UNIVERSITÀ
DEGLI STUDI DI MILANO-BICOCCA

SYLLABUS DEL CORSO

International Finance

2627-2-F1602M017

Learning objectives

Learning objectives

The course provides students with the theoretical and empirical tools required to understand selected topics in international finance. Particular attention is devoted to financial globalization and international capital flows, sovereign debt and default, and the role and effectiveness of the International Monetary Fund within the international financial architecture.

By the end of the course, students are expected to achieve the following learning outcomes.

Knowledge and understanding

Students will acquire knowledge and understanding of:

the main theories and empirical regularities concerning international capital flows and financial globalization;
the benefits, risks and distributional consequences of financial integration;
the determinants and consequences of sovereign borrowing and sovereign default;
debt overhang, debt structure, debt restructuring and debt relief;
the functioning, political economy and effectiveness of the International Monetary Fund.

Applying knowledge and understanding

Students will be able to apply the theoretical and empirical tools introduced during the course to the analysis of international financial issues. In particular, they will be able to interpret economic models, empirical findings and policy interventions concerning capital flows, sovereign debt crises and IMF programmes.

Through the econometric project, students will also develop the ability to formulate a research question, apply appropriate empirical methods and interpret the resulting evidence.

Making judgements

Students will develop the ability to critically evaluate theoretical arguments and empirical contributions in international finance. They will be able to assess the assumptions and limitations of alternative models, the credibility of empirical identification strategies and the extent to which the available evidence supports specific policy conclusions.

Communication skills

Students will be able to explain and discuss the main theoretical mechanisms and empirical findings covered in the course using appropriate economic terminology. They will also develop the ability to present an empirical research question, describe the methodology employed and communicate results and limitations clearly and accurately.

Learning skills

Students will acquire the analytical and methodological skills required to read academic papers independently, compare alternative approaches to the same research question and further explore the international finance literature. They will also be able to identify relevant data and evidence for the analysis of new international financial developments.

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i) Basic facts and theories

ii) The Effects of Financial Globalization. Capital Flows and Financial Frictions

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iii) Distortions: Debt overhang; Debt structure: maturity and foreign currency composition

iv) Remedies: Debt Restructuring And Debt Relief

III: INTERNATIONAL FINANCIAL ARCHITECTURE AND THE ROLE OF THE IMF

i) Introduction

ii) Participation

iii) Implementation and Effects

Detailed program

INTERNATIONAL FINANCIAL MARKETS

I: FINANCIAL GLOBALIZATION AND ITS EFFECTS

i) Basic facts and theories

Alfaro Laura & Sebnem Kalemli-Ozcan & Vadym Volosovych, 2008. Why Doesn't Capital Flow from Rich to Poor Countries? An Empirical Investigation, The Review of Economics and Statistics, 90(2): 347-368

Lucas, Robert E. Jr., 1990, “Why doesn’t capital flow from rich to poor countries?” The American Economic Review , 80(2): 92–96.

Obstfeld, Maurice and Alan M. Taylor, (2017) International Monetary Relations: Taking Finance Seriously, *Journal of Economic Perspectives—Volume 31, Number 3—Summer 2017—Pages 3–28*

Reinhart, Carmen M. and Kenneth Rogoff, 2004, Serial Default And The “Paradox” of rich to poor capital flows, American Economic Review, 94.

Reinhart C.M. and Kenneth S. Rogoff (2009) *This Time It’s Different: Eight Centuries of Financial Folly*. (Princeton: Princeton University Press, September 2009)

ii) The Effects of Financial Globalization. Capital Flows and Financial Frictions

Furceri, Davide, Prakash Loungani and Jonathan D. Ostry, (2017) The Aggregate And Distributional Effects Of Financial Globalization: Evidence From Macro And Sectoral Data, IMF WP

Kose, A., E. Prasad, K. Rogoff, and S. Wei, (2009) “Financial globalization: A reappraisal,” IMF Staff papers

Prasad E. and R. Rajan (2008) “Pragmatic Approach to Capital Account Liberalization” Journal of Economic Perspectives—Volume 22, Number 3—Summer 2008—Pages 149–172

Rajan, Raghuram G. and Luigi Zingales (1998), “Financial Dependence and Growth.” *American Economic Review*, Vol. 88, No. 3, pp. 559-586

II: SOVEREIGN DEBT

i) Introduction

Panizza U., Sturzenegger F. and J. Zettelmeyer (2009) The Economics and Law of Sovereign Debt and Default. Journal of Economic Literature 47(3), 1-47.

ii) Incentives: Sanctions and reputation, costs of default

Borensztein E. and U. Panizza (2009) The costs of sovereign default. IMF Staff Papers 56 (4), 683—741

Cruces J. J. and C. Trebesch (2013) Sovereign Defaults: The Price of Haircuts. American Economic Journal: Macroeconomics 5, 85-117

Levy Yeyati E. and U. Panizza (2011) The Elusive Costs of Sovereign Defaults. Journal of Development Economics 94, 95-105.

Reinhart C. M. and K.S. Rogoff (2009) This Time is Different: Eight Centuries of Financial Follies. Princeton University Press.

Trebesch C. and M. Zabel (2017). The Output Costs of Hard and Soft Sovereign Default. *European Economic Review*. 92: 416-432

iii) Distortions: Debt overhang; Debt structure: maturity and foreign currency composition

Gelos, G., R. Sahay, and G. Sandleris, (2011) “Sovereign borrowing by developing countries: What determines market access?” Journal of International Economics, 82(2), 243-254.

Hausmann R. and U. Panizza (2003) “On the determinants of Original Sin: an empirical investigation.” Journal of International Money and Finance, 22, pp. 957-990.

Krugman P. (1988) “Financing versus forgiving a debt overhang.” Journal of development economics, 29:3, pp. 253-68.

Presbitero Andrea and Ugo Panizza, (2013), Public debt and economic growth in advanced economies: A survey", *Swiss Journal of Economics and Statistics*, 149(II): 175-204

Reinhart, Carmen M and Kenneth S Rogoff (2010), “Growth in a Time of Debt” *American Economic Review,* May

Herndon Thomas, Michael Ash and Robert Pollin (2013) Does High Public Debt Consistently Stiffle Economic Growth? A Critique of Reinhart and Rogoff. Forthcoming in *Cambridge Journal of Economics*

iv) Remedies: Debt Restructuring And Debt Relief

Arslanalp S., P.B. Henry (2005) “Is debt relief efficient?” Journal of finance, 62: 2, pp. 1017-051.

Marchesi, S., J.P. Thomas (1999) “IMF conditionality as a screening device” *The Economic Journal*, 1999, 109, 111-125

Marchesi, S. (2003). Adoption of an IMF programme and debt rescheduling. An empirical analysis. *Journal of Development Economics*, 70(2), 403–423.

Reinhart, C. M. and C. Trebesch (2016). Sovereign Debt Relief and its Aftermath. *Journal of the European Economic Association,* 14(1): 215-251

III: INTERNATIONAL FINANCIAL ARCHITECTURE AND THE ROLE OF THE IMF

Introduction

Reinhart Carmen M and Christoph Trebesch, 2016, The International Monetary Fund: 70 Years of Reinvention, Journal of Economic Perspectives, Symposium: The Bretton Woods Institutions. Volume 30: 3-28.

International Monetary Fund, “About the IMF,” Available on-line:

i) Participation

Dreher, A., J.E. Sturm, and J.R. Vreeland (2009) “Global Horse Trading: IMF loans for votes in the United Nations Security Council.” European Economic Review 53: 742-757.

Dreher, A, and N.M., Jensen (2007) “Independent Actor or Agent? An Empirical Analysis of the Impact of U.S. Interests on IMF Conditions.” Journal of Law and Economics, 50, 105-124.

Dreher, A., S. Marchesi and J.R. Vreeland (2008) “The political economy of IMF forecasts,” Public Choice, 137, 145–171

Marchesi, S., and L. Sabani (2007a). IMF concern for reputation and conditional lending failure: Theory and empirics. Journal of Development Economics, 84, 640–666.

ii) Implementation and Effects

Barro, R.J. and Lee, J.W. (2005) “IMF-programs: Who is chosen and what are the effects?” Journal of Monetary Economics, 52, 1245–1269.

Marchesi S. and E. Sirtori (2011) “Is two better than one? Effects on growth of Bank-Fund interaction”, *Review of International Organization*, 2011, Volume 6, pp 287–306

Marchesi, S., L. Sabani and A. Dreher (2011) “Read my lips: the role of information transmission in multilateral reform design”, *Journal of International Economics*, 2011, Volume 84, pp. 86-98

Prerequisites

Students are expected to have a good knowledge of the fundamental concepts of microeconomics and macroeconomics, as well as familiarity with basic econometric methods.

Teaching methods

The course combines in-person lectures with students’ econometric projects.

Lectures introduce the main theoretical frameworks and empirical contributions in the international finance literature. Particular attention is devoted to the interpretation and critical discussion of theoretical and empirical papers.

The econometric projects allow students to apply the analytical and empirical tools introduced during the course to a specific research question in international finance.

Assessment methods

Assessment is based on a final written examination lasting 90 minutes and on the evaluation of students’ econometric projects.

The written examination consists of open-ended questions concerning the theoretical and empirical topics covered during the course. It assesses students’:

knowledge and understanding of the main theories and empirical findings;
ability to apply economic concepts to international financial issues;
ability to critically analyse theoretical arguments, empirical methodologies and policy implications;
ability to present economic arguments clearly, accurately and using appropriate terminology.

The econometric project assesses students’ ability to formulate a relevant research question, identify and use appropriate data, apply econometric methods, interpret the results and critically discuss the limitations of the analysis.

The final grade is based on the overall performance in the written examination and in the econometric project.

Textbooks and Reading Materials

There is no single official textbook. The course is based on selected academic papers, book chapters and additional teaching materials. Required and optional readings are listed in the detailed course programme and made available through the course platform.

Semester

Second semester

Teaching language

English

Sustainable Development Goals

DECENT WORK AND ECONOMIC GROWTH