

## **Pardee School of Global Studies**

### **IR 571: “Global Money”**

**MW 4:30-5:45**

Prof. Perry Mehrling

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**Office Hours:** Tuesday 1-3, Wednesday 2:30-3:30

#### **Course Description:**

This course develops an analytical framework for understanding the operations of key monetary and financial institutions in the modern global economy. In the first half of the course, settlement in the payments system and market-making in financial assets are the central focus of attention, at both national and international levels. The second half then uses this analytical framework as an entry point for thinking about the current policy challenges of monetary and financial management, both north and south.

In the second half of the course, we will be reading six recently published books each of which speaks from a different place in the global money system. The goal here is to translate what they say into the common language of the first part of the class, so we can integrate the multiple perspectives. Toward that end, students will be producing group presentations on each book, and then choosing one book for a more in-depth review paper.

Students who complete this course will learn how to:

- 1) Read, understand, and evaluate professional discourse about the current operation of money markets at the level of the Financial Times
- 2) Follow an argument/analysis that uses balance sheet reasoning
- 3) Construct an argument/analysis that uses balance sheet reasoning
- 4) Use diverse primary historical texts to understand current events
- 5) Understand the institutional structure of the dollar money markets, their connection to capital markets, and the mechanisms of central bank control

#### **Prerequisites**

IR 399 “Fundamentals of Global Money” or instructors permission. Background in economics to the intermediate theory level, and familiarity with the fundamentals of finance will help student to appreciate the value added by the course, but are not essential for successful completion.

#### **Grading**

A comprehensive midterm examination covering the first half of the course, 40%.

Group Presentations (two), 30%.

Book Review, 10 pp., 30%, due Friday May 6

## **Required Reading**

The central text is a selection of video lectures and lecture notes prepared by the professor, available at <http://sites.bu.edu/perry/>, plus a selection of related readings, as detailed below. The reading is not extensive, but it is challenging, and will require time and repeated engagement to absorb. Exercises and class discussion are essential complements to the reading. Daily mini-lectures on topics drawn from the day's financial news—in the *Financial Times*—offer repeated examples of the money view in practice. Lecture notes and other readings are available on perusall.com, access code is MEHRLING-QK2UF.

**Academic Honesty and Integrity:** All members of the University are expected to maintain the highest standards of academic honesty and integrity, and the CAS Academic Conduct Code will be strictly enforced. The Conduct Code can be found at <http://www.bu.edu/academics/policies/academic-conduct-code/>.

**Disabilities:** Boston University is committed to providing equal access to our coursework and programs to all students, including those with disabilities. In order to be sure that accommodations can be made in time for all exams and assignments, please plan to turn in your accommodations letter as soon as possible after the first class to the instructor. After you turn in your letter, please meet with me to discuss the plan for accommodations so that we can be sure that they are adequate and you are supported in your learning. If you have further questions or need additional support, please contact the Office of Disability Services ([access@bu.edu](mailto:access@bu.edu)).

## Lecture Schedule

Jan 24, 26: The Big Picture

Kindleberger, Charles P. "The Dollar System." New England Economic Review (Sept/Oct 1970): 3-9.

Mehrling, Perry. "Corona Crisis: Regulatory Lessons of the Stress Test." BCRA (October 9, 2020)

Hauser, Andrew. "From Lender of Last Resort to Market Maker of Last Resort." (Bank of England, January 9, 2021).

Jan 31, Feb 2: The Money View

Lec 2: "Natural Hierarchy of Money"

Lec 3: "Money and the State"

Lec 4: "The Money View, Micro and Macro"

Feb 7, 9: The Settlement Constraint: par

Lec 5: "Central Banking as a Clearinghouse"

Lec 6: "Federal Funds"

Lec 7: "Repos"

Lec 8: "Eurodollars"

Feb 14, 16: Money Markets and Lender of Last Resort

Lec 9: "The World that Bagehot Knew"

Kindleberger, Charles P. 1969. "Measuring Equilibrium in the Balance of Payments." Journal of Political Economy 77 No. 6 (November): 873-891.

Avdjiev, Stefan, Robert McCauley and Hyun Shin. 2015. "Breaking Free of the Triple Coincidence in International Finance" BIS Working Paper #524 (Oct 2015)

McCauley, Robert. 2021. "The Global Domain of the Dollar: Eight Questions." Atlantic Economic Journal (January).

Feb 22, 23: The Treynor Model: interest rates

Lec 10: "Dealers: Liquidity Security Markets"

Lec 11: "Banks: The Market for Liquidity"

Lec 12: "Lender/Dealer of Last Resort"

Feb 28, Mar 2: The Treynor Model: exchange rates

Lec 15: "Banks and Global Liquidity"

Lec 16: "Foreign Exchange"

Mehrling, Perry. 2013. "Essential Hybridity: A Money View of FX" Journal of Comparative Economics 41: 355-363.

#### SPRING BREAK

Mar 14, 16: Review and Midterm

Mar 21, 23: Global Financial Crisis (Banker)

Wigmore, Barrie A. The Financial Crisis of 2008. A History of US Financial Markets, 2000-2012. Cambridge UP, 2022.

Mar 28, 30: EME Capital Flow (IMF)

Ghosh, Atish R, Jonathan D. Ostry, and Mahvash S. Qureshi. Taming the Tide of Capital Flows, a policy guide. MIT Press, 2017.

Apr 4, 6: Global Money (Economists)

Eichengreen, Barry, Arnaud Mehl and Livia Chitu. How Global Currencies Work: Past, Present, and Future. Princeton UP, 2019.

Apr 11, 13: Bretton Woods (IMF Historian)

Boughton, James M. Harry White and the American Creed: How a Federal Bureaucrat Created the Modern Global Economy (and Failed to get the Credit). Yale UP, 2021.

Apr 20, 25: Euro and SDR (Central Banker)

Maes, Ivo (with Ilaria Pasotti). Robert Triffin, A Life. Oxford UP, 2021.

Apr 27, May 2: EME Debt Restructuring (Political Economy)

Roos, Jerome. Why Not Default? The Political Economy of Sovereign Debt. Princeton UP, 2019.

May 4: Wrap Up