

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

Fall 2017

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Purpose of the course: This is an advanced course intended for Ph.D. students. The first half of the course surveys contemporary research on several topics in international finance, including macroeconomic policy coordination, foreign debt and economic adjustment. The second half takes a historical approach and ranges from the Great Depression to the Euro Crisis.

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 17, and the final version is due at 5:00 pm December 13 (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 18 at noon. Grading: 1/3 class participation, 1/3 final paper, 1/3 final. Note also the Block Seminar on Friday, December 15, when all students will present their papers. Please reserve the day; we may go off campus for a change of venue.

Research Papers: 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.

- Eichengreen, Barry. *Globalizing Capital: A History of the International Monetary System*. 2nd Ed. Princeton: Princeton Univ. Press, 2008.
- Henning, Randall C. *Tangled Governance: International Regime Complexity, the Troika, and the Euro Crisis*. Oxford: Oxford University Press, 2017.
- 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.
- Tomz, Michael. *Reputation, Debt, and International Cooperation*. Princeton: Princeton University Press, 2007.

Course Outline:

Friday, Sept. 8: The Geography of Money

Eichengreen, Barry, and Marc Flandreau. 2009. The rise and fall of the dollar (or when did the dollar replace sterling as the leading reserve currency?). *European Review of Economic History* 13: 377–411.

Rey, H el ene. 2016. International Channels of Transmission of Monetary Policy and the Mundellian Trilemma. NBER Working Paper 21852.

Friday, Sept. 15: 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.

Gray, Julia. 2009. International Organization as a Seal of Approval: European Union Accession and Investor Risk. *American Journal of Political Science*. 53 (4): 931-949.

Friday, Sept. 22: 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, Sept. 29: No class

Monday, Oct. 2, 7:00-9:30 pm: Foreign Aid

Bermeo, Sarah Blodgett. 2017. *Targeted Development: Industrialized Country Strategy in a Globalizing World*. Oxford: Oxford Univ. Press. Chapters 2, 3, 4. PDF available from the instructor.

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).

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

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. 2015. Multilateralism and Democracy: The Case of Vote Buying in the United Nations General Assembly. *International Organization*.

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

Friday, Oct. 6: Foreign Direct Investment

Wellhausen, Rachel L. 2015. The Shield of Nationality: When Governments Break Contracts with Foreign Firms. Cambridge University Press. Chapters 3-5.

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, and Adam Resnick. 2003. Reversal of Fortunes: Democratic Institutions and Foreign Direct Investment Inflows to Developing Countries. *International Organization* 57(1): 175-211.

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.

Friday, Oct. 13: Multilateral Lending

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

Nelson, Stephen C. 2014. Playing Favorites: How Shared Beliefs Shape the IMF's Lending Decisions. *International Organization* 68 (2): 297-328.

Malik, Rabia, and Randall W. Stone. Forthcoming. Corporate Influence in World Bank Lending. *Journal of Politics*.

J. Lawrence Broz. 2005. Congressional Politics of International Financial Rescues. *American Journal of Political Science* 49 (3) (July): 479–496.

Friday, Oct. 20: 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. 27: 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. 3: No class

Friday, Nov. 10: 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. 17: No class (IPES)

5:00 pm: Paper Draft due

Monday, Nov. 20, 7:00-9:30 pm: 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.

Friday, Nov. 24: No class (Thanksgiving break)

Friday, Dec. 1: The Euro Crisis

Henning, Randall C. *Tangled Governance: International Regime Complexity, the Troika, and the Euro Crisis*. Oxford: Oxford University Press, 2017.

Friday, Dec. 8: No class

Weds., Dec. 13: Final paper due, 5:00 pm

Friday, Dec. 15, 9:00-3:00: Block Seminar: Student presentations

Monday, Dec. 18: Final exam due, 12:00 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.
- Cohen, Benjamin J. *The Geography of Money*. (Ithaca: Cornell UP, 1998.)
- 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.
- Jensen, Nathan M. 2008. Political Regimes and Political Risk: Democratic Institutions and Expropriation Risk for Multinational Investors. *Journal of Politics* 70 (4): 1040-1052.
- 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.
- 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.
- 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.
- Alesina, Alberto, and David Dollar. 2000. Who Gives Aid to Whom and Why? *Journal of Economic Growth* 5 (March): 33-63.
- Easterly, William, Ross Levine, and David Roodman. 2004. Aid, Policies, and Growth: Comment. *American Economic Review* 94 (3):774-80.
- Vernon, Raymond. 1971. *Sovereignty at Bay: The Multinational Spread of U.S. Enterprises*. New York, NY: Basic Books. Selections.