Jaime Marquez

202-663-5909

[jmarque1@jhu.edu](mailto:jmarque1@jhu.edu)

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MIEF International Money and Banking

**Honor Code Statement**

Enrollment at SAIS obligates each student to conduct all activities in accordance with the rules and spirit of the school’s [Honor Code.](https://mobile.johnshopkins.edu/owa/redir.aspx?C=5vMfKYquEUezgoY0naVsI3O8xbYgE88IbvqkL1KnHNyZp5MLGnqGT2Zc76quGesD3CXMxAXJ1B4.&amp;URL=http%3a%2f%2fwww.sais-jhu.edu%2facademics%2facademic-affairs%2fpdf%2fRed%20Book%20AY%2011-12%2008.15.10.pdf) The Honor Code governs student conduct at SAIS. It covers all activities in which students present information as their own, including written papers, examinations, oral presentations and materials submitted to potential employers or other educational institutions. It requires that students be truthful and exercise integrity and honesty in their dealings with others, both inside SAIS and in the larger community. While the Honor code goes well beyond plagiarism, it is important that each student understand what is and what is not plagiarism. The Turnitin software is available to faculty in detecting plagiarism. Plagiarism will definitely result in failure of the paper or exam and may result in failing the course depending on the judgment of the professor.

**Course Description and Prerequisites**

The course begins with the seemingly obvious question of What is Money: commodity, fiat, artificial? I continue with an analysis of financial intermediation with emphasis on private banks’ structure and behavior; I cover institutional and analytical issues. I then turn with the transition from privately issued money to publically issued money. Because the factors that give credibility to domestic money are absent in the international setting, the course continues by examining how the varying degrees of credibility of monetary arrangements have shaped the role played by money in the international economy: Dollarization, the role of banks in transmitting the U.S. financial crisis of 2008 to other countries, currency areas, dominant currencies, and digital currencies. The final segment examines the rise of the Renminbi in the international monetary system.

**Evaluation**

There are four papers (25% each).

**Required background**: Macroeconomics; knowledge of basic microeconomics and econometrics is presumed.

**Readings**

Money

Cass, D. and M Yaari. “A Re-examination of the Pure Consumption Loans Model,” *Journal of Political Economy*, August 1966, pp. 353-367.

de Grauwe, P. *International Money: Post-war Trends and Theories.* Oxford University Press, 1997, chapters 1- 4.

Rogoff, K. “Why Not a Global Currency,” *American Economic Review*, May 2001, pp. 243-247.

Wallace, N. “Why Markets in Foreign Exchange Are Different from Other Markets,” Federal Reserve Bank of Minneapolis, *Quarterly Review*, Fall 1979, pp. 197-208. <https://www.minneapolisfed.org/research/qr/qr341.pdf>

Special Drawing Rights

## Solomon, R. “The History of the SDR” in [Boughton](https://www.imf.org/en/Publications/Publications-By-Author?author=James%20M.%20Boughton); J., P.[Isard](https://www.imf.org/en/Publications/Publications-By-Author?author=Peter%20%20Isard), and M. [Mussa](https://www.imf.org/en/Publications/Publications-By-Author?author=Michael%20%20Mussa), *The Future of the SDR in Light of Changes in the International Monetary System,* International Monetary Fund, 1996.

## Frankel, J. and B. Eichengreen, “ Implications of the Future Evolution of the International Monetary System,” in [Boughton](https://www.imf.org/en/Publications/Publications-By-Author?author=James%20M.%20Boughton); J., P.[Isard](https://www.imf.org/en/Publications/Publications-By-Author?author=Peter%20%20Isard), and M. [Mussa](https://www.imf.org/en/Publications/Publications-By-Author?author=Michael%20%20Mussa), *The Future of the SDR in Light of Changes in the International Monetary System,* International Monetary Fund, 1996.

Data on SDRs: <http://www.imf.org/external/np/fin/data/rms_five.aspx>

International Monetary Fund, Fact Sheet about the Special Drawing Right SDR, April 21, 2017, <http://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/14/51/Special-Drawing-Right-SDR>

## International Monetary Fund, *Q and A on 2015 SDR Review, IMF’s Executive Board Completes Review of SDR Basket, Includes Chinese Renminbi,* November 30, 2015:

<https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr15543>

## International Monetary Fund, *IMF Launches New SDR Basket Including Chinese Renminbi, Determines New Currency Amounts,* September 30, 2016:

<http://www.imf.org/en/News/Articles/2016/09/30/AM16-PR16440-IMF-Launches-New-SDR-Basket-Including-Chinese-Renminbi>

Assignment – Did the inclusion of the RMB in the SDR change the behavior of SDR interest rates?

Financial Intermediation

Cetorelli, N. “Introducing a Series on the Evolution of Banks and Financial Intermediation”

http://www.typepad.com/t/stats?blog_id=86843359508010764&user_id=&page=http%3A//libertystreeteconomics.newyorkfed.org/2012/07/introducing-a-series-on-the-evolution-of-banks-and-financial-intermediation.html&referrer=&i=172639219<http://libertystreeteconomics.newyorkfed.org/2012/07/introducing-a-series-on-the-evolution-of-banks-and-financial-intermediation.html> July 16, 2012

*Private Banks*

Matthews, K. and Thompson, J. *The Economics of Banking*, Wiley, 2008, chapters 3, 4, 6.

Ball, L. *Money, Banking, and Financial Markets,* Worth, 2012, chapters 2, 8, and 9.

**Bank Performance**

Vickery, J. and A. Meehl, “Just Released: Bank Loan Performance Under the Microscope,” Federal Reserve Bank of New York Liberty Street Economics (blog), June 1, 2017,

<http://libertystreeteconomics.newyorkfed.org/2017/06/just-released-bank-loan-performance-under-the-magnifying-glass.html>

Avraham, D., T. Sullivan, and J. Vickery, “Tracking the U.S. Banking Industry”

<http://libertystreeteconomics.newyorkfed.org/2012/10/tracking-the-us-banking-industry.html>, October 10, 2012

Federal Reserve Bank of New York Quarterly Trends for Consolidated U.S. Banking Organizations <https://www.newyorkfed.org/research/banking_research/quarterly_trends.html>

**Securitization**

Ball, L. *Money, Banking, and Financial Markets,* Worth, 2012, chapter 8.

Matthews, K. and Thompson, J. *The Economics of Banking*, Wiley, 2008, chapters 9

*Central Banks*

de Grauwe, P. *International Money: Post-war Trends and Theories.* Oxford University Press, 1997, chapter 1.

Ball, L. *Money, Banking, and Financial Markets,* Worth, 2012, chapter 2.

[Powell, J. “America's central bank: the history and structure of the Federal Reserve](http://links.govdelivery.com:80/track?type=click&enid=ZWFzPTEmbXNpZD0mYXVpZD0mbWFpbGluZ2lkPTIwMTcwMzI4LjcxNjQyMzUxJm1lc3NhZ2VpZD1NREItUFJELUJVTC0yMDE3MDMyOC43MTY0MjM1MSZkYXRhYmFzZWlkPTEwMDEmc2VyaWFsPTE2OTEzNzczJmVtYWlsaWQ9am1hcnF1ZTFAamh1LmVkdSZ1c2VyaWQ9am1hcnF1ZTFAamh1LmVkdSZ0YXJnZXRpZD0mZmw9JmV4dHJhPU11bHRpdmFyaWF0ZUlkPSYmJg==&&&100&&&https://www.federalreserve.gov/newsevents/speech/powell20170328a.htm)” <https://www.federalreserve.gov/newsevents/speech/powell20170328a.htm>

Federal Reserve Board, “Purposes and Functions,” <https://www.federalreserve.gov/pf/pf.htm>

Pißler, K. *History and Legal Framework of the People’s Bank of China.* Springer International Publishing Switzerland 2015 https://link.springer.com/chapter/10.1007%2F978-3-319-17380-1\_2

Dollarization

Rennhack, R. and Nozaki, M. “Financial Dollarization in Latin America,” IMF Working Paper, 2006, No. wp/06/7.

Berg, A. and Borensztein, E. “The Pros and Cons of Dollarization,” IMF Working Paper, 2000, No. wp/00/50.

Fischer, S. “Seigniorage and the Case of a National Money,” *Journal of Political Economy*, April 1982, pp. 295-313.

Chang, R. “Dollarization: A Scorecard,” in <http://www.frbatlanta.org/publica/eco-rev/rev_abs/00er/q3/chang.pdf>

Discussion of dollarization from the viewpoint of U.S. Congress: <http://www.banking.senate.gov/docs/reports/dollar.htm>

Assignment – Should Canada and Mexico Dollarize?

Global Banks

Matthews, K. and Thompson, J. *The Economics of Banking*, Wiley, 2008, chapters 5

*Goldberg, L. and R. Wang, “*U.S. Banks’ Changing Footprint at Home and Abroad”

http://www.typepad.com/t/stats?blog_id=86843359508010764&user_id=&page=http%3A//libertystreeteconomics.newyorkfed.org/2015/11/us-banks-changing-footprint-at-home-and-abroad.html%23more&referrer=&i=651341492<http://libertystreeteconomics.newyorkfed.org/2015/11/us-banks-changing-footprint-at-home-and-abroad.html#more>, November 30, 2015

http://www.typepad.com/t/stats?blog_id=86843359508010764&user_id=&page=http%3A//libertystreeteconomics.newyorkfed.org/2011/12/central-bank-imbalances-in-the-euro-area.html&referrer=&i=51749442Data on foreign banks’ access to the Federal Reserve credit facilities <http://www.federalreserve.gov/newsevents/reform_taf.htm>

Banks and the Financial Crisis of 2008-09

[*Cetorelli*](http://www.newyorkfed.org/research/economists/cetorelli/index.html)*, N.* and [*L. Goldberg*](http://www.newyorkfed.org/research/economists/goldberg/index.html)*, “*Global Banks and Their Internal Capital Markets during the Crisis”

http://www.typepad.com/t/stats?blog_id=86843359508010764&user_id=&page=http%3A//libertystreeteconomics.newyorkfed.org/2011/07/global-banks-and-their-internal-capital-markets-during-the-crisis.html&referrer=&i=662891418 <http://libertystreeteconomics.newyorkfed.org/2011/07/global-banks-and-their-internal-capital-markets-during-the-crisis.html> July 11, 2011

Goldberg. L., Kennedy, C., Miu, J. “[Central Bank Dollar Swap Lines and Overseas Dollar Funding Costs](http://www.newyorkfed.org/research/epr/11v17n1/1105gold.pdf)” *Federal Reserve Bank of New York Economic Policy Review,* vol. 17, no. 1, pp. 3-20, May 2011. <http://www.newyorkfed.org/research/epr/11v17n1/1105gold.pdf>

Currency Areas

Mundell, R. "A Theory of Optimum Currency Areas," *American Economic Review*, Sept., 657-65, 1961.

Frankel, J. "No Single Currency Regime is Right for All Countries or at All Times," Graham Lecture, Princeton University, April 20, 1999.  Essays in International Finance No. 215, Princeton University Press.

de Grauwe, P. *The Economics of Monetary Integration*. Oxford: Oxford University Press, 1997, chapters 1-4.

Frankel, J. and Rose, A. ["The Endogeneity of the Optimum Currency Area Criterion",](http://papers.nber.org/papers/W5700)[The Economic Journal](http://www.res.org.uk/econ.html), vol. 108, no. 449, July 1998, 1009-1025.

Dominant Currencies

Menzie, C., and Frankel, J. “Will the Euro Eventually Surpass the Dollar as Leading

International Reserve Currency?” in *G7 Current Account Imbalances: Sustainability and Adjustment*, edited by Richard Clarida (University of Chicago Press: Chicago), 2007.

Eichengreen, B. *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System* (Oxford University Press), 2011, chapters 5-6.

Helleiner, E. (2008) ‘Political Determinants of International Currencies: What Future for the US Dollar?’, Review of International Political Economy 15(3): 354–78.

Goldberg, L. “What is the status of the international roles of the dollar?” 31 March 2010, <http://www.voxeu.org/article/dollar-s-international-roles>

Eichengreen, B. and M. Flandreau, ‘The Federal Reserve, the Bank of England, and the Rise of the Dollar as an International Currency, 1914–1939’. BIS Working Papers No. 328, 2010. Basel: Bank of International Settlements.

Assignment – Analyze the future of the U.S. dollar as an international reserve currency. Use the data in Blackboard on the currency composition of official foreign exchange reserves: <http://www.imf.org/external/np/sta/cofer/eng/index.htm>

Bitcoin

Carolyn Wilkins: Money in a digital world Remarks by Ms Carolyn Wilkins, Senior Deputy Governor of the Bank of Canada, at the Wilfrid Laurier University, Waterloo, Ontario, 13 November 2014. <http://www.bis.org/review/r141114b.pdf>

Ben Broadbent: Central banks and digital currencies Speech by Mr Ben Broadbent, Deputy Governor for Monetary Policy of the Bank of England, at the London School of Economics, London, 2 March 2016. <http://www.bis.org/review/r160303e.pdf>

Erkki Liikanen: Enhancing reliability and efficiency of future payments – five criteria Speech by Mr Erkki Liikanen, Governor of the Bank of Finland, at the European Central Bank/Bank of Finland Retail Payment Conference, Helsinki, 4 June 2015. <http://www.bis.org/review/r150608c.pdf>

Jon Nicolaisen: What should the future form of our money be? Speech by Mr Jon Nicolaisen, Deputy Governor of Norges Bank (Central Bank of Norway), at the Norwegian Academy of Science and Letters, Oslo, 25 April 2017. http://www.bis.org/review/r170426d.pdf

BIS, Distributed ledger technology in payment, clearing and settlement An analytical framework, February 2017 <http://www.bis.org/cpmi/publ/d157.pdf>

Wheatley, A, “Cash is Dead, Long Live Cash” <http://www.imf.org/external/pubs/ft/fandd/2017/06/wheatley.htm>, June 2017

Renminbi

Frankel, J. "[Internationalization of the RMB and Historical Precedents](http://www.hks.harvard.edu/fs/jfrankel/RMBinterntlznJEI2012.doc)," [*Journal of Economic Integration*](http://ideas.repec.org/s/ris/integr.html)*,* 2012, vol.27, no.3, pp. 329-365.

Bowles, P., & Wang. Renminbi internationalization: A journey to where? Development and Change, 2013, 44(6), 1363. <https://search.proquest.com/docview/1453996532?accountid=11752>

Aizenman, J. “The internationalization of the RMB, capital market openness, and financial reforms in China.” Bank of Finland, *BOFIT Discussion Papers*; Helsinki. April 2015. <https://search.proquest.com/docview/1658081846?accountid=11752>

Ming, Z. “Internationalization of the renminbi: Developments, problems, and influences.” Centre for International Governance Innovation. 2015. <https://www.cigionline.org/sites/default/files/new_thinking_g20_no2web_0.pdf>

Prasad, E., *Gaining Currency: The Rise of the Renminbi*, Oxford University Press, 2017.

Frankel, J. ‘Historical Precedents for the Internationalization of the RMB’. 2011 Paper prepared for a workshop organized by the Council on Foreign Relations and the China Development Research Foundation, Beijing (1 November).

<https://www.cfr.org/report/historical-precedents-internationalization-rmb>

U.S. Treasury, “ [Report on Foreign Exchange Policies of Major Trading Partners of the United States](http://links.govdelivery.com:80/track?type=click&enid=ZWFzPTEmbWFpbGluZ2lkPTIwMTcwNDE0LjcyMzQ1NDMxJm1lc3NhZ2VpZD1NREItUFJELUJVTC0yMDE3MDQxNC43MjM0NTQzMSZkYXRhYmFzZWlkPTEwMDEmc2VyaWFsPTE3NDA2ODcyJmVtYWlsaWQ9am1hcnF1ZTFAamh1LmVkdSZ1c2VyaWQ9am1hcnF1ZTFAamh1LmVkdSZmbD0mZXh0cmE9TXVsdGl2YXJpYXRlSWQ9JiYm&&&100&&&http://www.treasury.gov/press-center/press-releases/Pages/sm0044.aspx)” 2017, <https://www.treasury.gov/press-center/press-releases/Pages/sm0044.aspx>

Assignment – Examine the prospects of the Renminbi becoming a dominant currency?