



Department of Economics

Bendheim Center for Finance

Julis Rabinowitz Center

Princeton Summer Reading Group
The International Financial Architecture

Organizers: Markus K. Brunnermeier
Oleg Itskhoki
Manuel Amador

Questions: Wei Cui

Meetings: meetings are primarily on Tuesdays and Fridays.
We tentatively plan to meet on the following dates

June: 1, 3, 7, 14, 28, 30

July: 5, 7, 19, 22, 25(?)

Aug: 2

Support: The Julis Rabinowitz Center will financially support
this initiative.

Topic 1: Intro on International Monetary System and Gold Standard (2 meetings)

1) US Dollar dominance and SDRs

* Barry Eichengreen (2011) “Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System”, Oxford University Press

* Emmanuel Farhi, Pierre-Olivier Gourinchas, and Hélène Rey, (2011) “Reforming the International Monetary System”

2) Gold Standard and Price-Specie-Flow Mechanism

* Michael Bordo (1999), *The Gold Standard and Related Regimes: Collected Essays*, Cambridge University Press

* B. Bernanke. 1993 “The world on a cross of gold: A review of ‘Golden fetters’.” *Journal of Monetary Economics* 31: 251-267.

- Eichengreen, Barry J.; Marc Flandreau (1997). *The gold standard in theory and history*

- William H. Buiter “A viable gold standard requires flexible monetary and fiscal Policy,” *Review of Economic Studies*, Jan. 1989, 101-117

- Philip Cagan (1970?) (1965 book)

Topic 2: Unsustainability of Global Current Account Imbalance: Developed and Emerging Country Perspective (3 meeting)

General & Developed Country Perspective

* M. Ayhan Kose, Eswar Prasad, Ken Rogoff and Shang-Jin Wei, “Financial Globalization and Economic Policies” Chapter 65, *Handbook of Development Economics*.

* IMF Research Department, “Reaping the Benefits of Financial Globalization”, *IMF working paper*, June 2007

* Maurice Obstfeld and Ken Rogoff, 2004

* Dooley “Bretton Woods II”

* Enrique G Mendoza; Vincenzo Quadrini; José-Víctor Ríos-Rull, 2009, “Financial integration, financial deepness and global imbalances”, *Journal of Political Economy*

* Ricardo Caballero, Emmanuel Farhi and P-O Gourinchas, *American Economic Review*,

- Oliver Jeanne, IMF presentation, Global financial imbalances and global financial safety nets
<http://www.imf.org/external/np/seminars/eng/2011/res/pdf/OJ2presentation.pdf>

International Reserves: Emerging Country perspective

- Obstfeld, Maurice, Jay C. Shambaugh, and Alan M. Taylor. 2010. “Financial Stability, the Trilemma, and International Reserves.” *American Economic Journal: Macroeconomics*, 2(2): 57–94.

* C. Carroll and O. Jeanne (2009), “A Tractable Model of Precautionary Reserves, Net Foreign Assets, or Sovereign Wealth Funds”, Johns Hopkins University working paper

* Lee, Mendoza and Terrones have a paper where they do a horse race of the insurance, mercantilism and financial development hypotheses

Crises

* Steven Radelet and Jeffrey D. Sachs, (1998) “The East Asian Financial Crisis: Diagnosis, Remedies, Prospect” Brookings Papers on Economic Activity, 1-90.

- Guillermo A. Calvo and Enrique G. Mendoza, “Capital-Markets Crises and Economic Collapse in Emerging Markets: An Informational-Frictions Approach”, AER, P&P 2000
<http://econweb.umd.edu/~mendoza/pp/paper4session.pdf>

* Pierre-Olivier Gourinchas and Maurice Obstfeld (2011), “Stories of the Twentieth Century for the Twenty-First” University of California at Berkeley,

* Carmen Reinhart and Ken Rogoff, (2011) “From Financial Crash to Debt Crisis” NBER Working Paper #15795

- Viral Acharya, Itamar Drechsler and Philipp Schnabl, “A Pyrrhic Victory? – Bank Bailouts and Sovereign Credit Risk”, http://pages.stern.nyu.edu/~sternfin/vacharya/public_html/ADS_May11.pdf

* Carmen Reinhart and Ken Rogoff, (2011) “A Decade of Debt” NBER Working Paper #16827

* Carmen Reinhart and Ken Rogoff, (2009) *This Time is Different*, Princeton University Press

Topic 3: Financing Constraints within and across countries (4 meetings)

General

- * Enrique G. Mendoza, (2010), “Sudden Stops, Financial Crises, and Leverage”, *American Economic Review*, 100, 1941-1966.
- * Ricardo Caballero and Arvind Krishnamurthy, *Journal of Monetary Economics* (only intro)
- * Ricardo Caballero and Arvind Krishnamurthy, *Journal of Economic Theory* (Implementation Theory Approach)
- * Ricardo Caballero and Arvind Krishnamurthy, *AER P&P* (Putting it into Mundell-Fleming model))
- * Tirole, Jean (2003), "Inefficient Foreign Borrowing: A Dual- and Common-Agency Perspective", *American Economic Review* 93, 1678-1702.
- * Martin Schneider and Aaron Tornell, (2004 “Balance Sheet Effects, Bailout Guarantees and Financial Crises”, *Review of Economic Studies*, 71, 883-913.
- * Kosuke Aioi, Gianluca Benigno and Nobu Kiyotaki (2009) “Asset Price and Capital Flows”, NBER working paper

Capital controls

- * Barry Eichengreen, Micheal Mussa, Giovanni Dell’Ariccia, Enrica Detragiache, Gian Maria Milesi-Ferretti, and Andrew Tweedie, “Capital Account Liberalization: Theoretical and Practical Aspects”, IMF Occasional Paper 172.
- * Nicolas E. Magud, Carmen M. Reinhart, Kenneth S. Rogoff “Capital Controls: Myth and Reality - A Portfolio Balance Approach”. NBER Working Paper No. 16805, Issued in February 2011. <http://www.nber.org/papers/w16805>
- Jonathan D. Ostry, Atish R Ghosh, Karl Habermeier, marco Chamon, Mahvash S. Qureshi, and Dennis B.S. Reinhardt, (2010) “Capital Inflows: The Role of Controls”, IMF Staff Position Note 10/04
- * IMF Research Department, (2011) “Recent Experiences in Managing Capital Inflows – Cross-Cutting Themes and Possible Policy Framework”

- Maurice Obstfeld, (2011) “Expanding Gross Asset Positions and the International Monetary System” University of California, Berkeley
- Maurice Obstfeld (2011) “Reflections upon Rereading ‘The Capital Myth’”, University of California, Berkeley
- Shogo Ishii, Karl Habermeier, Jorge Ivan Canales-Kriljenko, Bernard Laurens, John Leimone, and Judit Vadasz, “Capital Account Liberalization and Financial Sector Stability”, IMF Occasional Paper 211.
- Francis E. Warnock (2011) “Doubts about Capital Controls”, Council on Foreign Relations
- Anton Korinek (2010) “Regulating Capital Flows to Emerging Markets: An Externality View” May 2010 <http://www.korinek.com/download/CapitalFlows.pdf>
- Olivier Blanchard (2011) “Capital inflows and capital controls”, Notes for wp3, April 12, 2011

Hot money

- V. V. Chari and Patrick J. Kehoe, “Hot Money”, *The Journal of Political Economy*, 111, No. 6 (December 2003), pp. 1262-1292
- Olivier Jeanne (2009) “Debt Maturity and the International Financial Architecture”, *American Economic Review*

Topic 4: Other Macroprudential Tools and Interaction with Monetary Policy

- * Jonathan D. Ostry, Atish R Ghosh, Karl Habermeier, Luc Laeven, Marco Chamon, Mahvash S. Qureshi, and Dennis B.S. Reinhardt, (2011) “Managing Capital Inflows: What Tools to Use?”, IMF Staff Position Note 11/06
- * Philip R. Lane and Gian M. Milesi-Ferretti, (2010), “Cross-Border Investment in Small International Financial Centers”, *IMF Working paper* 10/38.
<http://www.imf.org/external/pubs/ft/wp/2010/wp1038.pdf>
- * Nicola Cetorelli and Linda S. Goldberg, Liquidity Management of U.S. Global Banks: Internal Capital Markets in the Great Recession http://www.nber.org/confer/2011/GFC11/Cetorelli_Goldberg.pdf
- * Stijn Claessens, Richard J. Herring Dirk Schoenmaker, 2010, A Safer World Financial System: *Improving the Resolution of Systemic Institutions*
- * Aghion, Philippe, Philippe Bacchetta, and Abhijit Banerjee (2001), “Currency Crises and Monetary Policy in an Economy with Credit Constraints,” *European Economic Review* 45, 1121-1150.

*Brunnermeier “Optimizing a Currency Union”

<http://www.princeton.edu/~markus/research/lectures/ECB%20Papademos%20colloquium%202010.pdf>

Topic 5: Portfolio View versus Trade View

Trade View: Maurice Obstfeld and Kenneth S. Rogoff, *Foundations of International Macroeconomics*, (Chapter 5), MIT Press.

Portfolio View: Maurice Obstfeld <http://elsa.berkeley.edu/~obstfeld/Obstfeld1.pdf>

Harald Hau and Helene Rey: <http://www.voxeu.org/index.php?q=node/1604>

* Valuation adjustments: Pierre-Olivier Gourinchas and Helene Rey (2007) “International Financial Adjustment,” *Journal of Political Economy*, 115(4), 665-703.

Did Frank Warnock not do a test of this valuation recently?

Topic 6: Sovereign Debt Restructuring Mechanism, CAC and the Latin America Crisis

* Federico Sturzenegger and Jeromin Zettelmeyer, *Debt Defaults and Lessons from a Decade of Crises*, MIT Press.

Ann Krueger

* P. Bolton and O. Jeanne “Sovereign Default Risk and Bank Fragility in Financially Integrated Economies” <http://www.econ.jhu.edu/People/Jeanne/ARC031611.pdf>

Maurice Obstfeld, Kenneth S. Rogoff, *Foundations of International Macroeconomics* (Chapter 6), MIT Press.

Bailouts or Bail-Ins: Responding to Financial Crises in Emerging Markets by Nouriel Roubini, Noriel Roubini and Brad Setser (Aug 2004)

The recent paper by Viral, Dreschler and Schnabl? Also Nicola Geniola has a paper

Topic 7: European Debt Crisis

* Markus K. Brunnermeier, Luis Garicano, Philip Lane, Marco Pagano, Tano Santos, Stijn van Nieuwenburgh, Dimitri Vayanos, Richardo Reis, *Project Europe*

Topic “Extra”: Coordination between Fiscal policy, Trade Policy and Exchange Rate Policy

Arnaud Costinot, Guido Lorenzoni, and Ivan Werning on optimal trade policy in a dynamic environment? The preliminary title is "Trade Protection and Currency Manipulation"

Farhi, Gopinath and Itskhoki "Fiscal Devaluations"