

COLUMBIA UNIVERSITY  
GRADUATE SCHOOL OF BUSINESS

**GEE II: FINANCIAL MARKETS, MONETARY POLICY  
AND THE GLOBAL ECONOMY  
B7251**

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Fall 2022

**GENERAL DESCRIPTION**

This is a lecture course that is intended to help you understand the role that financial markets play in the global business environment that you will face in the future. It also provides an understanding of the underlying institutions that either help financial markets work well or that interfere with the efficient performance of these markets. This course develops a series of applications of principles from finance and economics that explore the connection between financial markets and the economy. In addition, it will focus on many public policy issues and examine how the most important players in financial markets, central banks, operate and how monetary policy is conducted. The course will have a strong international orientation by examining monetary policy in many countries and possible reforms of the international financial system. We will also focus on current events reported in the financial press by devoting one to one and a half class hours per day to an extensive class discussion of current economic events and will use the analytic frameworks developed in class help us to understand these developments.

**REQUIRED TEXTS**

- (MB) Mishkin, Frederic S., *The Economics of Money, Banking and Financial Markets*, 13<sup>th</sup> Edition (Pearson: Boston).
- (NGG) Frederic S. Mishkin, *The Next Great Globalization: How Disadvantaged Nations Can Harness Their Financial Systems to Get Rich* (Princeton: Princeton University Press, 2006).
- (C) Casebook, which is electronic and can be accessed through Canvas by going to the tab *Library Reserves*, which is second from the bottom on the left-hand-side of the main screen for the course.

## **GRADING: PROBLEM SETS, CLASS PROJECT, ATTENDANCE, CLASS PARTICIPATION**

The course will have six problem sets and a class project which are due on December 9, 2022 by 11:59pm. The problem sets and class project must be uploaded into Canvas. Canvas will not allow late submissions. Problem sets are in the Type B category: they are to be completed individually, but consultation with other students is allowed as long as the answers are written up separately by each student. The class project will be done by groups of students. Your grade will be based on your problem sets, the class project, possibly class participation (correct answers on PollEverywhere multiple choice), and attendance. Attendance is mandatory for all sessions, and is part of your grade.

## **CLASS CONDUCT**

Late arrival or leaving and coming back into the classroom will not be tolerated because it disrupts the class. Either arriving late or leaving and coming back into class will require that a student come see me after class to make sure it doesn't happen again. There is a policy of no laptops in class. If a student needs to leave class early for any reason, they should send me an email and sit at the outside edge of the class, so they can leave quietly without disrupting the class.

## **TEACHING ASSISTANT**

The teaching assistant for the course is xxxxx. He is available for any help you may need during the term by appointment which can be made by email. His e-mail address is [xxxxx](#).

## TOPICS AND SPECIFIC READINGS

### I. INTRODUCTION AND REVIEW

- (MB) Ch. 1 Why Study Money, Banking and Financial Markets
- (MB) Ch. 2 An Overview of the Financial System
- (MB) Ch. 3 What is Money?

### II. FINANCIAL STRUCTURE, FINANCIAL DEVELOPMENT AND ECONOMIC GROWTH

- MB) Ch. 8 An Economic Analysis of Financial Structure
- (NGG) Ch. 1 The Next Great Globalization: A Force for Good?
- (NGG) Ch. 2 How Poor Countries Can Get Rich: Strengthening Property Rights and the Financial System
- (NGG) Ch. 3 Financial Development, Economic Growth and Poverty

#### Optional:

- World Bank, *Finance for Growth: Policy Choices in a Volatile World* (Oxford University Press: 2001).
- Easterly, W. *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics* (MIT Press: Cambridge, Mass. 2001)
- Rajan, R. and L. Zingales, , *Saving Capitalism from the Capitalists: Unleashing the Power of Financial Markets to Create Wealth and Spread Opportunity* (Crown Business: New York 2003)
- Mishkin, F.S. *The Next Great Globalization: How Disadvantaged Nations Can Harness Their Financial Systems to Get Rich* (Princeton: Princeton University Press, 2006), pp. 129-136.
- Acemoglu, Daron and James Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (Crown Publishers: New York, 2012)
- Loayza, N., Quazad, A., and R. Ranciere, "Financial Development, Growth and Crisis: Is There a Tradeoff?" NBER Working Paper. No. 24474, April 2018.

### III. MANAGEMENT OF FINANCIAL INSTITUTIONS AND THEIR REGULATION

- (MB) Ch. 9 Banking and the Management of Financial Institutions, especially pp. 188-203.  
(MB) Ch. 10 Economic Analysis of Financial Regulation

#### Optional:

- (MB) Ch. 11 Banking Industry: Structure and Competition

### IV. THE FOREIGN EXCHANGE MARKET AND FX CRISES

- (MB) Ch. 17 The Foreign Exchange Market  
(MB) Ch. 18 International Financial System, pp. 425-429, 431-440.

#### Optional:

Krugman, P. R., M. Obstfeld, and M. Melitz, *International Economics: Theory and Policy*, 11th Edition (New York: Addison-Wesley, 2018)

### V. FINANCIAL CRISES IN ADVANCED ECONOMIES

- (MB) Ch. 12 Financial Crises  
(C) Mishkin, F.S., "Asymmetric Information and Financial Crises: A Historical Perspective," in R. Glenn Hubbard, ed., *Financial Markets and Financial Crises* (University of Chicago Press: Chicago, 1991): 69-108.  
(C) Mishkin, F.S., "Over the Cliff: From the Subprime to the Global Financial Crisis," *Journal of Economic Perspectives*, Vol. 25, No. 1 (Winter 2011), pp. 49-70.

#### Optional:

Bernanke, Ben, *The Courage to Act: A Memoir of a Crisis and its Aftermath* (W.W. Norton & Co., New York, 2015)

## **VI. FINANCIAL CRISES IN EMERGING MARKET ECONOMIES**

- (MB) Web Chapter 1 Financial Crises in Emerging Market Economies.
- (NGG) Ch. 4 When Globalization Goes Wrong: The Dynamics of Financial Crises
- (NGG) Ch. 5 Mexico, 1994-1995
- (NGG) Ch. 6 South Korea, 1997-1998
- (NGG) Ch. 7 Argentina, 2001-2002

### **Optional:**

- (NGG) Ch. 8-13, pp. 137-219.

## **VII. CENTRAL BANKING AND THE TOOLS OF MONETARY POLICY**

- (MB) Ch. 13 Central Banks and the Federal Reserve System
- (MB) Ch. 15 The Tools of Monetary Policy
- (MB) Ch. 16 The Conduct of Monetary Policy: Goals, Strategy and Tactics, pp. 369-374, 391-397.
- (C) Mishkin, F.S., "Improving the Use of Discretion in Monetary Policy," *International Finance*, Volume 21, December 2018, pp. 224-238.

### **Optional:**

- (MB) Ch. 14 The Money Supply Process  
Friedman, M., and Schwartz, A.J., *A Monetary History of the United States 1867-1960* (Princeton: Princeton University Press, 1963).

## VIII. CENTRAL BANK STRATEGY AND COMMUNICATION: THE INTERNATIONAL EXPERIENCE

- (MB) Ch. 16 The Conduct of Monetary Policy: Goals, Strategy and Tactics, pp. 374-391.
- (MB) Ch. 18 International Financial System, pp. 443-449.
- (C) Mishkin, F.S., "International Experiences with Different Monetary Policy Regimes," *Journal of Monetary Economics*, Vol. 43, #3 (June 1999): 579-606.
- (C) Mishkin, F.S., and M. Savastano, "Monetary Strategies for Latin America," *Journal of Development Economics*, 66, 2 (December 2001): 415-444.
- (C) Obstfeld, M. and K. Rogoff. "The Mirage of Fixed Exchange Rates," *Journal of Economic Perspectives* 9 (Fall 1995): 73-96.
- (C) Calvo, Guillermo and F.S. Mishkin, "The Mirage of Exchange Rate Regimes for Emerging Market Countries", *Journal of Economic Perspectives*, Vol.17, No. 4 (Fall 2003): 99-118.
- (C) Mishkin, F.S., "The Dangers of Exchange Rate Pegging in Emerging-Market Countries" *International Finance*, Vol 1, # 1 (October 1998): 81-101.
- (C) Mishkin, F.S., "Does Stabilizing Inflation Contribute to Stabilizing Economic Activity?" speech delivered at East Carolina University, Greenville, N.C., February 25., 2008, ([www.federalreserve.gov/newsevents/speech/mishkin20080225a.htm](http://www.federalreserve.gov/newsevents/speech/mishkin20080225a.htm))
- (C) Mishkin, F.S., "Comfort Zones, Shmumfort Zones," speech delivered to the Virginia Association of Economists, Washington and Lee University, Lexington, Va., March 27, 2008. ([www.federalreserve.gov/newsevents/speech/mishkin20080327a.htm](http://www.federalreserve.gov/newsevents/speech/mishkin20080327a.htm))
- (C) Mishkin, F.S., "Central Bank Commitment and Communication," speech delivered at the Princeton Center for Economic Policy Studies, New York, New York, April 3, 2008, ([www.federalreserve.gov/newsevents/speech/mishkin20080403a.htm](http://www.federalreserve.gov/newsevents/speech/mishkin20080403a.htm)).
- (C) Mishkin, F.S., ""The Federal Reserve's Enhanced Communication Strategy and the Science of Monetary Policy," speech delivered to the Undergraduate Economics Association at the Massachusetts Institute of Technology, Cambridge, Mass., November 29, 2007. ([www.federalreserve.gov/newsevents/speech/mishkin20071129a.htm](http://www.federalreserve.gov/newsevents/speech/mishkin20071129a.htm))
- (C) Mishkin, F.S., "Whither Federal Reserve Communication," speech delivered at the Peterson Institute for International Economics, Washington, DC, July 28, 2008. ([www.federalreserve.gov/newsevents/speech/mishkin20080728a.htm](http://www.federalreserve.gov/newsevents/speech/mishkin20080728a.htm))
- (C) Bernanke Ben S., "Monetary Policy Objectives and Tools in a Low-Inflation Environment," speech delivered at the Revisiting Monetary Policy in a Low-Inflation Environment Conference, Federal Reserve Bank of Boston, Boston, Massachusetts, October 15, 2010, [www.federalreserve.gov/newsevents/speech/bernanke20101015a.htm](http://www.federalreserve.gov/newsevents/speech/bernanke20101015a.htm)
- (C) Bernanke, Ben S., "The Effects of the Great Recession on Central Bank Doctrine and

Practice,” speech given at 56th Economic Conference, Federal Reserve Bank of Boston, Boston, Massachusetts, October 18, 2011.  
[www.federalreserve.gov/newsevents/speech/bernanke20111018a.htm](http://www.federalreserve.gov/newsevents/speech/bernanke20111018a.htm)

- (C) Mishkin, F. S., “Monetary Policy Strategy: Lessons From the Crisis” in Marek Jarocinski, Frank Smets and Christian Thimann, eds. *Monetary Policy Revisited: Lessons from the Crisis*, Sixth ECB Central Banking Conference (European Central Bank: Frankfurt, 2011), pp. 77-118.

**Optional:**

- Bernanke, B., Laubach, T., Mishkin, F.S. and Posen A., *Inflation Targeting: Lessons from the International Experience*, (Princeton: Princeton University Press, 1999).
- Ha, Jongrim, Kose, M. Ayhan and Franziska Ohnsorge, *Inflation in Emerging and Developing Economies: Evolution, Drivers, and Policies* (International Bank for Reconstruction and Development, World Bank; Washington, D.C. 2019)
- Feroli, M., D. Greenlaw, P. Hooper, F. S. Mishkin and A. Sufi, “Language After Liftoff: Fed Communication Away from the Zero Lower Bound,” *Research in Economics*, volume 71, issue 3, September 2017, pp. 452-490.