

COLUMBIA UNIVERSITY
GRADUATE SCHOOL OF BUSINESS

**GLOBAL ECONOMIC ENVIRONMENT III:
FINANCIAL MARKETS AND THE MACROECONOMY
B8251**

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Spring 2023

GENERAL DESCRIPTION

The course is intended to help students understand the role that financial markets and monetary policy play in the global economic environment that they will have to face in the future. It also provides an understanding of the underlying institutions, both political and economic, that either make financial markets work well or that interfere with the efficient performance of these markets. The course develops a series of applications of principles from finance and economics that explore the connection between financial markets and the macro economy. In addition, given the instructor's prior position as a governor of the Federal Reserve, the class also provides an inside view on 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 and financial crises in many countries and possible reforms of the international financial system. We will also focus on current events reported in the financial press with an extensive and open-ended discussion of 20-30 30 minutes in every class in which we will use the analytic frameworks developed in class to help us to understand these developments.

REQUIRED TEXTS

- (MB) Mishkin, Frederic S., *The Economics of Money, Banking and Financial Markets*, 13th Edition (Pearson: Boston). Each of the assigned chapters can be found in the *Files* section of CANVAS for this course, listed as MB1.pdf for chapter 1, MB2.pdf for chapter 2, etc.
- (NGG) Mishkin, Frederic S., *The Next Great Globalization: How Disadvantaged Nations Can Harness Their Financial Systems to Get Rich* (Princeton: Princeton University Press, 2006). The assigned chapters can be found in the *Files* section of CANVAS for this course under NGG.pdf
- (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.

LECTURE NOTES

The files section of CANVAS also has lecture notes for the course. Each page has three of the powerpoint slides, but without the answers to any analysis. These can be a very useful study aid, and I recommend that you print these out for class or use them with a tablet. They are particularly useful when you are asked PollEverywhere multiple choice questions in class. By actively adding additional notes to them and completing the analysis in class, you will greatly enhance your abilities to learn the material.

GRADING: EXAM, PROBLEM SETS AND CLASS PARTICIPATION

- The course will have the final exam in the last class, and it will count toward 50% of the final grade.
- There will be nine problem sets which will be graded and count toward 20% of the final grade. (There is one additional problem set which will not be handed in or graded: however, the material covered in the problem set will be covered in the final.) 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. Problem sets must be uploaded into Canvas on the due date/time on the corresponding assignment created for each of the problem sets. Canvas will not allow late submissions.

- Class participation from PollEverywhere multiple choice questions will count toward 20% of the final grade. Other class participation will not be graded and is strictly voluntary, but is essential to a successful classroom experience.
- Attendance via PollEverywhere will count for the remaining 10% of the grade. (Valid excuses for missing class will include job interviews, medical issues and family problems). If a student has a valid excuse for missing a class, he or she must send an email to the TA before the missed class in order not to be penalized.).

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 no laptop policy in class, but tablets are OK. 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.

OFFICE HOURS

Official office hours are Monday and Wednesday, from 1-2pm. Let me know what time you want to meet during office hours via email. I am also happy to see students at other times that are more convenient for them as long as an appointment is made via e-mail.

TEACHING ASSISTANTS

The CA/TA for the course is Adam Shelapak, whose email address is: AShelepak23@gsb.columbia.edu. He is available for any help you may need during the term by appointment which can be made by email.

TOPICS AND SPECIFIC READINGS

I. INTRODUCTION AND REVIEW

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|------|-------|--|
| (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? |
| (MB) | Ch. 4 | Understanding Interest Rates |

- (MB) Ch. 7 The Stock Market, the Theory of Rational Expectations and the Efficient Markets Hypothesis

II. BOND, COMMODITY AND FOREIGN EXCHANGE MARKETS

- (MB) Ch. 5 The Behavior of Interest Rates, pp. 86-102.
(MB) Appendix 2 to Chapter 5: Applying the Asset Market Approach to a Commodity Market: The Case of Gold.
(MB) Ch. 17 The Foreign Exchange Market
(MB) Ch. 18 International Financial System, pp. 425-429, 431-440.

Optional:

- (MB) Ch. 6 The Risk and Term Structure of Interest Rates
 Krugman, P. R., M. Obstfeld, and M. Melitz, *International Economics: Theory and Policy*, 11th Edition (New York: Addison-Wesley, 2018)

III. 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, William *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics* (MIT Press: Cambridge, Mass. 2001)
Raghuram G. Rajan and Luigi 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.

IV. 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

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. THE THEORY (SCIENCE) OF MONETARY POLICY

- (MB) Ch. 21 The Monetary Policy and Aggregate Demand Curves
- (MB) Ch. 22 Aggregate Demand and Supply Analysis
- (MB) Ch. 23 Monetary Policy Theory
- (MB) Ch. 24 The Role of Expectations in Monetary Policy
- (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. 67-77

Optional:

- (MB) Ch. 20 The *IS* Curve
- (MB) Ch. 25 Transmission Mechanisms of Monetary Policy

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., “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. pp. 77-118.

Optional:

- (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)
 - (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)
 - (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).
 - (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)
 - (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)
 - (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
 - (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
 - (C) 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.
- 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)