

International Economics Development Economics

Academic year 2020-2021

Advanced International Macroeconomics B: Policies to Harness Financial Globalisation

EI090 - Printemps - 3 ECTS

Wednesday 10h15 - 12h00

Course Description

This course provides a graduate-level treatment of research on international financial integration, with an emphasis on empirical works. The course reviews recent developments in macroeconomics, with emphasis on open economy questions, in order to help students identify research topics.

It documents the rising extent of financial linkages and the associated 'valuation effects' of asset prices on countries' wealth. It then considers research on the global financial cycle and whether the exchange rate regime can help absorb capital flows. The course then considers the development of international banking activity and its impact on policy transmission. It considers situations in which borrowing can be socially excessive, and concludes with a review of the use and effectiveness of international reserves, capital controls, and macroprudential policies.

The first part of the course consists of lectures. The second part consists of presentations of papers from the reading list (with the option to propose a paper not on the list that you would be particularly interested in presenting).

You will need a working knowledge of macroeconomic at the level of Obstfeld and Rogoff's Foundations in International Economics.

> PROFESSOR

[Cédric Tille](#)

[Office hours](#)

> ASSISTANT

[Office hours](#)

Syllabus

Evaluation

The evaluation consists of the presentations of a paper from the reading list (40% of grade), a short review of one of the topics (40% of grade) and participation in the classwide discussion (20% of grade). Each presentation lasts 30 minutes and goes over the main points of the paper. Each student will make one presentation. Preferences should be indicated by the end of the third week, and I will then put together the schedule ensuring an even coverage of topics.

Each student will also write a short review at the end of the course on a topic of her/his choice. The review should be a concise (5-6 pages) discussion of the recent advances in a topic, identifying what has been learnt and what are the remaining challenges. This review can form the basis of the literature review of your MPT or one of your chapters.

1) International financial integration

1.1) *Patterns of international financial integration*

Avdjiev, Stefan, Mary Everett, Philip Lane, and Hyun Song Shin (2018). "Tracking the international footprints of global firms", *BIS Quarterly Review*, March, pp. 47-66.
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Koepke, Robin, and Simon Paetzold (2020). "Capital Flow Data – A Guide for Empirical Analysis and Real-time Tracking", IMF working paper 20/171
<https://www.imf.org/en/Publications/WP/Issues/2020/08/21/Capital-Flow-Data-A-Guide-for-Empirical-Analysis-and-Real-time-Tracking-49646>

Lane, Philip, and Gian Maria Milesi-Ferretti (2007). "A global perspective on external positions", in R. Clarida ed. *G7 Current Account Imbalances: Sustainability and Adjustment*, University of Chicago Press.
<http://www.nber.org/papers/w11589>

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
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Lane, Philip, and Gian-Maria Milesi-Ferretti (2014). "Global Imbalances and External Adjustment after the Crisis", IMF working paper 14/151
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1.2) *Valuation effects and the "exorbitant privilege"*

Adams, Jonathan, and Philip Barrett (2021). "Why are countries' asset portfolios exposed to nominal exchange rates?", *Journal of International Money and Finance* 110.
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Bénétrix, Agustin, Deepali Gautam, Luciana Juvenal, and Martin Schmitz (2020). "Cross-Border Currency Exposures. New evidence based on an enhanced and updated dataset," Trinity economic paper 0120
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Bénétrix, Agustin, Philip Lane, and Jay Shambaugh (2015). "International currency exposures, valuation effects and the global financial crisis," *Journal of International Economics* 96(S1), 98-109.
<https://www.sciencedirect.com/science/article/pii/S0022199614001226>

- Curcuru, Stephanie, Tomas Dvorak, and Francis Warnock (2013). "On Returns Differentials", *Journal of International Money and Finance* 36(C), pp. 1-25.
<http://www.sciencedirect.com/science/article/pii/S0261560613000272>
- Galstyan, Vahagn, Caroline Mehigan, and Rogelio Mercado (2020). "The currency composition of international portfolio assets", *Journal of International Money and Finance* 103.
<https://www.sciencedirect.com/science/article/pii/S0261560619306497>
- Gourinchas, Pierre-Olivier and Hélène Rey (2013). "External Adjustment, Global Imbalances and Valuation Effects", NBER working paper 19240.
<http://www.nber.org/papers/w19240>
- Herkenhoff, Philipp, and Philip Sauré (2020). "How Expected Inflation Distorts the Current Account and the Valuation Effect", CEPR discussion paper 15469.
https://cepr.org/active/publications/discussion_papers/dp.php?dpno=15469

1.3) Global imbalances

- Alberola, Enrique, Angel Estrada, and Francesca Viani (2020). "Global imbalances from a stock perspective: The asymmetry between creditors and debtors", *Journal of International Money and Finance* 107.
<https://www.sciencedirect.com/science/article/abs/pii/S02615606203016253>
- Alfaro, Laura, Sebnem Kalemli-Ozcan, and Vadym Volosovych (2014). "Sovereigns, Upstream Capital Flows, and Global Imbalances", *Journal of the European Economic Association* 12, pp. 1240 - 1284
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- Brumm, Johannes, Georgios Georgiadis, Johannes Gräb, and Fabian Trottner (2019). "Global value chain participation and current account imbalances", *Journal of International Money and Finance* 97, pp. 111-124.
<https://www.sciencedirect.com/science/article/pii/S0261560619300610/pdf?md5=7868f2caaffa9cc07ee29ad9a5b297bb&pid=1-s2.0-S0261560619300610-main.pdf>
- Coppola, Antonia, Matteo Maggiori, Brent Neiman, and Jesse Schreger (2020). "Redrawing the Map of Global Capital Flows: The Role of Cross-Border Financing and Tax Havens", CEPR discussion paper 14508
https://cepr.org/active/publications/discussion_papers/dp.php?dpno=14508
- Devereux, Michael, Makoto Saito, and Changhua Yu (2020). "International capital flows, portfolio composition, and the stability of external imbalances", *Journal of International Economics* 127.
<https://www.sciencedirect.com/science/article/pii/S002219962030101X>
- International Monetary Fund (2014). "Are Global Imbalances at a Turning Point?", *World Economic Outlook* chapter 4.
<http://www.imf.org/external/pubs/ft/weo/2014/02/pdf/c4.pdf>
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- Kumhof, Michael, Phurichai Rungcharoenkitkul, and Andrej Sokol (2020) "How Does International Capital Flow?", CEPR discussion paper 15526.
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<http://www.cepr.org/pubs/new-dps/dplist.asp?dpno=8958.asp>

1.4) Patterns and drivers of international capital flows

- Avdjiev, Stefan, Brian Hardy, Sebnem-Kalemlı-Ozcan, and Luis Serven (2017). "Gross Capital Inflows to Banks, Corporates and Sovereigns", NBER working paper 23116.
<http://www.nber.org/papers/w23116>
- Allen, Cian (2019). "Revisiting external imbalances: Insights from sectoral accounts", *Journal of International Money and Finance* 96, pp. 67-101.
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- Burger, John, Francis Warnock, and Veronica Cacadac Warnock (2018). "Benchmarking Portfolio Flows", *IMF Economic Review* 66, pp. 527-563.
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- 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
- Camanho, Nelson, Harald Hau, and Hélène Rey (2020) "Global Portfolio Rebalancing and Exchange Rates", CEPR discussion paper 15617.
https://cepr.org/active/publications/discussion_papers/dp.php?dpno=15617
- Cavallo, Eduardo, Andrew Powell, Mathieu Pedemonte, and Pilar Tavella (2015). "A New Taxonomy of Sudden Stops: Which Sudden Stops should Countries be Most Concerned About?", *Journal of International Money and Finance* 51, pp. 47-70.
<https://www.sciencedirect.com/science/article/pii/S0261560614001600>
- Chari, Anusha, Karlye Dilts Stedman, and Christian Lundblad (2020). "Capital Flows in Risky Times: Risk-on/Risk-off and Emerging Market Tail Risk", NBER working paper 27927
<https://www.nber.org/papers/w27927>
- Emer, Lorenz, Martin Schmitz, and Marcel Tirpák (2018). "Cross-border banking in the EU since the crisis: what drives the great retrenchment?", ECB working paper 2130.
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- Forbes, Kristin, and Francis Warnock (2012). "Capital Flow Waves: Surges, Stops, Flight, and Retrenchment", *Journal of International Economics* 88, pp. 235-251.
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- Ghosh, Atish, Jun Il Kim, Mahvash Saeed Qureshi, and Juan Zalduendo (2014). "Surges", *Journal of International Economics* 92, pp. 266-285.
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- Koepke, Robin (2019). "What drives Capital Flows to Emerging Markets: A Survey of the Empirical Literature", *Journal of Economic Surveys* 33(2), pp. 516-540.
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- 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>

2) Global financial cycle, and the trilemma

2.1) The global financial cycle

- Adrian, Tobias, Daniel Stackman, and Erik Vogt (2019). "Global Price of Risk and Stabilization Policies", *IMF Economic Review* 67(1) pp. 215-260.
<https://link.springer.com/content/pdf/10.1057%2Fs41308-019-00075-3.pdf>
- Avdjiev, Stefan, Valentina Bruno, Catherine Koch, and Hyun Song Shin (2019). "The Dollar Exchange Rate as a Global Risk Factor: Evidence from Investment" *IMF Economic Review* 67(1) pp. 151-173.
<https://link.springer.com/content/pdf/10.1057%2Fs41308-019-00074-4.pdf>
- Boncianni, Dario, and Martino Ricci (2020). "The international effects of global financial uncertainty shocks", *Journal of International Money and Finance* 109.
<https://www.sciencedirect.com/science/article/pii/S0261560620301923>
- Cecchetti, Stephen, Tommaso Mancini-Griffoli, Machiko Narita, and Ratna Sahay (2020) "US or Domestic Monetary Policy: Which Matters More for Financial Stability?", *IMF Economic Review* 68, pp. 35-65.
<https://link.springer.com/article/10.1057/s41308-020-00108-2>
- Cerutti, Eugenio, Stijn Claessens, and Andrew Rose (2019). "How Important is the Global Financial Cycle? Evidence from Capital Flows" *IMF Economic Review* 67(1) pp. 24-60.
<https://link.springer.com/content/pdf/10.1057%2Fs41308-019-00073-5.pdf>
- Davis, Scott, Giorgio Valente, and Eric van Wincoop (2021). "Global Drivers of Gross and Net Capital Flows", *Journal of International Economics* 128.
<https://www.sciencedirect.com/science/article/pii/S0022199620301124>
- Eickmeier, Sandra, Leonardo Gambacorta, and Boris Hofmann (2013). "Understanding Global Liquidity", *European Economic Review* 68, pp. 1-18.
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- Ghosh, Atish, Jonathan Ostry, and Mahvash Qureshi (2017). "Managing the Tide: How do Emerging Markets Respond to Capital Flows?", IMF Working Paper WP/17/69.
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- Greenwood, Robin, and David Scharfstein, (2013). "The Growth of Finance." *Journal of Economic Perspectives*, 27(2), pp. 3-28.
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- Ha, Jongrim, Ayhan Kose, Christopher Otrok, and Eswar Prasad (2020) "Global Macro-Financial Cycles and Spillovers", CEPR discussion paper 14404.
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- Kaminsky, Graciela, Leandro Medina, and Shiyi Wang (2020). "The Financial Center Leverage Cycle: Does it Spread Around the World?", NBER working paper 26793
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Miranda-Agrippino, Silvia, and Hélène Rey (2019). "US Monetary Policy and the Global Financial Cycle", NBER working paper 21722.
<https://www.nber.org/papers/w21722.pdf>

Reinhart, Carmen, Vincent Reinhart, and Christoph Trebesch (2017). "Capital Flow Cycles: A Long Global View" paper presented at the 18th Jacques Pollack IMF conference.
<https://www.imf.org/en/News/Seminars/Conferences/2017/09/18/~media/76E0E62F8AF744D48A0D59D84D925BF9.ashx>

Scheubel, Beatrice, Livio Stracca, and Cédric Tille (2019). "The Global Financial Cycle and Capital Flow Episodes: a Wobbly Link?", European Central Bank working paper 2337.
<https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2337~3c88ced5a7.en.pdf>

Schüler, Yves, Paul Hiebert, and Tuomas Peltonen (2020). "Financial cycles: Characterisation and real-time measurement", *Journal of International Money and Finance* 100.
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2.2) The international trilemma vs. dilemma

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<http://www.nber.org/papers/w21128>
http://web.pdx.edu/~ito/trilemma_indexes.htm

Cavallino, Paolo, and Damiano Sandri (2020) "The Open-Economy ELB: Contractionary Monetary Easing and the Trilemma", CEPR discussion paper 14683.
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<https://www.sciencedirect.com/science/article/pii/S0261560619301421>

Eichengreen, Barry, and Rui Esteves (2019). "The Trials of the Trilemma: International Finance 1870-2017", CEPR discussion paper 13465.
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Fendoglu, Salih, Eda Gulsen, and José-Luis Peydro (2020) "Global Liquidity and Impairment of Local Monetary Policy", CEPR discussion paper 15273.
https://cepr.org/active/publications/discussion_papers/dp.php?dpno=15273

Friedrich, Christian, Pierre Guérin, and Danilo Leiva-Leon (2020). "Monetary Policy Independence and the Strength of the Global Financial Cycle", Bank of Canada working paper 2020-25
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<http://www.nber.org/papers/19461>
- Nelson, Edward (2020) "The Continuing Validity of Monetary Policy Autonomy under Floating Exchange Rates", *International Journal of Central Banking*, pp. 81-123.
<https://www.ijcb.org/journal/ijcb20q1a3.htm>
- Obstfeld, Maurice, Jonathan Ostry, and Mahvash Qureshi (2017). "A Tie That Binds: Revisiting the Trilemma in Emerging Market Economies", IMF working paper 17/130
<http://www.imf.org/~media/Files/Publications/WP/2017/wp17130.ashx>
- Rey, H el ene (2016). "International Channels of Transmission of Monetary Policy and the Mundellian Trilemma", *IMF Economic Review* 64, pp. 6-35.
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2.3) International reserves

- Aizenman, Joshua, Yin-Wong Cheung, and Xing Wang Qian (2020). "The currency composition of international reserves, demand for international reserves, and global safe assets", *Journal of International Money and Finance* 102.
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3) International banking

3.1) Transmission through banks

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3.2) Recent developments

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