Syllabus, Spring 2018
ITRN 602, Global Financial Crises and Institutions

Instructor: Dr. Edward V. Murphy
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Class Time: Mondays 7:20-10:00
Office Hours: Mondays 6:20-7:20 and by appointment

The Course:
International finance includes the study of money, savings, and investments that flow between and among national jurisdictions. This course focuses on international financial institutions that operate in the world economy and in transnational affairs, especially to monitor, prevent, and cope with financial crises.

Some international financial institutions include multiple governments among their members, yet exercise no enforceable authority. Others offer programs that they can use as a condition to influence participating governments to adopt policies. Through their influence on public sector decision-makers, these institutions may in some cases be seen as regulating or intervening in the private sector, while in other cases merely recommending regulation or intervention. Recommendation may be a two-way street; some countries may influence an international financial institution to direct another government to adopt policies. These lines between recommendation and conditionality, and between directing a government and being directed by other governments, have heightened importance during financial instability because a crisis often tests governments' willingness to adhere to unenforceable norms, with large potential economic consequences.

The course provides context for the international financial system, its fragilities, and its regulation. This context is used as a framework to explore how several financial crises have resulted in rethinking macroeconomics and redesigning or recalibrating the system of international financial institutions.

Aims:
This course provides a survey of the international financial architecture. It reviews the basic mechanics of international capital flows and the institutions that support it. Considerable emphasis will be placed on historic context and on critically analyzing international crises related to European sovereign debt and U.S. Mortgage related securities.

Learning Outcomes:
Students will be able to briefly identify and explain the importance of key concepts and terminology in international finance.
Students will be able to apply analytical concepts to identify sources of financial instability, and associated trade-offs, in the international financial system.
Students will be able to identify existing and historic international financial institutions and apply key concepts to discuss how they can theoretically affect stability.
Students will be able to review several specific financial crises and the role played by international financial institutions.

Instruction Method:
This is a survey course. Many topics will be covered. It is not a seminar, but you are expected to
participate in class. Your participation should relate to the course assignments. Some class time and readings may focus on core features of international finance, especially financial intermediation, its risks, and trade-offs in designing regulation. Additional class time and readings may focus on both current events and on historical context, including prior financial crises. Class meetings will have a variety of methodology, including some lectures and some seminar-style discussion of required readings.

Requirements:
Students are expected to pass the examinations, do the required readings, submit a short briefing paper, and participate in class. Class participation includes an attempt to keep abreast of current issues in international finance by following some media coverage of international financial issues. Examples of qualifying (but not required) media outlets include The Economist, The Financial Times, The New York Times, The Washington Post, and Bloomberg.

Short Briefing Paper:
In addition to general class participation, students are expected to submit a short briefing paper on a specific topic related to global financial crises and institutions. Issue briefs should be designed to answer factual questions for the educated layman in preparation for a policy meeting. See below for more details. Ideally, an issue brief would fit on one page, front and back. However, students may extend to three single-sided pages.

Books and Materials:

Various Readings, all available online, as indicated.

Grading:
Midterm 25% (or 0%)
Class Participation 10%
Issue Brief 15%
Final Exam 50% (or 75%)

If the grade on the final exam is greater than the grade on the midterm, then the final exam will be worth 75% and the midterm will be worth zero.

Policy on Academic Integrity:
Faculty in the Schar School have zero tolerance for academic dishonesty and will strictly enforce Mason’s honor code. Plagiarism is the use of another's words or ideas presented as one's own. Proper citations to the research of others is essential for academic integrity, professional accountability, and personal integrity. Any plagiarized assignment receives an automatic “F” grade. This may lead to failure of the course, resulting in dismissal from the university. For foreign students on a university sponsored visa (e.g., F-1, J1, or J-2), dismissal can also result in dismissal of their visa. All written work submitted in partial fulfillment of course or degree requirements must be available in electronic form so that it can be compared with electronic databases and other means of university enforcement of the plagiarism policy. Faculty may at any time submit a student's work for review without prior
permission of the student.

Academic Accommodation for Disability
If you are a student with a disability and you need academic accommodations, please see me and contact the Disability Resource Center (DRC) at 993-2474. All academic accommodations must be arranged through the DRC.

Technology Policy
Student use of technology is important for this class. Students may use laptops and tablets in class, provided that they are used for course relevant purposes and do not distract fellow students.

Instructor:
Professor Murphy earned an undergraduate economics degree from Texas A&M University. He earned a Ph.D in economics and a J.D. in regulatory law from George Mason University. He has worked for a number of federal agencies, including the International Price Program in the Bureau of Labor Statistics, the Government Sponsored Enterprises working group in what is now the Federal Housing Finance Agency, and the Banking, Insurance, and Macroeconomic Policy section of the Congressional Research Service. At CRS, he provided research to Congressional staff and committees during the subprime mortgage crisis. He also taught full time at Texas State University and the Wilkes Honors College, and has taught as an adjunct at George Mason University and Marymount University. He now has his own business.

Evaluation Information

Exams

The final exam is not explicitly comprehensive. However, many of the concepts from the first half of the course are foundations for concepts in the second half. Students will have the entire period to complete the midterm and the final exam. Students should bring a student bluebook (any size) and writing instrument (pencils/pen) to take the exam. Students may also bring blank scratch paper. All bluebooks and used scratch paper must be turned in with the exam. The exams are closed book. Students may not use their phones, tablets, computers, or any other device with internet access during the exam. Students may bring and use a hand calculator if it does not have any internet access or storage capacity. No numeric calculations on the exam will require anything more complicated than addition, subtraction, multiplication, or division, although the instructor reserves the right to include more complicated theoretical analysis, if events warrant it. All conflicts with the timing or administration of the exams will be referred to the appropriate university officials.

The exams will consist of 3 parts.

Part I – Terms and concepts. Students will choose a specified number of listed terms and then (a) identify and (b) explain the importance of that term for the international financial system. These answers should be brief, but address both components. It sometimes helps to begin one sentence with “!Blank! is...” and another sentence with “!Blank! is important in international finance because...” Among policymakers, this is sometimes called the “elevator speech.” It is not good time management to write an entire detailed essay on a single term, but a reasonable professional should be able to choose the term with only the aid of your identification and explanation as clues. Terms and concepts can be
drawn from the required reading, class lecture, or class discussion. One strategy is to maintain a set of index cards while doing the required reading. As a study aid, term sheets will be circulated before the midterm and before the final, but exam terms are not limited to those distributed.

Part II – Short Answers and Problems. Students will choose a specified number of questions and problems. These questions will tend to be factual, theoretical, or a matter of calculation. For example, a question might ask if a historic institution had the authority to enforce its policies, or it might ask the expected direction of the change in the balance of payments for a given disturbance, or it might ask for a calculation of the change of an institution's capital level given some event or policy change. Questions can also be drawn from the readings. These may take the form of “what was Eichengreen's explanation for...?” or “according to !Blank!, why didn't policymakers...?” Effective time management would answer each question thoroughly; however, no additional points will be awarded by providing answers to questions not asked. There is no need to write an essay on a topic related to the question, but not asked for.

Part III – Essays. These will be questions inviting longer answers with more detailed and nuanced explanations. They may take any form. You may or may not be given choice. One form of question that I have enjoyed in the past is “True, False, or Uncertain, and Explain,...” which is then followed by a statement often heard in current policy debates, or that was asserted in the readings. In this form, it is not unusual for a statement to be only partly true or unresolved; therefore, points are awarded for the depth of the answer and the ability to incorporate and correctly apply course concepts as part of the answer. This is worth repeating, the ability to incorporate and correctly apply course concepts will be rewarded in essay answers.

**Issue Briefs**

An issue brief is a short summary of a topic, including its context and policy options. These issue briefs should be considered an overview for a policymaker about to meet with lobbyists asking the policymaker to adopt (or reject) similar policies. You should assume that the policymaker is an educated layman but not an expert on international financial regulation. At a minimum, the issue brief should answer the following questions. Which countries experienced the issue? When did the issue occur? Which financial instruments, organizations, and markets are affected by the issue, and how? Who were the debtors and creditors, or other market participants? How do current economists and financial experts believe the financial instruments are affected by the issue (if at all)? What international institutions (including treaties) were in place at the time? How did they respond, or what actions did they commit governments to? Did financial policy decision-makers have policy options to pursue a different course? If so, why did they choose to do what they did? Does the issue contribute to calls for revision of the international financial system? What policies are the lobbyists likely to ask for? Ideally, the issue brief would be one page, front and back. The issue brief should not be more than three pages.

**Course Outline and Readings**

Part I – Financial Instability and Policy Responses in Historical Perspective

Week 1 – Introduction to the Course, International Finance, Big Picture
Required Readings: None

Week 2 – Private Debt and Intermediation in a Global Context
Required Readings

Week 3 – Sovereign Debt and Monetary Policies in a Global Context
Required Readings

Week 4 – Causes of Financial Stability and Crises: Financial Markets
Required Readings

Week 5 – Causes of Financial Stability and Crises: Global Markets
Required Readings

Week 6 – Examples of Financial Stability and Crises: US Subprime and Greek Sovereign Debt
Required Reading

Week 7 – Responding to Financial Crises: Fiscal, Monetary, and Resolution Policies
Required Readings
Anna Gelperin, Financial Crisis Containment, available at http://scholarship.law.georgetown.edu/cgi/viewcontent.cgi?article=2883&context=facpub

Week 8 – Midterm

Part II – Current Institutional Arrangements and Related Policy Debates
Week 9 – International Financial Architecture, Big Picture  
Required Reading: Eichengreen Chapter 1-2

Week 10 – Development, World Bank, and Regional Development Banks  
Required Reading:  

Week 11 – Monetary Policies and the IMF  
Required Reading: Eichengreen Chapter 3-4

Week 12 – Regulatory Policies, Basel, and the FSB  
Required Reading: Eichengreen Chapter 5

Week 13 – Sovereign Coordination and Integration, Groups of..., EU  
Required Reading: Eichengreen Chapter 6

Week 14 – Anticipating the Next Financial Crises and Response  
Required Reading: Eichengreen Chapter 7

Week 15 – Final Exam