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Political Economy of the Global Financial System (a two-credit course for Spring 2024)

Instructor: Tun-jen Cheng (tjchen@wm.edu; tjcheng7@gmail.com)

Class hours: 9-11am Tuesday Taiwan time

Office hours: 3-5pm Wednesday, Taiwan time, for the first six sessions; thereafter 7-9 pm Wednesday Taiwan time; by appointment, please email two preferred time slots to my teaching assistant and me two days in advance to schedule a half-an-hour meeting

Description

This course examines political economy of the making and evolution of modern global financial system from the second half of the nineteenth century till present. The underlying assumption is that the creation and maintenance of this system, the crises and challenges it faced, and the tensions and incoherence it is now wrestling with can be and should be understood in geopolitical and geo-economic templates. The public all over the world is typically less attentive to global finance than global trade. Trade protectionism and wars are easy to see, always headlined in the news, and often discussed over the dinner table. In contrast, disputes over exchange rate manipulation are not on most people's radar screen. And yet, normal lending, emergency loans, exchange rate alignment, foreign aid, and payment mechanisms are less transparent and more easily weaponized than trade measures. This course delves into mainly the political aspect of global finance, but whenever necessary, will touch on its economic aspect. The first part of this course covers the fundamentals, including a few stylish (analytic, but not mathematic) game-theory devices, currencies, exchange rate systems, and the balance of payments. The second part focuses on the making and partial collapse of the Bretton Woods system as well as four major financial crises in the long postwar era. The third and final part turns to current challenges facing global finance, including the future of dollar hegemony, the rise of the renminbi, the making of the parallel international financial institutions, and advent of crypto currencies, and climate change financing.

Instruction for the first six weeks is in person; however, for the rest of the semester it will be online remote.

Topics and Readings: All required readings are either journal articles or book chapters. They will be posted online. On average, you will be browsing about two pieces weekly. If you would like to read a primer on your own, Thomas Oatley's book entitled *International Political Economy* (Routledge 2019, 6th edition), is a good one. We will be including three chapters of this book in our required reading list.

I. Fundamentals

Session 1: Feb 20

Topic: Introduction (we will go over our syllabus, self-introduce, discuss studying global finance versus global trade, and make a quick foray into the history of finance and international politics in pre-modern era)

Reading: Nil.

Session 2: Feb 27

Topic: Four Stylish Games (Prisoner's Dilemma; Location; Chicken; Rational Pigs) plus the Coordination Game

Reading: my own reading notes of John McMillam, *Games, Strategies and Managers*, Oxford University Press 1996.

Session 3: March 5

Topic: Functions and Properties of Currencies and Exchange Rate Systems

Reading: Thomas Oatley, *International Political Economy*, Ch 10

Session 4: March 12

Topic: Balance of Payments and Adjustment Mechanisms

Readings: Thomas Oatley, *International Political Economy*, Ch 11; Jeffrey A. Frieden, "Globalization and Exchange Rate Policy," in Ernesto Zedillo, ed. *The Future of Globalization*, Routledge 2008, ch.18; skim through Tun-jen Cheng and Arthur Liu, "Foreign Exchange Reserves in China," *Journal of Post-Keynes Economics*, vol.35, no.4, 2013, pp.621-647

Discussion: Is it a good thing to have huge foreign exchange reserves? Why do most developing nations go for a fixed exchange rate system?

II. Designing and Managing the BW Regime

Session 5: March 19

Topic: The Rise of the Bretton Woods System

Readings: Louis Pauly, *Who Elected the Bankers*, Cornell University Press 1997, Chs 5-6; Barry Eichengreen, *Exorbitant Privilege*, Princeton University Press, 2010, ch.3, pp.39-68; Barry Eichengreen, "Hegemonic Stability and International Monetary System," in Jeffrey Frieden and David Lake, eds., *International Political Economy*, Norton 1999, 4th edition ch.15, pp.220-244.

Session 6: March 26

Topic: The Fall of the Bretton Woods System

Readings: Barry Eichengreen, *Globalizing Capital*, Princeton University Press 2016, third edition ch.5, pp.127-174; Benjamin Cohen, "The Triad and the Unholy Trinity," in Jeffrey Frieden and David Lake, eds., *International Political Economy*, Norton 1999, 4th edition ch.16, pp.245-256.

Session 7: April 2 [to be rescheduled to either March 29 or April 1]

Topic: Making Exchange Rate and Monetary Policy, and Central Bank Independence

Reading: Jeffrey Frieden, "Exchange Rate Politics," in Jeffrey Frieden and David Lake, eds., *International Political Economy*, Norton 1999, 4th edition ch.17, pp.257-269.

Session 8: April 9

Topic: The Latin American Debt Crisis and the Asian Financial Crisis

Readings: Laurence Harris, "Will the real IMF please stand up: what does the Fund do and what should it do?" in Jonathan Michie and John Grieve Smith, eds, *Global Instability*, Routledge, 1999, pp.198-211; Thomas Oatley, *International Political Economy*, ch .14, pp.327; Stephan Haggard, *The Political Economy of the Asian Financial Crisis*, Institute for International Economics, 2000, pp.1-46.

Session 9: April 16

Topic: The Global Financial Crisis 2007-2008 and the Euro Crisis 2010-2012

Readings: Barry Eichengreen, *Exorbitant Privilege*, Princeton University Press, 2010, ch.5, pp.97-120; Carmen M. Reinhart & Kenneth S. Rogoff, *This Time Is Different*, Princeton University Press, 2009, ch.13, pp.203-222

Session 10: April 23

Topic: Third World Debt Crises 2000-2001, 2022-date

Readings: Williams Easterly, “Forgive Us Our Debts” in his *The Elusive Quest of Growth*, MIT Press, 2001, pp.123-137; Jeffrey Sachs, “Resolving the Debt Crisis of Low-Income Countries,” *Brookings Papers on Economic Activity*, 2002, pp.257-286; William Easterly, “The Cartel of Good Intentions: The Bureaucracy Versus Market in Foreign Aid,” *Institute of International Economics*, 2002, pp.1-70; David Dollar, “Eyes Wide Open: On the Targeted Use of Foreign Aid,” *Harvard International Review*, 2003, pp.48-52

Discussion: should their debts be written off?

Session 11: April 30

Topic: Governing International Financial Institutions, Power Distribution, Conditionality, and Bargaining

Readings: David Rapkin, Jonathan Strand, and Michael Trevathan, “Representation and Governance in International Organizations,” *Politics and Governance*, 2016, pp.77-89; Miles Kahler, “Bargaining with the IMF,” in Peter Evans, Harold Jackson, and Robert Putnam, eds., *Double-Edged Diplomacy: The Logic of Two-Level Game*, University of California Press 1979.

Discussion: Why are there regional development banks, but not regional monetary funds?

III. Outstanding Issues and Formidable Challenges to Global Finance

Session 12: May 7

Topic: AIIB and NDB, their Governance, Clout and Parallel to the World Bank and the IMF

Readings: Cynthia Roberts, Leslie Armijo, and Saori Katada, *The BRICS and Collective Financial Statecraft*, Oxford University Press, 2017, chs.3-4; Eswar Prasad, *Gaining Currency: The Rise of the Renminbi*, Oxford University Press 2017, chapter 9, pp.213-244; Amitai Etzioni, “The Asian Infrastructure Investment Bank: A Case Study of Multifaceted Containment,” *Asian Perspective* 2016, no.40, pp.173-196.

Session 13: May 14

Topic: Development Financing, Old and New

Readings: Axel Dreher et al., *Banking on Beijing*, Cambridge University Press 2022, chs.3,5, 8; and go over your note on Easterly-Sachs and Easterly-Dollar debates for Topic 10 on April 23.

Session 14: May 21

Topic: The RMB v (or and) the Dollar

Readings: Arvind Subramanian, *Eclipse*, PIIE Press 2011, ch.3, 51-68; Barry Eichengreen, *Exorbitant Privilege*, Princeton University Press, 2010, ch.6, pp.121-152; Eswar Prasad, *Gaining Currency: The Rise of the Renminbi*, Oxford University Press 2017, ch.8, pp.173-212

Discussion A: Has weaponizing SWIFT backfired?

Discussion B: Why did not the Yen make it in the 1980s?

Session 15: May 28

Topic: Sovereign Wealth Funds

Readings: Leonardo Altuve, “The Demise of Sovereign Wealth Funds,” *Review of International Political Economy*, March 2023; University of the Philippines economics faculty, “Maharlika Investment Fund,” June 2023

Session 16: June 4

Topic: Regulating or Banning Cryptocurrencies

Readings: Hilary Allen, “The Case for Banning Crypto: For Finance, the blockchain’s risk outweighs its rewards.” *Foreign Affairs* April 2023; Hyoung-kyu Chey, “Cryptocurrencies and the IPE of Money: an agenda for research,” *Review of International Political Economy*, August

2022.

Session 17: June 11

Topic: Climate Change Financing

Readings: IMF reports on climate trust fund and on macroeconomic assessment; Kelly Sims Gallagher, "Time to Rethink Climate Finance: net zero won't come cheap," *Foreign Affairs*, December 2023.

Course requirements and grade distribution:

20% Attendance and participation

30% Midterm assignment (due 5pm April 8, 2024 Monday)

50% Term paper (due 5pm June 16, 2024 Monday)

Midterm assignment: One (but not the only) way to do this paper is to pick a theme or a thesis covered in the first half of this course, match it with a database, and write a report on how well this theme or thesis hold. And if you want to jump ahead to address an issue covered in the second half of the course, feel free to do so (I am happy to help you along the way)

Term paper: This is a chance for you to delve more in-depth into a particular aspect of political economy of the global financial system that we are studying. A list of recommended topics will be posted online no latest than Week Three.

Consultation and mechanics of the two writing projects: A list of topics for midterm and/or final papers will be posted online. You certainly can work on other topics than those on the list. You are encouraged to come to my office for consultation for your topical choice. On both written assignments, you must provide appropriate citation for all thoughts, words, or ideas that are not your own (this includes the ideas of peers). An electronic file summarizing the Chicago Manual citation style will be emailed to you up front for this course. The assignment should be approximately 1500 words in length and the term paper approximately 3,000 words in length. Both will be turned in online via email attachment in both Word and PDF formats. Both are to be turned in on time by 5 pm on the due date. Late submission triggers a one percentage point deduction per day (eg., for an assignment turned in one day late, the maximum that assignment can get will be 29 percentage point).

Expectations:

- *Class participation* is a required part of the course. Please attend all classes and contribute towards discussion.
- *Writing, writing, writing:* Learning to write well, to make a coherent and well researched argument, is one of the key skills you should get out of the grad school.
- *Current Events:* A good theory, thesis, or analytical framework is a tool for digesting current events. Current events in turn allow us to assess the utility and limitation of the analytical tool. This is a very exciting time in terms of politics of global finance. I therefore strongly recommend that you follow current events by reading a major news source with good international coverage (i.e. BBC news, New York Times, The Economist etc.) This will help you get more out of the reading, by making class discussions more productive and improving the quality of your analytical thinking.

Letter Grade & Percentage Grade equivalents:

Letter Grade	Percent Grade
A+	95
A	87
A-	82
B+	78
B	75
B-	71
C+	68
C	65
C-	61
D	55
E	49