

COLUMBIA UNIVERSITY
GRADUATE SCHOOL OF BUSINESS

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

Professor Frederic S. Mishkin
Kravis 534
E-mail: fsm3@columbia.edu

Fall 2023

GENERAL DESCRIPTION

The course is intended to help students understand the role that financial markets and monetary policy play in the global business 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 global 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 one and a half class hours per day 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).
- (NGG) Mishkin, Frederic S., *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.

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 has a class project (done by a group of students) which is due by 11:59pm on Friday, December 7, 2023. It will count toward 50% of the final grade. It must be uploaded into CANVAS. Canvas will not allow late submissions.
- There will be six problem sets which will be graded and are due by 11:59pm on Friday, December 7, 2023. They will count toward 20% of the final grade. They must be uploaded into CANVAS. 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.
- 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. (The only valid excuse for missing class is a medical issue.)

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.

TEACHING ASSISTANT

The CA/TA for the course is xxxxx, whose email address is: xxxx. Xxxx 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

- (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, 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.

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., “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:

- (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)