understanding the main issues involved in aggregating individual preferences into group choices. Tariffs, non-tariff barriers and regulations are the output of the political system. Individual and group preferences towards openness and protectionism are expressed through voting, mobilization and lobbying; together they are the central features of the demand side of politics. Supply-side conditions are framed by political institutions, namely the structures that shape the aggregation of political preferences into foreign economic policy outcomes. The course is divided into four blocs: i) international trade, theory and empirics; ii) the political economy of trade politics; iii) international finance, theory and empirics; and iv) the political economy of international finance. The course presumes some familiarity with international economics. We will make extensive use of the insights from economic theory to analyze how political actors (voters, interest groups, political parties, and politicians) interact within political institutions to shape policies.

**REQUIREMENTS:** Formal requirements include:

1. *Review Essays (30 %)*: each student will write three short (3–4 pages) *papers* critically reviewing one of the themes of in the weekly reading schedule. By the end of the first week I will distribute the assignments for the weekly review papers, based on student choice to the extent possible. Review papers are should be posted on Canvas by 12pm on the Monday of the week after the theme was discussed. Students writing a review essay each week will present an introductory summary of the assigned theme for the week. The three essays are jointly worth forty percent of the final grade.
2. *Final assignments*: for the final assignment students have two options: i) write an original research paper on any of the themes of the course; ii) take a midterm and final exam.
  - i) *Research paper (40 %)*: students choosing the research paper assignment will conduct independent research during the semester and submit a final paper at the end of the term. At the fourth meeting of the course (February 8, 2023) students will submit a proposal defining the topic of research, proposed methods, and data sources. In the final meeting students will present their research in progress to get feedback from the class. Research papers are due by 12pm on May 8, 2023.
  - ii) *Midterm exam (20 %) and final exam (20 %)*: students choosing the examination route will complete a 24-hour take-home midterm, which will be administered after week 7. The final exam will be administered on May 3 at 10 am.
3. *Class Participation (25 %)*: Students are expected to take an active role in discussing the readings and participate in discussions. Class participation is worth twenty five percent of the final grade. We evaluate participation as preparedness and input to discussion. Required readings for each week are marked with a bullet (●) on the reading list. Students are also encouraged to explore the recommended readings, which are listed under each section with a star (★), especially when writing their review essays. Each week students will be randomly assigned, individually or in groups, to prepare a brief presentation of one of the readings to be discussed in class. In the discussion students are expected to critique the readings, compare and contrast to other readings, and introduce other sources and points of view, including personal insights.
4. *Class Attendance (5 %)*: Students are required to attend class, and to do all the required readings for each week. Attendance will account for five percent of the final grade. Students with more than two unexcused absences during the semester will receive a failing grade. A student who misses a class should submit a one–page long critical summary of the reading he or she has been assigned to prepare for that week and a one-page response paper on the weekly topic covered, by 5pm on the Friday of the corresponding week.

**READINGS:** All readings listed on the syllabus are available in the textbook or through UH Library resources in hard copy or digital form. We will be draw heavily on the following textbook, which students may consider buying: Krugman, Paul R., Maurice Obstfeld and Mark Melitz. *International Economics: Theory and Practice*. Chapter numbers in the reading list correspond to the Ninth edition and beyond. Newer versions are acceptable.

## ANNOUNCEMENTS, UH POLICIES AND RESOURCES:

**SYLLABUS CHANGES:** Please note that the instructor may need to make modifications to the course syllabus. Notice of such changes will be announced as quickly as possible through email and Canvas. You should check UH email and Canvas periodically for announcements and updates.

**CONTACTING INSTRUCTOR:** Please use email to contact me with any issues. In your email use an informative heading in the subject heading including course number (e.g. POLC 6397–Question about Wednesday’s class).

**USE OF CELL PHONES, TABLETS AND LAPTOPS:** Since they cause interruptions and distractions, phones should be turned off during class time. Please do not use any Instant Messaging software if you bring your laptop to take notes. In particular, cell phones, portable devices and laptops may not be accessible during exams or quizzes.

**COVID-19 INFORMATION:** Students are encouraged to visit the University’s **COVID-19** website for important information including diagnosis and symptom protocols, testing, vaccine information, and post-exposure guidance. Please check the website throughout the semester for updates. Consult the **Graduate Excused Absence Policy** for information regarding excused absences due to medical reasons.

**EXCUSED ABSENCE POLICY:** Regular class attendance, participation, and engagement in coursework are important contributors to student success. Absences may be excused as provided in the University of Houston **Graduate Excused Absence Policy** for reasons including: medical illness of student or close relative, death of a close family member, legal or government proceeding that a student is obligated to attend, recognized professional and educational activities where the student is presenting, and University-sponsored activity or athletic competition. Under these policies, students with excused absences will be provided with an opportunity to make up any quiz, exam or other work that contributes to the course grade or a satisfactory alternative. Please read the full policy for details regarding reasons for excused absences, the approval process, and extended absences. Additional policies address absences related to **military service, religious holy days, pregnancy and related conditions, and disability**.

**RECORDING OF CLASS:** Students may not record all or part of class, livestream all or part of class, or make/distribute screen captures, without advanced written consent of the instructor. If you have or think you may have a disability such that you need to record class-related activities, please contact the **Justin Dart, Jr. Student Accessibility Center**. If you have an accommodation to record class-related activities, those recordings may not be shared with any other student, whether in this course or not, or with any other person or on any other platform. Classes may be recorded by the instructor. Students may use instructor’s recordings for their own studying and notetaking. Instructor’s recordings are not authorized to be shared with anyone without the prior written approval of the instructor. Failure to comply with requirements regarding recordings will result in a disciplinary referral to the Dean of Students Office and may result in disciplinary action.

**ACADEMIC INTEGRITY:** We strictly enforce all of the policies regarding academic integrity such as cheating and plagiarism as determined by University of Houston. A copy of these regulations is available at: <https://uh.edu/provost/policies-resources/honesty/>; ignorance of these policies is not an excuse for violations. Violations of academic integrity are a very serious matter, and I will pursue the strictest punitive action in the case of a violation. I consider very serious cases of academic dishonesty the following: using and/or submitting as one’s own a paper/project that was written by another student in the past; using and/or submitting as one’s own a paper/project that was obtained through the Internet, or some other source; having someone else write (even partially) or help with the writing of any of the required papers; having someone else do any of the work required for an exam; engaging in plagiarism: using any statements (either in a verbatim or paraphrased form) found in other people’s work as one’s own, and without proper citations; cheating on an exam.

**REASONABLE ACADEMIC ADJUSTMENTS/AUXILIARY AIDS:** The University of Houston complies with Section 504 of the Rehabilitation Act of 1973 and the Americans with Disabilities Act of 1990, pertaining to the provision of reasonable academic adjustments/auxiliary aids for disabled students. In accordance with Section 504 and ADA guidelines, UH strives to provide reasonable academic adjustments/auxiliary aids to students who request and require them. If you believe that you have a disability requiring an academic adjustments/auxiliary aid, please contact the **Justin Dart Jr. Student Accessibility Center**.

**UNIVERSITY SEXUAL MISCONDUCT POLICY:** The University of Houston is committed to fostering a safe, productive learning environment. Per the UHS Sexual Misconduct Policy, the instructor is a “responsible employee” for reporting purposes under Title IX regulations and state law and must report incidents of sexual misconduct (sexual harassment, non-consensual sexual contact, sexual assault, sexual exploitation, sexual intimidation, intimate partner violence, or stalking) about which they become aware to the Title IX office. Please know there are places on campus where you can make a report in confidence. You can find more information about resources on the Title IX **website**.

# CLASS SCHEDULE AND READING LIST

## I. ECONOMICS OF TRADE

### WEEK 1, JANUARY 18: A. INTRODUCTION TO TRADE THEORY

#### Required readings:

- Krugman, Obstfeld and Melitz. Chapters: 3 and 9.

#### Recommended readings:

- ★ Bernanke, Ben (2006). “Global Economic Integration: What’s New and What’s Not?” *30th Annual Economic Symposium*, Jackson Hole, WY, 2006. <http://bit.ly/3XDp29v>
- ★ Frankel, Jeffrey (2000). Globalization of the Economy. In Nye, Joseph and John Donahue, editors, *Governance in a Globalizing World, Visions of Governance Project*. Washington, DC: Brookings Institution Press, 2000 p. 45-71.
- ★ Obstfeld, Maurice, and Kenneth Rogoff (2000). “The Six Major Puzzles in International Macroeconomics: Is There a Common Cause.” *NBER Macroeconomics Annual*, 51(2000): 339-390.

### WEEK 2, JANUARY 25: B. EXPLAINING TRADE PATTERNS

#### Required readings:

- Krugman, Obstfeld and Melitz. Chapters 2 and 6.
- Helpman, Elhanan (1999). “The Structure of Foreign Trade.” *Journal of Economic Perspectives*, 13 (2): 121-144.

#### Recommended readings:

- ★ Krugman, Obstfeld and Melitz. Chapter 7.
- ★ Burstein, Ariel, and Jonathan Vogel (2011). “Factor Prices and International Trade: A Unifying Perspective.” NBER Working Paper No. 16904.
- ★ Davis, Donald and David E. Weinstein (2002). What Role for Empirics in International Trade? In Ronald Findlay, Lars Jonung, and Mats Lundahl, editors, *Bertil Ohlin: A Centennial Celebration, 1899-1999*. Cambridge, MA: MIT Press.
- ★ Deardorff, Alan V. (2000). “Factor Prices and the Factor Content of Trade Revisited: What’s the Use?” *Journal of International Economics* 50: 73-90.
- ★ Leamer, E. and J. Levinsohn (1995). International Trade Theory: The Evidence. *Handbook of International Economics Vol. III*. New York: Elsevier.

### WEEK 3, FEB 1: C. WINNERS AND LOSERS FROM TRADE

#### Required readings:

- Krugman, Obstfeld and Melitz. Chapters 4-5.
- Stolper, Wolfgang F. and Paul A. Samuelson (1941). “Protection and Real Wages.” *Review of Economic Studies* 9 (1): 58-73.
- Wood, Adrian (1995). “How Trade Hurt Unskilled Workers,” in *Journal of Economic Perspectives*, 9 (3): 57-80.
- Freeman, Richard B. (1995). “Are Your Wages Set in Beijing?” *Journal of Economic Perspectives*, 9(3): 15-32.
- Slaughter, Matthew (1999). “Globalization and Wages: A Tale of Two Perspectives.” *The World Economy*, 22 (5): 609-630.
- Autor, David H., David Dorn and Gordon H. Hanson (2015). “Untangling Trade and Technology: Evidence from local labor markets.” *The Economic Journal* 125 (584), May 2015: 621-646.

#### Recommended readings:

- ★ Autor, David H., David Dorn, and Gordon H. Hanson (2013). “The China Syndrome: Local labor market effects of import competition in the United States.” *American Economic Review*, 103(6): 2121-2168.
- ★ Autor, David H., Lawrence F. Katz, and Melissa S. Kearney (2008). “Trends in U.S. Wage Inequality: Revising the Revisionists.” *Review of Economics and Statistics*, 90 (2): 300-323.
- ★ Deardorff, Alan V. (1994). “Overview of the Stolper-Samuelson Theorem.” In Alan V. Deardorff and Robert M. Stern, editors, *The Stolper-Samuelson Theorem: A Golden Jubilee*. University of Michigan Press (pp. 7-34).
- ★ Dollar, David (2005). “Globalization, Poverty and Inequality.” In Michael Weinstein, editor, *Globalization. What’s New?* New York: Columbia University Press.
- ★ Krugman, Paul (2008). “Trade and Wages, Reconsidered.” *Brookings Papers on Economic Activity*, 1, 103-154.
- ★ Lawrence, Robert Z. and Matthew Slaughter (1993). “International Trade and American Wages in the 1980s: Giant Sucking Sound or Small Hiccup?” *Brookings Papers on Economic Activity. Microeconomics* 1993 (2): 162-226.
- ★ Wood, Adrian (1994). *North South Trade: Employment and Inequality*. Oxford: Clarendon.

### WEEK 4, FEBRUARY 8: D. CLASS OR INDUSTRY CLEAVAGES?

#### Required readings:

- Magee, Stephen P. (1989). “Three Simple Tests of the Stolper-Samuelson Theorem.” *Black Hole Tariffs and Endogenous*

*Policy Theory*. Magee, S. P., W. A. Brock, and L. Young. New York: Cambridge University Press. (pp. 101–110).

- Rogowski, R. (1987). “Political Cleavages and Changing Exposure to Trade.” *American Political Science Review* 81(4).
- Douglas Irwin (1996). “Industry or Class Cleavages over Trade Policy? Evidence from the British General Election of 1923.” In Robert Feenstra, Gene Grossman and Douglas Irwin, editors, *Political Economy of Trade Policy: Essays in Honor of Jagdish Bhagwati*, Cambridge, MA: MIT Press.
- Mayda, Anna Maria and Dani Rodrik (2005), “Why Are Some People (and Countries) More Protectionist Than Others?” *European Economic Review*, 49(6), pages 1393–1430.
- Ardanaz, Martin, M. Victoria Murillo and Pablo M. Pinto (2013). “Sensitivity to Issue Framing on Trade Policy Preferences: evidence from a survey experiment.” *International Organization*, 67(2): 411–437.
- Mansfield, Edward D., and Diana C. Mutz (2009). “Support for Free Trade: Self-Interest, Sociotropic Politics, and Out-Group Anxiety.” *International Organization* 63(3): 425–57.

*Recommended readings:*

- ★ Beaulieu, Eugene (2002). “The Stolper–Samuelson Theorem Faces Congress.” *Rev. Intl. Economics* 10(2): 343–360.
- ★ Goldberg, Pinelopi K. and Nina Pavcnik (2007). “Distributional Effects of Globalization in Developing Countries.” *Journal of Economic Literature*, 45(2007): 39–82.
- ★ Gourevitch, Peter Alexis (1977). “International Trade, Domestic Politics and Liberty: Comparative Responses to the Crises of 1873–1886.” *Journal of Interdisciplinary History*, 8 (2): 281–313.
- ★ Hiscox, Michael J. (2002). *International Trade and Political Conflict: Commerce, Coalitions, and Mobility*. Princeton, NJ: Princeton University Press. Chapter 1 and Appendix.
- ★ Mayer, Wolfgang (1974). “Short-Run and Long-Run Equilibrium for a Small Open Economy.” *Journal of Political Economy*, 82(5): 955–967.
- ★ Mussa, Michael (1974). “Tariffs and the Distribution of Income: The Importance of Factor Specificity, Substitutability, and Intensity in the Short and Long Run.” *Journal of Political Economy*, 82 (6): 1191–1203.
- ★ Guisinger, Alexandra (2009) “Determining Trade Policy: Do Voters Hold Politicians Accountable?” *International Organization* 63 (3) (July 2009) 533–557.
- ★ Hainmueller, Jens and Michael J. Hiscox (2006). “Learning to Love Globalization: The Effects of Education on Individual Attitudes Toward International Trade.” *International Organization* 60 (2): 469–498.
- ★ Hiscox, Michael J. (2006). “Through a Glass and Darkly: Framing Effects and Individuals’ Attitudes Towards International Trade.” *International Organization* 60 (3): 755–780.
- ★ Scheve, Kenneth and Matthew Slaughter (2001). “What Determines Individual Trade Policy Preferences”. *Journal of International Economics* 54 (2): 267–292.

## II. POLITICAL ECONOMY OF TRADE

### WEEK 5, FEBRUARY 15: A. POLITICAL ECONOMY MODELS OF TRADE

*Required readings:*

- Krugman, Obstfeld and Melitz. Chapter 10.
- Rodrik, D. (1995). Political Economy of Trade Policy. *Handbook of International Economics Vol. III*, Chapter 28: 1457–1494. New York: Elsevier.
- Hillman, Arye L. (1982). “Declining Industries and Political-Support Protectionist Motives.” *American Economic Review* 72 (5): 1180–1187.
- Mayer, Wolfgang (1984). “Endogenous Tariff Formation.” *American Economic Review* 74 (5): 970–985.
- Gawande, Kishore and Pravin Krishna (2003). “The Political Economy of Trade Policy: Empirical Approaches.” James Harrigan, editor, *Handbook of International Trade*. Malden, MA: Basil Blackwell.

*Recommended readings:*

- ★ Anderson, Kym and R. Tyers (1989). “Agricultural Protection in Advanced and Newly Industrialized Countries.” In Allen Maunier and Alberto Valdes, editor, *Agriculture and Governments in an Interdependent World*. Aldershot: Dartmouth.
- ★ Baldwin, R. (1985). *The Political Economy of U.S. Import Policy*. Cambridge: MIT Press. Chapter 4 (pp. 115–174).
- ★ Caves, Richard (1976). “Economic Models of Political Choice: Canada’s Tariff Structure.” *Canadian Journal of Economics* 9 (2): 278–300.
- ★ Goldberg, Pinelopi K. and Giovanni Maggi (1999). “Protection for Sale: An Empirical Investigation.” *American Economic Review*, 89(5): 1135–1155.
- ★ Grossman, G. and E. Helpman (1994). “Protection for Sale.” *American Economic Review* 84(4): 833–850.
- ★ Magee, Stephen P., William A. Brock, and Leslie Young (1989). *Black Hole Tariffs and Endogenous Policy Theory*. New York: Cambridge University Press.
- ★ Ray, Edward (1981). “The Determinants of Tariff and Non-Tariff Trade Restrictions in the U.S.” *Journal of Political Econ-*

omy 89 (1): 105–121.

- ★ Trefler, Daniel (1993). “Trade Liberalization and the Theory of Endogenous Protection.” *Journal of Political Economy*, 101(1):138–160.

#### **WEEK 6, FEBRUARY 22: B. TRADE POLITICS**

##### *Required readings:*

- Dutt, Pushan and Devashish Mitra (2002). Endogenous Trade Policy Through Majority Voting: An Empirical Investigation. *Journal of International Economics*, 58 (1): 107–133.
- Bailey, Michael A., Judith Goldstein, and Barry Weingast (1997). The Institutional Roots of American Trade Policy. *World Politics* 49 (3): 309–338.
- Irwin, Douglas and Randall Kroszner (1999). Interests, Institutions, and Ideology in Securing Policy Change: The Republican Conversion to Trade Liberalization after Smoot–Hawley. *Journal of Law & Economics*, October 1999: 643–73.
- Goldstein, Judith, and Robert Gulotty (2014). “America and Trade Liberalization: The Limits of Institutional Reform.” *International Organization* 68(2): 263–295.
- McGillivray, Fiona (2004). Privileging Industry. The Comparative Politics of Trade and Industrial Policy. Princeton, NJ: Princeton University Press, chapters 1–3.
- Dutt, Pushan and Devashish Mitra (2002). Political Ideology and Endogenous Trade Policy: An Empirical Investigation. *Review of Economics and Statistics*, February 2005, 87(1): 59–72.
- Gawande, Kishore, Pablo M. Pinto, and Santiago Pinto (2023). Heterogeneous Districts, Interests, and Trade Policy. Unpublished manuscript.

##### *Recommended readings:*

- ★ Alt, James and Michael Gilligan (1994). “The Political Economy of Trading States: Factor Specificity, Collective Action Problems and Domestic Political Institutions.” *Journal of Political Philosophy* 2 (1994): 165–192.
- ★ Hall, H. Keith and Douglas Nelson (1992). Institutional Structure in the Political Economy of Protection. *Economics & Politics* 4 (1): 61–77.
- ★ Hiscox, Michael J. (1999). The Magic Bullet? The RTAA, Institutional Reform and Trade Liberalization. *International Organization* 53, 4: 669–698.
- ★ Irwin, Douglas (1997). *Against the Tide: An Intellectual History of Free Trade*. Princeton University Press.
- ★ Lohmann, Susanne and Sharyn O’Halloran (1994). Divided Government and U.S. Trade Policy. *International Organization* 48 (4): 595–632.
- ★ Mansfield, Edward D., and Marc L. Busch (1995). The Political Economy of Nontariff Barriers: A Cross–National Analysis. *International Organization* 49 (4): 723–749.
- ★ Mansfield, Edward, Helen Milner and B. Peter Rosendorff (2000). Free to Trade: Democracies, Autocracies and International Trade. *American Political Science Review*, 94 2: 305–322.
- ★ Nunn, Nathan, and Daniel Trefler (2013). “Domestic institutions as a source of comparative advantage.” NBER Working Paper No. 18851, National Bureau of Economic Research, February 2013.
- ★ Park, Jong Hee and Nathan Jensen (2007). “Electoral Competition and Agricultural Support in OECD Countries.” *American Journal of Political Science* 51 (2): 314–29
- ★ Rogowski, Ronald (1987). “Trade and the Variety of Democratic Institutions,” *International Organization* 41 (2): 203–223.

#### **WEEK 7, MARCH 1: C. FIRMS, FOREIGN INVESTMENT AND INTERNATIONAL TRADE**

##### *Required readings:*

- Krugman, Obstfeld and Melitz. Chapter 8.
- Melitz, Marc J. and Daniel Trefler (2012). “Gains from Trade when Firms Matter.” *Journal of Economic Perspectives*, 26 (2), Spring 2012: 91–118.
- Markusen, James R. (1995). “The Boundaries of Multinational Enterprises and the Theory of International Trade.” *Journal of Economic Perspectives* 9 (2): 169–89.
- Pinto, Pablo M., and Santiago M. Pinto (2008). “The Politics of Investment: Partisanship and the Sectoral Allocation of Foreign Direct Investment” in *Economics & Politics* 20, (2): 216–254.
- Kim, In Song (2017). “Political Cleavages within Industry: Firm–level Lobbying for Trade Liberalization. *American Political Science Review* 111 (1): 1–20.
- Pinto, Pablo M., and Stephen Weymouth (2013). “Partisan Cycles in Offshore Outsourcing: Evidence from U.S. Imports.” *Economics & Politics*, 38(3) (November 2016): 233–261.

##### *Recommended readings:*

- ★ Baccini, Leonardo, Pablo M. Pinto and Stephen Weymouth (2017). “The Distributional Consequences of Preferential

Trade Liberalization: Firm-Level Evidence.” *International Organization* 71(2) (Spring 2017): 373–395.

- ★ Bernard, Andrew B., J. Bradford Jensen, Stephen J. Redding, Peter K. Schott (2010). “Intra-firm Trade and Product Contractibility.” *American Economic Review Papers and Proceedings* 100 (2) (May 2010): 444–48.
- ★ Caves, Richard (1996). *Multinational Enterprise and Economic Analysis*, 2nd Edition, Cambridge University Press.
- ★ Helpman, Elhanan (2006). “Trade, FDI, and the Organization of Firms.” *Journal of Economic Literature* 44 (Sept 2006): 589–630.
- ★ Lipsey, Robert E. (2001). “Foreign direct investment and the operations of multinational firms: concepts, history, and data.” *NBER Working Paper 8665*.
- ★ Mundell, Robert A. (1957). “International Trade and Factor Mobility.” *American Economic Review* 47 (3): 321–335.
- ★ Henisz, Withold (2000). “The Institutional Environment for Multinational Investment.” *Journal of Law, Economics, and Organization* 16 (2): 334–364.
- ★ Jensen et. al (2012). “Politics and Foreign Direct Investment. What makes a country attractive to multinational corporations?” Ann Arbor, MI: Michigan University Press.
- ★ Jensen, Nathan (2003). “Democratic Governance and Multinational Corporations: Political Regimes and Inflows of Foreign Direct Investment.” *International Organization* 57 (3): 587–616.
- ★ Li, Quan and Adam Resnick (2003). “Reversal of Fortunes: Democracy, Property Rights and Foreign Direct Investment Inflows in Developing Countries.” *International Organization* 57(1):1–37.
- ★ Pinto, Pablo M. (2013). “Partisan Investment in the Global Economy: Why the Left loves foreign direct investment and FDI loves the Left. New York, NY: Cambridge University Press.

### III. POLITICAL ECONOMY OF INTERNATIONAL FINANCE

#### WEEK 8, MARCH 8: A. EXCHANGE RATES AND THE FOREIGN EXCHANGE MARKET

*Required readings:*

- Krugman, Obstfeld and Melitz. Chapters: 13–14.
- Levy-Yeyati, Eduardo, and Federico Sturzenegger (2005). “Classifying Exchange Rate Regimes: Deeds vs. Words.” *European Economic Review*, 49(6): 1603–1635.
- Reinhart, Carmen, and Kenneth S. Rogoff (2004). “The Modern History of Exchange Rate Arrangements: A Reinterpretation.” *Quarterly Journal of Economics*, 119(1): 1–48.
- Obstfeld, Maurice (2012). “Does the Current Account Still Matter?” *American Economic Review* 102 (3): 1–23.

*Recommended readings:*

- ★ Akram, Q. Farooq, Dagfinn Rime, and Lucio Sarno (2009). “Does the Law of One Price Hold in International Financial Markets? Evidence from Tick Data.” *Journal of Banking & Finance*, 33 (10): 1741–54.
- ★ Frenkel, Jacob A., and Michael L. Mussa (1980). “The Efficiency of Foreign Exchange Markets and Measures of Turbulence.” *American Economic Review* 70 (2): 374–81.
- ★ Gabaix, Xavier, and Matteo Maggiori (2015). “International Liquidity and Exchange Rate Dynamics.” *The Quarterly Journal of Economics* 130 (3): 1369–1420.
- ★ Lane, Philip R., and Gian Maria Milesi-Ferretti (2007). “The External Wealth of Nations Mark II: Revised and Extended Estimates of Foreign Assets and Liabilities, 1970–2004.” *Journal of International Economics* 73 (2): 223–50.
- ★ Mann, Catherine L. (2002). “Perspectives on the U.S. Current Account Deficit and Sustainability.” *Journal of Economic Perspectives* 16 (3): 131–52.

#### WEEK 9, MARCH 15: NO CLASS, SPRING BREAK

#### WEEK 10, MARCH 22: B. THE EXCHANGE RATE IN THE LONG RUN

*Required readings:*

- Krugman, Obstfeld and Melitz. Chapter 16.
- Goldberg, Pinelopi Koujianou, and Michael M. Knetter (1997). “Goods Prices and Exchange Rates: What Have We Learned?” *Journal of Economic Literature* 35(3): 1243–72.
- Rogoff, Kenneth (1996). “The Purchasing Power Parity Puzzle.” *Journal of Economic Literature*, 34(2): 647–668.
- Taylor, Alan M., and Mark P. Taylor (2004). “The Purchasing Power Parity Debate”. *Journal of Economic Perspectives*, 18(Fall):135–158.

*Recommended readings:*

- ★ Devereux, Michael B. (1997). “Real Exchange Rates and Macroeconomics: Evidence and Theory.” *The Canadian Journal of Economics* 30(4a): 773–808.
- ★ Gailliot, Henry J. (1970). “Purchasing Power Parity As An Explanation of Long-Term Changes In Exchange Rates.” *Jour-*

*nal of Money, Credit and Banking* 2 (3): 348–57.

- ★ Jiang, Chun, Mohsen Bahmani-Oskooee, and Tsangyao Chang (2015). “Revisiting Purchasing Power Parity in OECD.” *Applied Economics*, 47 (40): 4323–34.
- ★ Ravallion, Martin (2010). “Understanding PPPs and PPP-Based National Accounts: Comment.” *American Economic Journal: Macroeconomics* 2(4): 46–52.

#### **WEEK 11, MARCH 29: C. THE EXCHANGE RATE IN THE SHORT RUN**

*Required readings:*

- Krugman, Obstfeld and Melitz. Chapters 15 and 17.
- Dornbusch, Rudiger (1976). “Exchange Rate Expectations and Monetary Policy.” *Journal of International Economics* 6 (3): 231–44.
- Edwards, Sebastian (2015). “Monetary Policy Independence under Flexible Exchange Rates: An Illusion?” *The World Economy* 38 (5): 773–87.
- Romer, David (2000). “Keynesian Macroeconomics without the LM Curve.” *J. of Economic Perspectives*, 14(2): 149–169.

*Recommended readings:*

- ★ Dornbusch, Rudiger, Paul Krugman, Richard N. Cooper, and Marina v. N. Whitman (1976). “Flexible Exchange Rates in the Short Run.” *Brookings Papers on Economic Activity* 1976 (3): 537–84.
- ★ Fischer, Stanley (2001). “Exchange Rate Regimes: Is the Bipolar View Correct?” *Journal of Economic Perspectives* 15 (2): 3–24.
- ★ Stockman, Alan C. (1987). “The Equilibrium Approach to Exchange Rates.” *Federal Reserve Bank of Richmond Economic Review*, 73 (March/April): 12–30.
- ★ Wang, Chun-Hsuan, Chun-Hung A. Lin, and Chih-Hai Yang (2012). “Short-Run and Long-Run Effects of Exchange Rate Change on Trade Balance: Evidence from China and Its Trading Partners.” *Japan and the World Economy* 24 (4): 266–73.

#### **WEEK 12, APRIL 5: D. FIXED EXCHANGE RATES AND FOREIGN EXCHANGE INTERVENTION**

*Required readings:*

- Krugman, Obstfeld and Melitz. Chapter 18.
- Rogoff, Kenneth S., Aasim M. Husain, Ashoka Mody, Robin Brooks, and Nienke Oomes (2003). “Evolution and Performance of Exchange Rate Regimes.” *IMF Occasional Paper* No. 229, International Monetary Fund.
- Levy-Yeyati, Eduardo, and Federico Sturzenegger (2003). “To Float or to Fix: Evidence on the Impact of Exchange Rate Regimes on Growth.” *American Economic Review* 93(4): 1173–1193.

*Recommended readings:*

- ★ Cavallo, Michele, Kate Kisselev, Fabrizio Perri, and Nouriel Roubini (2005). “Exchange Rate Overshooting and the Costs of Floating.” *Federal Reserve Bank of San Francisco Working Paper Series*, Working Paper 2005?07, May 2005.
- ★ di Giovanni, Julian, and Jay C. Shambaugh (2008). “The Impact of Foreign Interest Rates on the Economy: The Role of the Exchange Rate Regime?” *Journal of International Economics*, 74(2), 341–361.
- ★ Evans, Martin D. D., and James R. Lothian (1993). “The Response of Exchange Rates to Permanent and Transitory Shocks under Floating Exchange Rates.” *Journal of International Money and Finance* 12 (6): 563–86.
- ★ Meissner, Christopher M., and Nienke Oomes (2006). “Why Do Countries Peg the Way They Peg? The Determinants of Anchor Currency Choice.” *IMF Working Paper* No. 132, International Monetary Fund.

#### **WEEK 13, APRIL 12: E. THE POLITICAL ECONOMY OF EXCHANGE RATE**

*Required readings:*

- Krugman, Obstfeld and Melitz. Chapter 19.
- Hausmann, Ricardo, Ugo Panizza, and Ernesto Stein (2001). “Why Do Countries Float the Way They Float?” *Journal of Development Economics*, 66(2), 387–414
- Bernhard, William and David Leblang (1999). “Democratic Institutions and Exchange-Rate Commitments.” *International Organization*, 53 (1): 71–97
- Frieden, J. A. (1991). “Invested interests: the politics of national economic policy in a world of global finance.” *International Organization*, 45: 425–51.
- Frieden, J. A., Ghezzi, P., and Stein, E. (2001). “Politics and exchange rates: a cross-country approach.” In J. A. Frieden and E. Stein, editors, *The Currency Game: Exchange Rate Politics in Latin America*. Baltimore: Johns Hopkins University Press, pp. 21–63.
- Rodrik, Dani (2005). “Feasible Globalizations.” In Michael Weinstein, editor, *Globalization. What’s New?* New York: [https://www.nber.org/system/files/working\\_papers/w9129/w9129.pdf](https://www.nber.org/system/files/working_papers/w9129/w9129.pdf)

Columbia University Press.

*Recommended readings:*

- ★ Broz, J. Lawrence (2002). “Political system transparency and monetary commitment regimes.” *International Organization*, 56: 861–87.
- ★ Broz, J. Lawrence (2005). “Congressional Politics of International Financial Rescues.” *American Journal of Political Science*, 49(3): 479–96.
- ★ Frieden, Jeffrey A. (2002). “Real sources of European currency policy: sectoral interests and European monetary integration.” *International Organization*, 56: 831–60.
- ★ Hefeker, Carsten (1995). “Interest groups, coalitions and monetary integration in the nineteenth century.” *Journal of European Economic History*, 24: 489–536.
- ★ Leblang, D. 1999. “Democratic political institutions and exchange rate commitments in the developing world.” *International Studies Quarterly*, 43: 599–620.
- ★ Leblang, David (2003). “Devalue or Defend?” *International Studies Quarterly* 47(4), pp. 533–559.

**WEEK 14, APRIL 19:** F. FINANCIAL GLOBALIZATION: OPPORTUNITY AND CRISIS

*Required readings:*

- Krugman, Obstfeld and Melitz. Chapters: 20–21.
- Eichengreen, Barry, and Ricardo Hausmann (1999). “Exchange rates and financial fragility.” *Proceedings - Economic Policy Symposium - Jackson Hole*, Federal Reserve Bank of Kansas City: 329-368.
- Ostry, Jonathan D., Atish R. Ghosh, Marcos Chamon, and Mahvash S. Qureshi (2011). “Capital Controls: When and Why?” *IMF Economic Review* 59: 562–580.
- Frankel, Jeffrey (2015). “The Euro Crisis: Where to from Here?” *Journal of Policy Modeling*, 37 (3): 428–44.
- Pinto, Pablo M., Stephen Weymouth and Peter A. Gourevitch (2010). “The Politics of Stock Market Development.” *Review of International Political Economy* 17 (2): 378-409.

*Recommended readings:*

- ★ Acharya, Viral V., and Philipp Schnabl (2010). “Do Global Banks Spread Global Imbalances? Asset-Backed Commercial Paper during the Financial Crisis of 2007–09.” *IMF Economic Review* 58 (August): 37–73.
- ★ McGuire, Patrick, and Goetz von Peter (2012). “The Dollar Shortage in Global Banking and the International Policy Response.” *International Finance* 15 (2): 155–78.
- ★ Mundell, Robert A. (1961). “A Theory of Optimum Currency Areas.” *American Economic Review*, 51 (4): 657–65.
- ★ Solnik, Bruno H. (1995). “Why Not Diversify Internationally Rather than Domestically?” *Financial Analysts Journal* 51 (1): 89–94.

**WEEK 15, APRIL 26:** G. FINANCIAL GLOBALIZATION: GROWTH, CRISIS, AND REFORM

*Required readings:*

- Krugman, Obstfeld and Melitz. Chapter 22.
- Aizenman, Joshua, Yothin Jinjark, and Donghyun Park (2013). “Capital Flows and Economic Growth in the Era of Financial Integration and Crisis, 1990–2010.” *Open Economies Review* 24 (3): 371–96.
- Fischer, Stanley (2003). “Globalization and Its Challenges.” *American Economic Review* 93 (May): 1–30.
- Bordo, Michael D., and Catherine R. Schenk (2021). “Unusual, Unstable, Complicated, Unreliable and Temporary. Reinterpreting the Ebb and Flow of Globalization.” *NBER Working Paper No. 29114*, July 2021.
- Reinhart, Carmen M., and Kenneth S. Rogoff (2011). “From Financial Crash to Debt Crisis.” *American Economic Review* 101 (5): 1676–1706.

*Recommended readings:*

- ★ Carmen Reinhart and Kenneth Rogoff (2009). *This Time Is Different: Eight Centuries of Financial Folly*, Princeton, NJ: Princeton University Press.
- ★ Eichengreen, Barry, Andrew K. Rose, and Charles Wyplosz (1995). “Exchange Market Mayhem: The Antecedents and Aftermath of Speculative Attacks.” *Economic Policy*, 10(21), 249–312.
- ★ Frankel, Jeffrey A. and Andrew K. Rose (1996). “Currency Crashes in Emerging Markets: An Empirical Treatment.” *Journal of International Economics*, 41(3-4), 351-366.
- ★ Jeanne, Olivier (2007). “International Reserves in Emerging Market Countries: Too Much of a Good Thing?” *Brookings Papers on Economic Activity* 1 (2007): 1–79.
- ★ Obstfeld, Maurice (2012). “Financial Flows, Financial Crises, and Global Imbalances.” *Journal of International Money and Finance*, 31 (3): 469–80.