

**The Political Economy of Finance
(POLC98)
Fall Session 2017**

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Course hours: Wednesday, 11-13
Course Location: BV 363
Office Location: MW 228
Office hours: Wednesday 13-14

COURSE DESCRIPTION

The course explains why financial markets exist and how they have evolved by looking at the agents, actors, and institutions that generate demand for them. The consequences of increasingly integrated markets, and the possibility of systemic financial crises are considered as well as the implications and feasibility of regulation.

Core topics

1. Consequences of the Globalization of Capital Flows
2. (Ir)rationality of Financial Markets
3. Debt and Geopolitical Power
4. Global Imbalances and Macroeconomic Adjustment
5. Global Currency Status and Competition
6. Financial and Sovereign Debt Crisis

Course goals

1. Sharpen analytical skills
2. Understand the interplay of politics and economics
3. Understand major debates on finance and the international monetary system

Evaluation and Due Dates

GRADING SCHEME

Test November 8, 2017 (40%)
Critical Analysis I (15%)
Critical Analysis II (15%)
Class Participation (20%)
Final Test November 29, 2017 (10%)

TESTS: There will be two tests; one midterm test and a final test.

CRITICAL ANALYSIS (CA): A written analysis of 1 week's readings. The CA should analyze and make connections between the readings. You should not summarize the readings but make comparisons and contrasts between the different arguments, and draw links to larger themes. The analysis should cover all the readings for the week. It should be critical and relate the readings through your special point of view. The analysis should contain a) the author's main argument b) the main argument with which the author disagrees (who is s/he arguing against?) c) The best way to produce such a document is to position yourself in terms of the readings and ask whether you agree with the authors' assumptions and conclusions. What, if anything, is missing? Are the different texts conflicting or complementary accounts? In the event that alternative accounts are presented which is more persuasive, and why? The written assignment **must contain 3 questions** based on the readings. The maximum length of the written presentation is 1 single spaced page in normal 12 pt. font and standard margins.

Send your request to Professor Norrlof -- carla.norrlof@utoronto.ca -- before September 22; after that date, I will randomly assign your week(s). You may pick any week for CA I and CA II as follows:

Critical Analysis I (15%) covers the readings for week 2, 3 or 5.

Critical Analysis II (15%) covers the readings for week 7, 8, 9, 11 or 12.

The critical analysis should be sent to Professor Norrlof via e-mail, as an attached word document, no later than **10 am on the Monday (2 days) in advance of the Wednesday meeting**. There is a late penalty of **2 percent** for the first hour and an additional **½ percent** for every subsequent hour the analysis is late.

No formal presentation of the CA is required. However, you should come to class prepared to answer questions about your analysis of the readings.

CLASS PARTICIPATION: Students should be prepared to discuss the week's readings. Participation accounts for 20% of your grade. To ensure student privacy and instructor property rights, recording of class sessions is not allowed.

Students must check blackboard regularly for announcements and updates.

PART I: FINANCIAL MARKETS

WEEK 1 (September 6) **A. Introduction**

WEEK 2 (September 13) **B. Finance and Money in the International Political Economy**

1. GARRETT, G. (2000): The Causes of Globalization. *Comparative Political Studies* 33(6/7), 941-991.
http://journals2.scholarsportal.info.myaccess.library.utoronto.ca/pdf/00104140/v33i6-7/941_tcog.xml
2. STALLINGS, B. (2007): The Globalization of Capital Flows: Who Benefits? *Annals of the American Academy of Political and Social Science* 610, 202-216.
http://journals2.scholarsportal.info.myaccess.library.utoronto.ca/pdf/00027162/v610i001/201_tgocfwb.xml
3. BHAGWATI, J. (1998): The Capital Myth. *Foreign Affairs* 77(3), 7-12.
<http://www.jstor.org.myaccess.library.utoronto.ca/stable/pdf/20048871.pdf>
4. KOSE, A. M., E. PRASAD, K. ROGOFF and S.-J. WEI (2009): Financial Globalization: A Reappraisal. *IMF Staff Papers* 56(1), 8-62.
<http://www.carlanorrlf.com/wp-content/uploads/2013/03/Financial-Globalization-A-Reappraisal.pdf>

WEEK 3 (September 20) **C. Theorizing Financial Markets**

1. MALKIEL, B. (2005): Reflections on the Efficient Market Hypothesis: 30 Years Later. *The Financial Review* 40(1), 1-9.
http://journals1.scholarsportal.info.myaccess.library.utoronto.ca/pdf/07328516/v40i001/1_rotemh3y1.xml
2. OLSEN, R. A. (2008): Cognitive Dissonance: The Problem Facing Behavioral Finance. *The Journal of Behavioral Finance* 9, 1-4.

http://resolver.scholarsportal.info.myaccess.library.utoronto.ca/resolve/15427560/v09i0001/1_cdtplibf

3. SCHILLER, R. J. (2003): From Efficient Markets Theory to Behavioral Finance. *Journal of Economic Perspectives* 17(1), 83-104.
<http://www.jstor.org.myaccess.library.utoronto.ca/stable/3216841>

WEEK 4 (September 27) << Professor away conference, no class >>

WEEK 5 (October 4) **D. Multilateral Cooperation and Financial Markets**

1. SIMMONS, B. A. (2001): The International Politics of Harmonization: The Case of Capital Market Regulation. *International Organization* 55(3), 589-620.
http://resolver.scholarsportal.info.myaccess.library.utoronto.ca/resolve/00208183/v55i0003/589_tipohcochr
2. KAPSTEIN, E. B. (2005): Architects of Stability? International Cooperation among Financial Supervisors. *Prepared for the Bank for International Settlements 75th Anniversary Conference, Basel, Switzerland*, 1-51.
<http://www.carlanorrlf.com/wp-content/uploads/2013/03/Architects-of-Stability.pdf>
3. SINCLAIR, T. J. (2001): The Infrastructure of Global Governance: Quasi-Regulatory Mechanisms and the New Global Finance. *Global Governance* 7, 441-451.
<http://www.jstor.org.myaccess.library.utoronto.ca/stable/27800316>
4. Simmons, Beth A., and Zachary Elkins. 2004. "The Globalization of Liberalization: Policy Diffusion in the International Political Economy." *The American Political Science Review* 98: 171-89.
<https://www.jstor.org/stable/4145304>

WEEK 6 (October 11) << Reading week >>

PART II: MONEY, DEBT AND POWER

WEEK 7 (October 18)

A. Global Imbalances and External Debt

1. COHEN, B. J. (2005): "The Macrofoundations of Monetary Power," in *EUI Working Paper*. Florence: European University Institute.
<http://www.carlanorrlf.com/wp-content/uploads/2013/03/MacroMonetaryPower.pdf>
2. SETSER, B. and N. ROUBINI (2005): How Scary is the Deficit? *Foreign Affairs* 84(4), 194-200.
<http://myaccess.library.utoronto.ca/login?url=http://search.proquest.com.myaccess.library.utoronto.ca/docview/214292273?accountid=14771>
3. LEVEY, D. H. and S. S. BROWN (2005): The Overstretch Myth. *Foreign Affairs* 84(2), 2-7.
<http://myaccess.library.utoronto.ca/login?url=http://search.proquest.com.myaccess.library.utoronto.ca/docview/214290421?accountid=14771>
4. LEVEY, D. H. and S. S. BROWN (2005): Levey and Brown reply. *Foreign Affairs* July/August.
<http://simplelink.library.utoronto.ca/url.cfm/378445>

WEEK 8 (October 25)

B. International Currency Competition

1. COHEN, B. J. (2003): Global Currency Rivalry: Can the Euro Ever Challenge the Dollar? *Journal of Common Market Studies* 41(4), 575-595.
<http://www.carlanorrlf.com/wp-content/uploads/2013/03/GlobalCurrencyRivalry.pdf>
2. EICHENGREEN, B. and M. FLANDREAU (2009): The Rise and Fall of the Dollar (or When did the Dollar Replace Sterling as the Leading Reserve Currency?). *European Review of Economic History* 13, 377-411.
<http://www.carlanorrlf.com/wp-content/uploads/2013/03/RiseandFalldollar.pdf>
3. NORRLOF, C. (2014): "Dollar Hegemony: A Power Analysis," *Review of International Political Economy* 21(5): 1042-1070
<http://www.tandfonline.com/doi/full/10.1080/09692290.2014.895773>

4. LEE, J.-W. (2014): "Will the Renminbi Emerge as an International Reserve Currency?," *The World Economy*, 37, 42-62.
http://journals2.scholarsportal.info.myaccess.library.utoronto.ca/pdf/03785920/v37i0001/42_wtreaairc.xml

WEEK 9 (November 1)

C. International Currency and Geopolitical Power

1. STRANGE, S. (1971): The Politics of International Currencies. *World Politics* 23, 215-231.
<http://www.jstor.org.myaccess.library.utoronto.ca/stable/2009676>
2. LI, Q. (2003): "The Effect of Security Alliances on Exchange-Rate Regime Choices," *International Interactions*, 29, 159-193.
http://journals2.scholarsportal.info.myaccess.library.utoronto.ca/pdf/03050629/v29i0002/159_teosaoerc.xml
3. POSEN, A. (2008): "Why the Euro Will Not Rival the Dollar," *International Finance*, 11, 75-100.
http://journals1.scholarsportal.info.myaccess.library.utoronto.ca/pdf/13670271/v11i0001/75_wtewnrtd.xml
4. Liao, Steven, and Daniel McDowell. 2016. "No Reservations." *International Studies Quarterly* 60: 272-93.
<https://academic.oup.com/isq/article-abstract/60/2/272/1751902/No-Reservations-International-Order-and-Demand-for?redirectedFrom=fulltext>

WEEK 10 (November 8)

<< Midterm test (40%) >>

PART III: FINANCIAL CRISIS & SOVEREIGN DEBT CRISIS

WEEK 11 (November 15)

A. Financial Crisis

1. REINHART, C. M. and K. ROGOFF (2008): Is the 2007 US Sub-Prime Financial Crisis So Different? An International Historical Comparison. *American Economic Review* 98(2), 339-344.
<http://myaccess.library.utoronto.ca/login?url=http://search.proquest.com.myaccess.library.utoronto.ca/docview/36929558?accountid=14771>

2. CONGLETON (2009): On the Political Economy of the Financial Crisis and Bailout of 2008-2009. *Public Choice* 140(3-4), 287-317.
<https://www.jstor.org/stable/40270924>
3. GALLAGHER, K. P., and E. SHRESTHA (2012): "The Social Cost of Self-Insurance: Financial Crisis, Reserve Accumulation, and Developing Countries," *Global Policy*, 4, 501-09.
http://journals2.scholarsportal.info.myaccess.library.utoronto.ca/pdf/17585880/v03i0004/501_tscosfcaadc.xml
4. Carmassi, Jacopo, Daniel Gros, and Stefano Micossi. 2009. "The Global Financial Crisis: Causes and Cures." *Journal of Common Market Studies* 47: 977-96.
<http://onlinelibrary.wiley.com/doi/10.1111/j.1468-5965.2009.02031.x/full>
5. Holmes, Christopher. 2009. "Seeking Alpha or Creating Beta? Charting the Rise of Hedge Fund-Based Financial Ecosystems." *New Political Economy* 14: 431-50.
<http://www.tandfonline.com/doi/abs/10.1080/13563460903287231>

WEEK 12 (November 22) **B. Sovereign Debt Crisis**

1. SHLEIFER, A. (2003): Will the Sovereign Debt Market Survive? *American Economic Review* 93(2), 85-90.
<http://www.jstor.org/myaccess.library.utoronto.ca/stable/3132205>
2. OLIVARES-CAMINAL, R. (2010): Sovereign Debt Defaults: Paradigms and Challenges. *Journal of Banking and Regulation* 11(2), 91-94.
<https://link.springer.com/article/10.1057/jbr.2010.8>
3. Brooks, Sarah M., Raphael Cunha, and Layna Mosley. 2015. "Categories, Creditworthiness, and Contagion: How Investors' Shortcuts Affect Sovereign Debt Markets." *International Studies Quarterly* 59: 587-601.
<http://onlinelibrary.wiley.com/wol1/doi/10.1111/isqu.12173/abstract>
4. Schultz, Kenneth A., and Barry R. Weingast. 2003. "The Democratic Advantage: Institutional Foundations of Financial Power in International Competition." *International Organization* 57: 3-42.
https://www.jstor.org/stable/3594824?seq=1#page_scan_tab_contents

WEEK 13 (November 29)

<< Final test (10%) >>