International Financial Relations  
SIS 666  

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School of International Service  
American University  

Spring 2018  

Class time:  Wednesdays, 8:20 - 10:50 p.m.  

Course Description and Prerequisites  

The global economy has been progressively integrated through international trade and investment over the last five decades. Globalization, which is particularly pronounced in money and financial markets, accentuates the impact of foreign financial disturbances on national economies and vice versa. This process has also elevated the importance of international monetary and financial policies for governments around the world. The 2008-2009 financial crisis, 2010-2015 European sovereign debt crisis and global financial volatility generally have kept reform of the monetary and financial system squarely on the international agenda.  

This course addresses contemporary and historical issues in international monetary and financial relations. Emphasizing key political and economic concepts, the course examines the historical evolution of the international monetary system, the political economy of monetary regimes, regional monetary integration, conflicts over balance-of-payments adjustment, and international currency competition. It also examines the financial crises, the design of financial rescues, and global financial governance.  

The course’s learning outcomes for students are:  

1. understanding of the major issues concerning international monetary and financial relations;  
2. knowledge of the basic concepts and principles of the field;  
3. ability to use analytical tools to assess policy and alternative proposals for international monetary and financial reform.  
4. skill in articulating related arguments.  

SIS 616 International Economics or its equivalent is a prerequisite; this course is the sequel to it for students in the International Economic Relations (IER) and a core course for that field. The course thus complements SIS 665 International Trade and Investment Relations and SIS 751 International Political Economy within the IER program.  

The instructor's office location and office hours:  

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Grading and Requirements

Students are expected to come to each class, read the assigned materials, participate in class discussions, prepare and deliver a slide presentation in class or submit a research paper, and take the final exam. The weights attached to these requirements are:

Participation 15%
First Quiz 10%
Second Quiz 10%
Research Paper 30%
Examination 35%

Students will research and write a substantial paper on a topic related to the course and approved by the instructor. Research papers will have a limit of 3300 words and are expected to use most of the space available. They should adhere to the Chicago Manual of Style, with footnotes at the bottom of the page and a list of references at the back. Students should submit a prospectus in the third class meeting and their final papers at the beginning of the eleventh class meeting. The professor might, at his discretion, ask students to make presentations on their papers to the class.

The examination at the end of the course will be comprehensive.

Students are required to follow the financial press on a daily basis and come to class prepared to discuss current events that are relevant to the course. To that end, students are required to follow the instructor on Twitter, @henning_randall, where links will occasionally be posted.

Students are encouraged to consult the instructor’s website for syllabi, weblinks and other resources: www.randallhenning.com.

By enrolling in this course, students agree to adhere to American University's Academic Integrity Code (AIC) in its entirety. The AIC, whose provisions are taken seriously in this course, can be found at: http://www.american.edu/american/registrar/AcademicReg/New/reg80.html

Laptop computers are allowed in the classroom at the discretion of the instructor. Students may use them to take notes and make presentations in class. If the instructor is concerned that they might be used inappropriately – that is, for any other purpose – the student’s laptop privilege will be revoked. (This usually happens to more than one student over the course of a semester.) The instructor reserves the right to ban all laptops and has done so in other courses. The use of cell phones and other personal electronic devices is completely banned during class time.
A prior understanding of the foundations of open economy macroeconomics is essential. All students will need to review and enhance their understanding of these concepts and theories over the course of the semester by reviewing their international economics textbook. I have included such a text as a required purchase below.

**Required Texts**


**Recommended Text**


**Course Outline and Readings**

ER = Material posted on electronic reserve on Blackboard
CR = On closed reserve in the library

**Week 1: Introduction, the Gold Standard and Interwar Conflict**

1. Course administration.
2. Introduction to key concepts and analytical issues in the international monetary and financial system.
3. Gold standard and domestic politics of money in the 19th century

Eichengreen, *Globalizing Capital*, chapters 1 and 2.

**Week 2: Bretton Woods Regime and International Monetary Fund**


Appleyard, Field and Cobb, *International Economics*, Chapter 25 (“Economic Policy in the Open Economy under Fixed Exchange Rates”) and first half of Chapter 29 (“International Monetary System”). (Confirm the alignment of chapter numbers and titles in your edition. These chapter numbers are from the 6th edition.) (Read this week but discuss in Weeks 3 and 4)

Self-introductions.

Recommended:

**Week 3: Flexible Exchange Rates**

Eichengreen, ch. 5, pp. 135-149 (floating), 178-184 (developing countries/conclusion), and chapter 7. Discussion of overall argument of Eichengreen’s book during this session.


**Week 4: Open Economy Macroeconomics and Policy**


Gagnon and Hinterschweiger, chapter 9 (on Blackboard under Content).

Recommended:


on the essential lessons listed at the end.

**Week 5: The IMF and Its Financial Strategy** *(concept quiz)*

The quiz will cover the concepts and principles from Weeks 1 through 4. It will not cover the readings listed below for Week 5.


Study guide questions:
1. What is a lender of last resort? What is the origin of the concept?
2. What are Walter Bagehot’s rules for a lender of last resort?
3. How does the IMF compare to an international LLR?
4. Definitions of solvency and insolvency.

Recommended:
Robert E. Rubin, and Jacob Weisberg, *In an Uncertain World* (New York: Random House, 2003), Chapters 1 (The First Crisis of the Twenty-First Century, Mexico), 9 (A Crisis Considered, Asia) and 10 (Hitting Bottom, Russia and LTCM). (ER)


Edwin M. Truman, ed., *Reform the IMF for the 21st Century* (see above), chapters 1, 2, 5 (exchange rate rules, by Goldstein), 7 (regional arrangements, by Henning), and 9 (chairs and shares, by Truman). (CR)


Week 6: Central Banks, Currency Wars and the Rise of the Renminbi


Recommended:


Text of the Trade and Customs Enforcement Act of 2016 relating to currency manipulation. (ER)


Zhou Xiaochuan, Reforming the International Monetary System, article posted on PBOC website. http://www.bis.org/review/r090402c.pdf?frames=0


**Week 7: Regional Financial Arrangements: Partners or Competitors with the IMF?**


Recommended


Week 8: Monetary Regionalism: Europe – Theory and Principles

Paul de Grauwe, The Economics of Monetary Union, 7th edition (New York: Oxford University Press, 2007), Chapters 1 and 2. (ER)

Eichengreen, Globalizing Capital, chapter 5, pp. 152-187.


Recommended:

[Spring Break]

Week 9: The Euro Crisis and Rescue Programs

Philip R. Lane, The European Sovereign Debt Crisis, Journal of Economic Perspectives, vol. 46, no. 3 (Summer 2012), pp. 49-68. (ER)

C. Randall Henning, Tangled Governance: International Regime Complexity, the Troika, and the Euro Crisis (Oxford: Oxford University Press, 2017), chapters 1 (Introduction), 3 (Dramatis Institutiones), and 5 (Greece 2010). (ER)

Yanis Varoufakis, Adults in the Room: My Battle with Europe’s Deep Establishment (London: The Bodley Head, 2017), Chapters 16 and 17 and Epilogue (pp. 428-485). (ER)


Memorandum of Understanding of August 2015, at http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/pdf/01_mou_

Recommended:

**Week 10: European Disintegration: Will the Euro Collapse? (Second Quiz)**


Recommended:

**Week 11: Debt Restructuring: “Bailing in” the Private Sector (papers due)**

Jeffrey D. Sachs, “Do We Need an International Lender of Last Resort?,” Frank D. Graham Lecture, Princeton University, April 20, 1995. (ER)


The main questions for this class meeting are:
1. What is the rationale for bankruptcy arrangements in the domestic context?
2. How have scholars applied them to the international context?
3. What are the barriers to creating an SDRM at the international level?
4. What are the interests of the major actors in doing so?
5. What is the relationship between debt restructuring and crisis finance from the IMF?

**Week 12: Debt Restructuring: “Bailing in” the Private Sector (continued)**


Recommended:


Questions for this class meeting:
1. What is the holdout problem and how did it manifest in the case of Argentina?
2. What is the rationale for a sovereign debt restructuring mechanism for the euro area (CIEP)?
3. Please summarize in three sentences Schadler’s argument.
4. What does the revocation of the “systemic exemption” mean for IMF participation in lending programs in the future?

Week 13: Managing International Capital Flows


Recommended:

Week 14: Cryptocurrencies and the Future of International Finance


Sinclair Davidson, Primavera de Filippi, and Jason Potts, “Blockchains and the Economic Institutions of Capitalism,” manuscript, no date, at https://www.academia.edu/33138299/Blockchains_and_the_economic_institutions_of_capitalism.


Recommended:
Sahil Gupta, Patrick Lauppe, Shreyas Ravishankar, “Fedcoin: A Blockchain-Backed Central Bank Cryptocurrency,” manuscript, Yale University, October 5, 2017, ER


Final Examination

Important Information for All Students

Standards of Academic Conduct: They are set forth in American University’s Academic Integrity Code (AIC). By registering for this course, you acknowledge your awareness of the AIC, and you are obliged to become familiar with your rights and responsibilities as defined by the Code. Violations of the AIC will not be treated lightly, and disciplinary actions will be taken should violations occur. Please contact me if you have any questions about the academic violations described in the Code in general or as they relate to particular requirements for this course, and I encourage you to familiarize yourself with the AIC at http://www.american.edu/academics/integrity/code.cfm. Finally, please let me know if you become aware of any violations of the AIC by other students.

In the Event of an Emergency: AU will implement a plan for meeting the needs of all members of the university community. Should the university be required to close for a period of time, we are committed to ensuring that all aspects of our educational programs will be delivered to you. These may include altering and extending the duration of the traditional term schedule to complete essential instruction in the traditional format and/or use of distance instructional
methods. Specific strategies will vary from class to class, depending on the format of the course and the timing of the emergency. I will communicate class-specific information to you via AU e-mail and/or Blackboard, and you are responsible for checking your AU email on a daily basis and for keeping yourself informed of any declared emergencies. Please refer to the AU Student Portal, the AU Web site http://www.american.edu/emergency/ and the AU information line at (202) 885-1100 for university-wide information.

AU provides numerous services to help students to be successful in their coursework: the Academic Support Center, the Counseling Center, Disability Support Services, the Writing Center and Writing Lab, and the Center for Diversity and Inclusion, most of which are located in the Mary Graydon Center (MGC).

Academic Support Center (x3360, MGC 243) offers study skills workshops, individual instruction, tutor referrals, Supplemental Instruction, and services for students with learning disabilities and ADHD. Writing support is available in the ASC Writing Lab or in the Writing Center. If you qualify for accommodations because of a disability, please notify me in a timely manner with a letter from the Academic Support Center or Disability Support Services so that we can make arrangements to address your needs.

Counseling Center (x3500, MGC 214) offers counseling and consultations regarding personal concerns, self-help information, and connections to off-campus mental health resources.

Disability Support Services (x3315, MGC 206) offers technical and practical support and assistance with accommodations for students with physical, medical, or psychological disabilities. If you qualify for accommodations because of a disability, please notify me in a timely manner with a letter from the Academic Support Center or Disability Support Services so that we can make arrangements to address your needs.

Writing Center (x2991, Battelle-Tompkins 228) offers free, individual coaching sessions to all AU students. In your 45-minute session, a student writing consultant can help you address assignments, understand the conventions of academic writing, and learn how to revise and edit your own work. The Center offers appointments on the hour from 11 AM to 9 PM Monday through Thursday; 11 AM to 4 PM Friday, and 3 to 6 PM on Sundays.

Center for Diversity and Inclusion (x3651, MGC 2nd fl.) is dedicated to enhancing LGBTQ, Multicultural, First Generation, and Women’s experiences on campus and to advance AU’s commitment to respecting and valuing diversity by serving as a resource and liaison to students, staff, and faculty on issues of equity through education, outreach, and advocacy.