Welcome to International Money  
Meets in Chem 131 Tue/Thur 3:30-4:45  

Don Roper  

Take a Quick Tour of Debt Issues in the Course  

The course begins with background material concerning interest rates, capitalization theory, exchange market intervention, interest rate and purchasing power parity, indexed debt, and the transmission of monetary policy. From there we look at the interactions of multiple monies over time, Kondratieff's 19th century price deflations, the Great Depression, and demise of the gold standard, the breakdown of Bretton Woods and the 1979 revolution in monetary policy. A central concern is whether the current levels of international debt are sustainable.

The course then examines the international financial upheavals starting with the Mexican devaluation of '95, the '98 slowdown from the '97 Asian Crisis, the meltdown following the '98 Russian default and devaluation, current monetary policy, international debt, IMF structural adjustment programs, exchange rate regimes, the evolution and value of unbacked fiat currency, deflationary waves, currency areas, parallel currencies, and alternative monetary systems. Most readings can be downloaded from the net, other readings are on reserve.

The last part of the course explores the theory of currency substitution, neutrality and the definition of money plus reflections on the future of a multi-currency monetary system which includes larger currency areas, e-money, the elimination of banks, competitive monies and a real standard.

Study questions from the senior undergraduate course in International Finance are recommended. Grades are based on three parts each with equal weight -- two mid-terms and a final.

I. Balance of Payments, Exchange Rates and PPP
Balance of Payments and EMP

BOP Basics
FRBNY Foreign Exchange (FX) Intervention
US BOP Accounts
Foreign Holdings of US Treasury Debt
US Treasury Exchange Market Pressure
Different Notions of the BOP

"The Case for Floating Exchange Rates" - Milton Friedman (Reserve)
Purchasing Power Parity

The Basics
The Economist Big Mac Index
PPP -- Neutrality vs Goods Arbitrage

Study Qs
Exchange Rate Policy From the GS to the GES

Classical Adjustment Under Commodity Standard
Gold-Exchange Standard
GES and Bretton Woods
Evolution of Monetary Arrangements
Study Questions

II. Interest Rates, Indexation, Monetary Policy

Yields, Present Values, and All That
Two Kinds of Indexation
Central and Commercial Bank Liabilities
Background on Treasuries, Fed Funds and Monetary Policy
Transmission of a Monetary Expansion
How Currency Gets into Circulation
Demand for Money
"Using Escalators to Help Fight Inflation" Milton Friedman (Reserve)
Greider, William, *Secrets of the Temple*, 1985, selections (Reserve)

III. Definition of Money and Currency Substitution

Keynes' Invariance Principle
Currency Substitution (section 2)
Stopping Inflation
What's Money?
Capitalization Theory
Guide To Keynes Chap 17
Chapter 17 of Keynes' *General Theory*

IV. Debt Issues
Argentina Bailout  
IMF Subsidies to Private Debtors  
Asian Crisis  
Kondratiev Downwave and Potential Defaults  
Gold Debt and the Great Depression  
Meltzer Commission Report on Reform of the IMF: 
This 50 page version of the original 130 page report can be read more easily in Explorer 5 rather than (any version of) Netscape. And for printing, the Netscape version is largely unreadable but the Explorer version is clear. 
IMF Burden Sharing.  
How Debt Might Interact with Disinflation to Cause Depression

V. Future of Currency Arrangements
Churchill's Return to Gold" - Keynes (Reserve)  
Keynes on the Gold Standard and the Great Depression  
Roosevelt and the 1933 Devaluation (suggested)  
Why Was Bretton Woods Not Restored?  
"Optimum Currency Areas" by Robert Mundell  
Competitive Monies  
Radelet and Sachs 3/98  
Currency Board vs a Real Standard: Case of Argentina