

**Political Science 579: The Politics of International Finance**  
**Friday, 9:30-12:15, Fenno Room (Harkness 329)**

**Fall 2014**

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**Purpose of the course:** This is an advanced course intended for Ph.D. students. The course conducts a broad survey of the field, focusing on the politics of substantive issues in international finance, including macroeconomic policy coordination, foreign debt and economic adjustment, and European integration.

**Course Requirements:** Each student writes a data-based research paper (20-25 pages, described below). A draft of the research paper is due at 5:00 pm November 13, and the final version is due December 12 at 12:00 noon (no extensions). Each student will have at least one opportunity to present a preliminary version of the paper during the semester. In addition, there will be a take-home final exam, due December 4 at 4:00 pm. Grading: 1/3 class participation, 1/3 final paper, 1/3 final. Note also the Block Seminar on Saturday, December 13, when all students will present their papers. Please reserve the day; we may go off campus for a change of venue.

**Research Papers:** Although the papers are short (no more than 25 pages, please), the standards are high. The papers are expected to formulate a hypothesis, ground it in appropriate literature, illustrate an argument or puzzle using qualitative evidence, and test the hypothesis using quantitative evidence. Please speak to me before the second class so I can get you started.

**Readings:** The following books are recommended for purchase; I recommend ordering on-line.

- Kirschner, Jonathan. *Currency and Coercion: The Political Economy of International Monetary Power*. Princeton: Princeton University Press, 1995.
- Eichengreen, Barry. *Globalizing Capital: A History of the International Monetary System*. 2<sup>nd</sup> Ed. Princeton: Princeton Univ. Press, 2008.
- Cohen, Benjamin J. *The Geography of Money*. Ithaca: Cornell UP, 1998.
- Reinhart, Carmen M. and Kenneth S. Rogoff. *This Time is Different: Eight Centuries of Financial Folly*. Princeton: Princeton University Press, 2009.
- Simmons, Beth. *Who Adjusts? Domestic Sources of Foreign Economic Policy during the Interwar Years*. Princeton: Princeton Univ. Press, 1994.
- Helleiner, Eric. *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s*. Ithaca: Cornell Univ. Press, 1994.
- Stone, Randall W. *Lending Credibility: The International Monetary Fund and the Post-Communist Transition*. Princeton: Princeton Univ. Press, 2002.
- Moravcsik, Andrew. *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht*. Ithaca: Cornell Univ. Press, 1998.
- Tomz, Michael. *Reputation, Debt, and International Cooperation*. Princeton: Princeton University Press, 2007.

## **Course Outline:**

### **Friday, Sept. 5: Overview**

### **Friday, Sept. 12: Money and Power**

Kirshner, Jonathan. *Currency and Coercion: The Political Economy of International Monetary Power*. (Princeton: Princeton Univ. Press, 1995).

Cohen, Benjamin J. *The Geography of Money*. (Ithaca: Cornell UP, 1998.)

### **Friday, Sept. 19: Sovereign Debt**

Bulow, Jeremy, and Kenneth Rogoff. "A Constant Recontracting Model of Sovereign Debt." *Journal of Political Economy* 97, No. 1 (1989).

Tomz, Michael. *Reputation, Debt, and International Cooperation*. PUP, 2007.

Drazen (2000), 587-601.

### **Friday, Sept. 26: Default, Banking and Currency Crises**

Reinhart, Carmen M., and Kenneth S. Rogoff. *This Time is Different: Eight Centuries of Financial Folly*. Princeton: Princeton University Press, 2009. Chapters 1-15.

### *Student presentations*

### **Friday, Oct. 3: Foreign Aid**

Morgenthau, Hans. "A Political Theory of Foreign Aid." *American Political Science Review* 56 (2) (June 1962): 301-09.

Drazen, *Political Economy in Macroeconomics*, pp. 601-613.

Bueno de Mesquita, Bruce, and Alastair Smith. 2009. A Political Economy of Aid. *International Organization* Vol. 63, No. 2 (Spring, 2009) (pp. 309-340).

Alesina, Alberto, and David Dollar. 2000. Who Gives Aid to Whom and Why? *Journal of Economic Growth* 5 (March): 33-63.

Burnside, Craig and David Dollar. 2000. Aid, Policies and Growth. *American Economic Review* 90 (September): 847-68.

Easterly, William, Ross Levine, and David Roodman. 2004. Aid, Policies, and Growth: Comment. *American Economic Review* 94 (3):774-80.

Kuziemko, Ilyana and Eric Werker. 2006. How Much Is a Seat on the Security Council Worth? Foreign Aid and Bribery at the United Nations. *Journal of Political Economy* 114 (4): 905-30.

Carter, David B., and Randall W. Stone. (Forthcoming, 2015). Multilateralism and Democracy: The Case of Vote Buying in the United Nations General Assembly. *International Organization*.

### **Friday, Oct. 10: Foreign Direct Investment**

Vernon, Raymond. 1971. *Sovereignty at Bay: The Multinational Spread of U.S. Enterprises*. New York, NY: Basic Books. Selections.

Helpman, Elhanan, Marc J. Melitz and Stephen R. Yeaple. 2004. Export versus FDI with Heterogeneous Firms. *American Economic Review* 94(1): 300-316.

Henisz, Witold J. 2000. The Institutional Environment for Multinational Investment. *Journal of Law, Economics, and Organization* 16: 334-364.

Li, Quan. 2009. "Democracy, Autocracy, and Expropriation of Foreign Direct Investment," *Comparative Political Studies* 42: 1098-1127.

Büthe, Tim, and Helen V. Milner. 2008. The Politics of Foreign Direct Investment into Developing Countries: Increasing FDI through International Trade Agreements? *American Journal of Political Science* 52(4): 741-762.

Elkins, Zachary, Andrew T. Guzman, and Beth A. Simmons. 2006. Competing for Capital: The Diffusion of Bilateral Investment Treaties, 1959-2000. *International Organization* 60: 811-846.

Jensen, Nathan M. 2008. Political Regimes and Political Risk: Democratic Institutions and Expropriation Risk for Multinational Investors. *Journal of Politics* 70 (4): 1040-1052.

### **Friday, Oct. 17: Multilateral Lending**

Stone, Randall W. *Lending Credibility: The International Monetary Fund and the Post-Communist Transition* (Princeton: Princeton Univ. Press, 2002).

Stone, Randall W. 2004. The Political Economy of IMF Lending in Africa. *American Political Science Review* 98:577-591.

Kilby, Christopher. 2009. The Political Economy of Conditionality: An Empirical Analysis of World Bank Loan Disbursements. *Journal of Development Economics* 89 (1) (May): 51-61.

### **Friday, Oct. 24: International Finance under the Gold Standard**

Eichengreen, Globalizing Capital. Chapters 2, 3.

Simmons, Beth. *Who Adjusts? Domestic Sources of Foreign Economic Policy during the Interwar Years*. (Princeton: Princeton Univ. Press, 1994).

**Friday, Oct. 31: International Finance in the Bretton Woods Era**

Eichengreen, *Globalizing Capital*. Chapter 4.

Milner, Helen V. *Interests, Institutions, and Information: Domestic Politics and International Relations*. Princeton: Princeton Univ. Press, 1997. Chapter 5, pp. 135-57.

Keohane, Robert O. *After Hegemony: Cooperation and Discord in the World Political Economy*. (Princeton: Princeton Univ. Press, 1984), Chapters 8, 9.

Helleiner, Eric. *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s*. (Ithaca: Cornell Univ. Press, 1994). Chapters 1-5.

Drazen, Allen. *Political Economy in Macroeconomics*. PUP, 2000. (pp. 529-44.)

**Friday, Nov. 7: International Finance under Flexible Exchange Rates**

Eichengreen, *Globalizing Capital*. Chapter 5.

Odell, John S. *Negotiating the World Economy*. (Cornell Univ. Press, 2000). Chpt. 4.

Helleiner, Eric. *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s*. (Ithaca: Cornell Univ. Press, 1994). Chapter 6-9.

Drazen, *Political Economy in Macroeconomics*, (pp. 559-87.)

**Friday, Nov. 14: No Class (IPES)**

**5:00: Paper Draft due**

**Friday, Nov. 21: The Origins of the Euro**

Moravcsik, Andrew. *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht*. Ithaca: Cornell Univ. Press, 1998. Chpt. 6.

Henning, C. Randall. "Systemic Conflict and Monetary Integration in Europe." *International Organization* 52 (3) (Summer 1998): 537-74.

Drazen, *Political Economy in Macroeconomics*, (pp. 544-59.)

Giavazzi, Francesco, and Marco Pagano. 1988. The Advantage of Tying One's Hands: EMS Discipline and Central Bank Credibility. *European Economic Review* 32: 1055-1082.

Stone, Randall W. *Controlling Institutions: International Organizations and the Global Economy*. (Cambridge: Cambridge University Press, 2011), Chpt. 6.

**Fri., Nov. 28: No class (Thanksgiving)**

**Fri., Dec. 5: The Future of the Euro**

Henning, Randall C. *Tangled Governance: International Regime Complexity in the Euro Crisis*. Manuscript, 2014.

Feldstein, Martin. 2012. The Failure of the Euro. *Foreign Affairs* 91 (1) (Jan/Feb): 105-16.

Eichengreen, Barry. 2012. When Currencies Collapse. *Foreign Affairs* 91 (1) (Jan/Feb): 117-134.

**Fri., Dec. 12: No class. Final paper due, 12:00 noon**

**Saturday, Dec. 13, 9:00-3:00: Block Seminar: Student presentations**

**Monday, Dec. 15: Final exam due, 5:00 pm**

**Additional suggested readings:**

Abdelal, Rawi. *Capital Rules: The Construction of Global Finance*. HUP, 2007.

Aggarwal, Vinod K. *Debt Games: Strategic Interaction in International Debt Rescheduling*. (New York: Cambridge Univ. Press, 1996). Chpts. 11, 13, 14.

Alesina, Alberto, and Beatrice Weder. 2002. Do Corrupt Governments Receive Less Foreign Aid? *The American Economic Review* 92 (4): 1126-38.

Blustein, Paul. 2001. *The Chastening: Inside the Crisis that Rocked the Global Financial System and Humbled the IMF*. New York: Public Affairs.

Eichengreen, Barry. 1992. The Origins and Nature of the Great Slump Revisited. *The Economic History Review* New Series, Vol. 45, No. 2 (May): 213-239.

Frieden, Jeffrey A. 1991. *Debt, Development, and Democracy: Modern Political Economy and Latin America, 1965-1985*. Princeton: PUP. Chapters 2-3 (pp. 42-94).

Helleiner, Eric. *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s*. (Ithaca: Cornell Univ. Press, 1994). Chapter 9.

Jensen, Nathan M. 2003. Democratic Governance and Multinational Corporations: Political Regimes and Inflows of Foreign Direct Investment. *International Organization* 57 (3): 587-616.

Oye, Kenneth. *Economic Discrimination and Political Exchange: World Political Economy in the 1930s and 1980s*. Princeton: Princeton Univ. Press, 1993. Chpt. 6.

Reinhart, Carmen M., and Kenneth S. Rogoff. 2004. The Modern History of Exchange Rate Arrangements: A Reinterpretation. *The Quarterly Journal of Economics*, Vol. 119, No. 1 (Feb.): 1-48.

Steinwand, Martin, and Randall W. Stone. 2008. The International Monetary Fund: A Review of the Recent Evidence. *Review of International Organizations* 3 (2) (June): 123-49.