

Interdisciplinary Programmes

Academic year 2020-2021

The Economics and Political Economy of International Financial Policy

IA107 - Autumn - 3 ECTS

Monday 10h15 - 12h00

Course Description

This course presents the challenges of conducting monetary policy in a rapidly changing environment. It combines academic courses on the economic and international relation aspects by IHEID professors with presentations from representatives of the Swiss National Bank focusing on the actual implementation of the various topics. Active participation by the students in the discussions following the presentations is expected.

The topics include the changing global macroeconomic environment, the implementation of monetary policy, macroprudential policy, crypto-currencies, the international dimension, and finance and the environment.

> PROFESSOR

[Cédric Tille](#)

[Cédric Dupont](#)

[Andrea Maechler and Staff from the Swiss National Bank](#)

[Office hours](#)

> ASSISTANT

[Kritika Saxena](#)

[Office hours](#)

Syllabus

This course covers how the conduct of economic policy in a small open economy has changed in recent years, with the impact of globalization and the emergence of new challenges. Pr. Tille and Pr. Dupont will present the main issues from the perspectives of economics and international relations to provide you with the required background. Representatives from the Swiss National Bank, including Dr. Andrea Maechler, member of the Governing Board of the SNB, will provide insights on how central banks conduct their policy and navigate the challenges in reality, including through the interaction with foreign policymakers and international organizations.

The syllabus provides background readings that are non-technical (required readings are marked with a *). Each class consists of presentations by the Professors and the representatives of the SNB intended to frame the issue and raise points for discussion. Half the time of each class is left for a discussion with the students, and you are expected to actively participate.

A bachelor level understanding of macroeconomics is required for the course. Students will be evaluated based on their participation in the discussion (50% of the grade) and a critical review of one

of the topics covered in the syllabus. The review consists of 4-5 pages, and students should inform the Professors of the topic they want to cover by end-October.

Class format

Given the uncertainty about the sanitary regulations this Fall and about the number of students who will be present in Geneva, this course will adopt a **virtual classroom format**. The instructors and the guest speaker, pending the situation at the time, will be seating in the same room acting as a studio. All students will participate remotely.

Classes topics and readings

Class 1) Monday September 21, 2020, 10:15-12:00

“Set the stage” class: International financial integration, and international policy actors.

Cédric Dupont and Cédric Tille

- Patterns of capital flows, retrenchment in the crisis (brief outline of the euro crisis also).
- Global banks, global financial cycle.
- National institutions (central banks, treasuries).
- Multilateral institutions (WB, IMF, G20), emergence of regional ones.

* Bussière, Matthieu, Julia Schmidt, and Natacha Valla (2016). “International Financial Flows in the New Normal: Key Patterns (and Why We Should Care)”, CEPII Policy Brief no 10.
http://www.cepii.fr/PDF_PUB/pb/2016/pb2016-10.pdf

* International Monetary Funds factsheets

Surveillance <https://www.imf.org/en/About/Factsheets/IMF-Surveillance>

Lending <https://www.imf.org/en/About/Factsheets/IMF-Lending>

Capacity Development <https://www.imf.org/en/About/Factsheets/imf-capacity-development>

* Kirshner, Jonathan (2003) Money is politics, Review of International Political Economy, 10:4, 645-660,

<https://doi.org/10.1080/09692290310001601911>

* Lane, Philip, and Gian-Maria Milesi-Ferretti (2018). “International Financial Integration in the Aftermath of the Global Financial Crisis”, *IMF Economic Review* 66(1), pp. 189-222.

<https://link.springer.com/article/10.1057/s41308-017-0048-y>

McQuade, Peter, and Martin Schmitz (2016). “The great moderation in international capital flows : a global phenomenon ?”, ECB Working Paper 1952.

<https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1952.en.pdf>

Maxfield, Sylvia, W. Kindred Winecoff and Kevin L. Young (2017) An empirical investigation of the financialization convergence hypothesis, Review of International Political Economy, 24:6, 1004-1029,

<https://doi.org/10.1080/09692290.2017.1371061>

Class 2) Monday September 28, 2020, 10:15-12:00

The changing global macroeconomic environment.

Introduction by Cédric Dupont and Cédric Tille, presentation by **Nicolas Stoffels**.

- Low real interest rates.
- Low inflation, with limited (?) reaction to growth.
- Dealing with international capital flows (dilemma-trilemma debate)

Bean, Charles, Christian Broda, Takatoshi Ito, and Randall Kroszner (2015). “Low for Long? Causes and Consequences of Persistently Low Interest Rates”, Geneva report of the world economy 17.

<https://voxeu.org/content/low-long-causes-and-consequences-persistently-low-interest-rates>

- * Chinn, Menzie (2015). "Navigating the trilemma in a financially integrated world: challenges for policy makers", in proceedings of BCC third annual conference *Exchange Rate Policy: Limits to Flexibility, Capital Controls, and Reserve Management*, pp. 15-51.
<http://graduateinstitute.ch/files/live/sites/iheid/files/sites/bcc/shared/docs/BCC%203th%20Annual%20Conference%20proceedings.pdf>
- * Kaufmann, Daniel (2018a). "A long-run view on monetary policy - Part 2: Why are interest rates so low?", blog post.
http://macro-and-more.blogspot.com/2018/09/a-long-run-view-on-monetary-policy-part_16.html
- * Kaufmann, Daniel (2018b). "A long-run view on monetary policy - Part 4: Do Central Banks control inflation?", blog post.
<http://macro-and-more.blogspot.com/2018/10/a-long-run-view-on-monetary-policy-part.html>
- Miles, David, Ugo Panizza, Ricardo Reis, and Ángel Ubide (2017) "And Yet It Moves: Inflation and the Great Recession" Geneva report on the world economy 19
<https://voxeu.org/content/and-yet-it-moves-inflation-and-great-recession>
- Rey, Hélène (2016). "International Channels of Transmission of Monetary Policy and the Mundellian Trilemma ", *IMF Economic Review* 64, pp. 6-35.
<https://www.imf.org/external/np/res/seminars/2014/arc/pdf/Rey.pdf>
- * Swiss National Bank (2016). The SNB in Brief
<https://snb.ch/en/mmr/reference/kurzportraet/source/kurzportraet.en.pdf>
- * Tille, Cédric (2020) "Why are interest rates so low », blog post, January 20
https://drive.google.com/file/d/1ZtjV_iR3xoZaSFUt3dNXeZ8eBW5G68Rh/view?usp=sharing

Class 3) Monday October 19, 2020, 10:15-12:00

The implementation of monetary policy.

Introduction by Cédric Dupont and Cédric Tille, presentation by **Andrea Maechler**.

- Changing policy toolkit: unorthodox measures.
- Evolution of interest rates steered by central banks (from Libor to reference rate).

Ball, Laurence, Joseph Gagnon, Patrick Honohan, Signe Krogstrup (2016) "What Else Can Central Banks Do?" Geneva report on the world economy 18
<https://voxeu.org/content/what-else-can-central-banks-do>

* Bernanke, Ben (2020). "The New Tools of Monetary Policy", Brookings Institution blog.
<https://www.brookings.edu/blog/ben-bernanke/2020/01/04/the-new-tools-of-monetary-policy/>
https://www.brookings.edu/wp-content/uploads/2019/12/Bernanke_ASSA_lecture.pdf

Bernanke, Ben (2013). "A Century of US Central Banking: Goals, Frameworks, Accountability", *Journal of Economic Perspectives* 27(4), pp 3-16.
<https://www.aeaweb.org/articles?id=10.1257/jep.27.4.3>

* Hildebrand Philipp (2019a). "Central Banks will need New Tools to Combat the Next Downturn", *Financial Times*.
<https://www.ft.com/content/ad35d4a0-ca4c-11e9-af46-b09e8bfe60c0>

Kuttner, Kenneth (2018) "Outside the Box: Unconventional Monetary Policy in the Great Recession and Beyond", *Journal of Economic Perspectives* 32(4), pp. 121-146.
<https://www.aeaweb.org/articles/pdf/doi/10.1257/jep.32.4.121>

Mabbett, Deborah and Waltraud Schelkle (2019) "Independent or lonely? Central banking in crisis," *Review of International Political Economy*, 26:3, 436-460.
<https://doi.org/10.1080/09692290.2019.1675743>

Class 4) Monday November 2, 2020, 10:15-12:00

Macroprudential policy.

Introduction by Cédric Dupont and Cédric Tille, presentation by **Bertrand Rime**.

- Survey of tools and evidence of effectiveness.

- Lessons from actual implementation.

Aikman, David, Jonathan Bridges, Anil Kashyap, and Caspar Siegert (2019). "Would Macprudential Regulation Have Prevented the Last Crisis?", *Journal of Economic Perspectives* 33(1) pp. 107-130.

<https://www.aeaweb.org/articles/pdf/doi/10.1257/jep.33.1.107>

Alam, Zohair, Adrian Alter, Jesse Eisenman, Gaston Gelos, Heedon Kang, Machiko Narity, Elend Nier, and Naixi Wang (2019). "Digging Deeper – Evidence on the Effects of Macprudential Policies from a New Database", IMF Working Papers 19/66.

<https://www.imf.org/en/Publications/WP/Issues/2019/03/22/Digging-Deeper-Evidence-on-the-Effects-of-Macprudential-Policies-from-a-New-Database-46658>

* Galati, Gabriele, and Richhild Moessner (2017). "Macprudential policy: state of the art, and ways forward", keynote address at the BCC 5th annual conference, Geneva.

http://graduateinstitute.ch/files/live/sites/iheid/files/sites/bcc/shared/docs/Keynote%20lecture_BCC%20conference_Graduate%20Institute%20Geneva_2017.pdf

Class 5) Monday November 9, 2020, 10:15-12:00

Crypto-currency: a private alternative, and/or a new form of central bank money?

Introduction by Cédric Dupont and Cédric Tille, presentation by **Andrea Maechler**.

- Clarification of concepts.
- What are cryptos useful for?
- Are they a threat to traditional central banking?

* Bank for International Settlement (2020) "Central banks and payments in the digital era", annual report, June. <https://www.bis.org/publ/arpdf/ar2020e3.htm>

* Eichengreen, Barry (2019). "Will Libra be Stillborn?", Project Syndicate.

https://www.project-syndicate.org/commentary/libra-looks-like-a-currency-without-a-purpose-by-barry-eichengreen-2019-10?a_la=english&a_d=5da4395a08d52a18d8437fef&a_m=&a_a=click&a_s=&a_p=homepage&a_li=libra-looks-like-a-currency-without-a-purpose-by-barry-eichengreen-2019-10&a_pa=curated&a_ps=main-article-a2

Perret, Virgile (2019). "Cash for the Digital Age", Observatoire de la Finance.

http://www.obsfin.ch/wp-content/uploads/Document/2019-Report_CBDC_INT_English.pdf

Class 6) Monday November 23, 2020, 10:15-12:00

The international dimension.

Introduction by Cédric Dupont and Cédric Tille, presentation by **Sébastien Wälti**.

- Shift of the center of gravity of the world economy towards emerging countries, rise of new actors (China investment bank).
- What reforms should the WB / IMF do? Are they doing enough?
- Cooperation between national institutions: how does it work (e.g. use of swaps), how has it changed?

De Gregorio, José, Barry Eichengreen, Takatoshi Ito, Charles Wyplosz (2018). "IMF reform – the unfinished agenda" Geneva Report on the World Economy 20

<https://voxeu.org/content/imf-reform-unfinished-agenda>

* Gourinchas, Pierre-Olivier, Hélène Rey, and Maxime Sauzet (2019). "The International Monetary and Financial System", NBER working paper 25782.

<https://www.nber.org/papers/w25782.pdf>

Knaack, Peter and Julian Gruin (2020): From shadow banking to digital financial inclusion: China's rise and the politics of epistemic contestation within the financial stability board, *Review of International Political Economy*,

<https://doi.org/10.1080/09692290.2020.1772849>

Kaya, Ayse and Mike Reay (2019) How did the Washington consensus move within the IMF? Fragmented change from the 1980s to the aftermath of the 2008 crisis, *Review of International Political Economy*, 26:3, 384-409

<https://doi.org/10.1080/09692290.2018.1511447>

Kalyanpur, Nikhil and Abraham Newman (2017) Form over function in finance: international institutional design by bricolage, *Review of International Political Economy*, 24:3, 363-392,

<https://doi.org/10.1080/09692290.2017.1307777>

* Reis, Ricardo (2020) "Central bank swap lines during the Covid 19 pandemic" vox eu video

<https://voxeu.org/content/central-bank-swap-lines-during-covid-19-pandemic>

Class 7) Tuesday December 1, 2020, 10:15-12:00 (room S1)

Finance and the environment.

Introduction by Cédric Dupont and Cédric Tille, presentation by **Andrea Maechler**.

- Should finance care about the environment?
- What is green finance?
- Implication for policymakers, incl. central banks.

Bolton, Patrick, Morgan Despres, Luiz Awazu Pereira Da Silva, Frédéric Sanama, et Romain Svartzman (2020). « The green swan », Banque des Règlements Internationaux, Banque de France. <https://www.bis.org/publ/othp31.pdf>

* Carney, Mark (2015). "Breaking the Tragedy of the Horizon – Climate Change and Financial Stability", speech.

<https://www.bankofengland.co.uk/-/media/boe/files/speech/2015/breaking-the-tragedy-of-the-horizon-climate-change-and-financial-stability.pdf?la=en&hash=7C67E785651862457D99511147C7424FF5EA0C1A>

* Maechler, Andréa, and Thomas Moser (2019). « Climate risks and central banks: an SNB perspective », speech, November 14

https://www.snb.ch/en/mmr/speeches/id/ref_20191114_amrtmo/source/ref_20191114_amrtmo.en.pdf