

ECONOMICS 169
INTERNATIONAL FINANCIAL MARKETS AND MONETARY INSTITUTIONS

John B. Taylor
Department of Economics
650-723-9677
Stanford University
John.Taylor@Stanford.Edu
Spring Quarter 2008

This course is about monetary policy making in the global economy. We begin with a discussion of the key economic principles that underlie the workings of global financial markets, including a review of models of the international linkage between currency and capital markets. We also examine the role of central banks and international financial institutions. With this theoretical and institutional background, we then explore current policy issues. A major policy issue this quarter will be the ongoing crisis in the financial markets and the appropriate policy responses. To address this issue we will review past crises, policy responses, and reforms, tracing out how economic theory was used in practice.

REQUIREMENTS

Each student will be required to prepare a short paper on a topic relating to the current financial crisis and present the paper in class. Topics include the (1) countercyclical fiscal stimulus package, (2) the sharp reduction in the federal funds interest rate, (3) the new borrowing facilities at the Fed and other central banks, (4) the effect on emerging market economies, (5) the loan to investment bank Bear Stearns, and (6) proposals to help homeowners refinance their mortgages. Participating in classroom discussion of these topics is also required. There will be a short mid term on May 1 and a final exam on June 9. (Graduate students should register for Economics 269.)

BOOKS AND MAIN REFERENCES

Instruments of the Money Market, Federal Reserve Bank of Richmond, 1993
http://www.richmondfed.org/publications/economic_research/instruments_of_the_money_market/index.cfm

Stephen Cecchetti (2008) *Monetary Policy and the Financial Crisis of 2007-2008*

Sam Y. Cross, *The Foreign Exchange Market in the United States*,
<<http://www.newyorkfed.org/education/addpub/usfxm>>.

Anna Gelpern and Mitu Gulati (2007) "Public Symbol in a Private Contract: A Case Study" *Washington University Law Review*.

Stephen Krasner and Carlos Pascual (2005) “Addressing State Failure,” *Foreign Affairs*, July/August

William Poole (2007a) “Understanding the Fed” Federal Reserve Bank of St. Louis *Review*, <<http://research.stlouisfed.org/publications/review/07/01/Poole2.pdf>>.

William Poole (2007b) “Data Dependence” Federal Reserve Bank of St. Louis *Review*, <<http://research.stlouisfed.org/publications/review/07/03/77-84Poole.pdf>>.

John B. Taylor (1993) *Macroeconomic Policy in a World Economy*, W.W. Norton, <<http://www.stanford.edu/~johntayl/MacroPolicyWorld.htm>>.

John B. Taylor (2007) *Global Financial Warriors: The Untold Story of International Finance in the Post- 9/11 World*, W.W. Norton, New York.

TOPICS AND ASSIGNMENTS

Models of International Financial Markets

Cross (1998), Chapters 1-6

Taylor (1993), Chapter 1, pp. 9-16, 22-31 (or shorter handout)

Monetary Policy

Poole (2007a, 2007b)

Instruments in the Money Market (1993), Chapters 1-2

Overview and explanations for the 2007-2008 crisis

Cecchetti (2008)

International Financial Crises and Contagion

Taylor (2007), Chapter 3

Financial Reforms: The International Monetary Fund

Taylor (2007), Chapter 4

Gelpern and Gulati (2007)

International Debt Negotiations

Taylor (2007), Chapters 9

Currency Markets

Cross (1998), Chapters 7-9

Taylor (2007), Chapter 10

Financial Stabilization and Reconstruction

Taylor (2007), Chapters 2, 7, ,8

Krasner and Pascual (2005)