

International Finance

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Course Objective

This course provides an overview of key and recent issues in international finance. It discusses the main stylized facts and the major puzzles and surveys selected current research topics in the field such as global imbalances, global financial cycle, determination of (nominal/real) exchange rates and forecasting as well as climate finance. This course addresses several issues that concern both policymakers and private actors: how to explain the variations in exchange rates? Can we predict exchange rates? Are monetary policies truly independent even under flexible exchange rates? Do we face currency wars? What is the counterpart of the exorbitant privilege enjoyed by some countries in the international financial system? The course develops critical thinking and analytical ability of students by monitoring and analysing the international monetary and financial conditions. Each session has time devoted to international financial and economic news.

Time: Friday 1:00-4:00 PM. **Length:** 7 seminars of three hours; **Exam:** Two-hour written test with free documents.

Organisation: 2/3 of sessions dedicated to a classic course (see “Course Topics” below). 1/3 of sessions dedicated to student presentations of academic papers (last weeks).

Class participants must present in class one report on an academic paper presented in the proposed list. If you prefer to select a paper outside the proposed list, you need to check with me first. Each report should be approximately 20 slides for a 30-40mn presentation (individually or in pairs). You have to summarize the main arguments of the paper in the context of the existing literature, highlight its contribution and outline any strengths or weaknesses.

Language: Oral in French and material (readings/slides) in English. Student presentations in French or English (bonus for English).

Grading:

Written test: 60 percent.

Presentation: 30 percent.

Class participation: 10 percent.

Course Topics

Topic 1. The Foreign Exchange Rate Market and Stylised Facts

Topic 2. Six Major Puzzles

Topic 3. Explaining and Forecasting Exchange Rates

Topic 4. International Financial Crises

Topic 5. Financial Integration, Risk Sharing and Economic Development

Topic 6. Global Imbalances, Exorbitant Privilege/Duty and Last-Resort Insurers

Topic 7. Exchange Rate Regimes Monetary Independence: Dilemma not Dilemma?

Essential References

- Evans M.D.D. (2011), *Exchange-Rate Dynamics*, Princeton University Press.
- Krugman P.R, Obstfeld M. and Melitz M. (2014), *International Economics: Theory and Policy*, Pearson.
- Obstfeld M. and Rogoff K. (1996), *Foundations of International Macroeconomics*, MIT press.

Suggested Reading List

Aizenman, J, M Binici, and M M Hutchison (2014), “The Transmission of Federal Reserve Tapering News to Emerging Financial Markets”, NBER Working Paper 19980.

Bluedorn, J.C and C. Bowdler (2010), “The Empirics of International Monetary Transmission: Identification and the Impossible Trinity”, *Journal of Money, Credit and Banking* 42(4), 679-713.

Bussiere, M, C Lopez and C Tille (2015), “Do Real Exchange Rate Appreciations Matter for Growth”, *Economic Policy* 81, 5-45.

Calvo, G A and C M Reinhart (2002), “Fear of Floating”, *Quarterly Journal of Economics*, 117(2): 379–408.

Chinn, Menzie D and Hiro Ito (2006), “What Matters for Financial Development? Capital Controls, Institutions, and Interactions,” *Journal of Development Economics* 81(1): 163–192.

Daude, C, E Levy Yeyati, and A Nagengast (2014), “On the effectiveness of exchange rate intervention in emerging markets”, OECD Development Centre Working Paper 324.

Dooley, M and M Hutchison (2009), “Transmission of the U.S. Subprime Crisis to Emerging Markets: Evidence on the Decoupling-Recoupling Hypothesis”, *Journal of International Money and Finance* 28(8): 1331–1349.

Dornbusch, R (1976), “Expectations and exchange rate dynamics”, *Journal of Political Economy* 84(6): 1161-1176.

Engel, C. and K. West (2005), “Exchange Rates and Fundamentals”, *Journal of Political*

Economy 113(3), 485-517.

Fratzscher, M and A Mehl (2011), “China’s Dominance Hypothesis and the Emergence of a Tri-polar Global Currency System”, CEPR Discussion Paper, No. 8671, November 2011 (published in the Economic Journal, December 2014).

Froot, K. and R. Thaler (1990), “Anomalies: Foreign Exchange,” Journal of Economic Perspectives 4(3), 179-192.

Gourinchas, P-O and H. Rey (2005), “From World Banker to World Venture Capitalist: US External Adjustment and the Exorbitant Privilege”, NBER Working Paper 11563.

Habib, M. M. (2010), “Excess Returns on Net Foreign Assets: The Exorbitant Privilege from a Global Perspective”, ECB Working Paper 1158, European Central Bank, February.

Habib, M. M. and L Stracca (2011), “Getting beyond Carry Trade: What Makes a Safe Haven Currency?”, ECB Working Paper 1288, January.

Rogoff, K.S. and T. Tashiro (2015), “Japan's exorbitant privilege”, Journal of the Japanese and International Economies 35, pp. 43-61.

Menhoff, L, L Sarno, M Schmeling, and A Schrimpf (2011), “Carry Trades and Global Foreign Exchange Volatility”, Journal of Finance, forthcoming. CEPR Discussion Paper 8291.

Molodtsova, T and D H Papell (2009), “Out-of-Sample Exchange Rate Predictability with Taylor Rule Fundamentals”, Journal of International Economics 77(2), 167-180.

Obstfeld, M., J. Shambaugh, and A. Taylor (2005), “The Trilemma in History: Tradeoffs among Exchange Rates, Monetary Policies, and Capital Mobility”, Review of Economics and Statistics 87, 423-438.

Reinhart, CM and KS Rogoff (2002), “The Modern History of Exchange Rate Arrangements: A Reinterpretation”, NBER Working Paper 8963.

Rey, H. (2013), “Dilemma not Trilemma: The global financial cycle and monetary policy independence”, paper presented at the Jackson Hole Symposium, August.

Rogoff, K and V Stavrakeva (2008), “The Continuing Puzzle of Short Horizon Exchange Rate Forecasting”, NBER Working Paper 14071.

Taylor, M. (1995), “The Economics of Exchange Rate”, Journal of Economic Literature 33:1, 13-47.

Lecturer



Pr. Christophe Boucher is an Agrégé Professor in Economics and Finance at the University of Paris Nanterre. He is also Chief Strategist - Head of Quantitative Research & Strategy within ABN AMRO Investment Solutions. He graduated in Economics and in Finance, and holds a PhD in Economics in 2006 (“Misalignments, Aggregated Returns and Aggregated Volatility”). He has published several comments in newspapers and articles

in academic journals such as Journal of Banking and Finance, Economics Letters, Quantitative Finance and serves as a referee in several international leading journals. His interest mainly concerns predictability of returns and volatility, asset pricing, monetary policy and climate finance. He received the “Young Economist Award” in 2006 from the European Economic Association (EEA) and the “Young Researcher in Economics Prize” from the Banque de France Foundation in 2010.