

## POLS 384 – Political Economy of Financial Regulation

Trinity College Spring 2009  
MW 2:40-3:55  
Room: Halden 121

Instructor: Kelly P. Wurtz  
Office: Downes 203  
Office Hours: T/Th 11-1, 3-4:30, by appt.  
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### Course Overview

In today's increasingly integrated global market, prudential regulation of financial markets is an important issue. This class will explore the political dynamics involved with regulating international financial markets. We begin with fundamental questions of how and why countries choose to integrate themselves into international capital markets, both historically and contemporaneously. Second, we will look at attempts by governments to create institutions at the local, national, and international level to ensure stability of financial markets. Third, we will seek to understand variation in regulations on banking, investment, and taxation. Finally, the class will address public policy challenges related to dealing with increasingly complex international financial markets.

### Required Readings and Course Information

There is one required book for the course, available for purchase at the bookstore or on-line at the vendor of your choice.

James R. Barth, Gerard Caprio, Ross Levine, 2006. *Rethinking Bank Regulation: Till Angels Govern*, (Cambridge: Cambridge UP)

The course will maintain a website through Blackboard that will provide all the other readings not available on the internet, as well as information of relevance to the course, including lecture slides, other recommended material and updates. *Please note that required readings are to be read for the day assigned.*

### Evaluation

Your grade for the course will be determined by the following components:

1. Short policy paper #1 **Due February 12<sup>th</sup>** (20%)
2. Take-home midterm covering all lectures, readings and discussions up until that point **due March 12<sup>th</sup>** (25%)
3. Short Paper #2 – **due March 31<sup>st</sup>** (10%)
4. Take-home final (This will be a policy focused analytic essay/paper) – **due May 7<sup>th</sup>** (35%)
5. Quizzes (if needed), participation and attendance (10%)

### Late Assignment Policy

Late assignments not excused by a doctors note or pre-arranged agreement will be docked 1/3 letter grade per 24 hour period.

Quizzes may not be made up, absent a doctor's note or pre-arranged absence (but please do not email me the night before class asking if we're having a quiz the next day). I drop your lowest quiz score, so you can miss one without penalty.

### **Academic Integrity**

This class operates under the established regulations on academic integrity established by Trinity College and agreed to by each student. As such, academic dishonesty will not be tolerated. All submitted work, including take-home exams, must be your own work (I.e., no collaboration on exams), and properly cited.

### **Miscellaneous**

Please turn off or silence all cell phones prior to the beginning of class. I reserve the right to answer any calls (your's, not mine) received during class time. I'm sure your friends will love to hear what you're learning in Intro IR that day.

Feel free to use laptops during class, but please respect your fellow classmates by refraining from unnecessary use of Youtube, Facebook, or other unrelated content. I am an advocate of technology in the classroom, but it is a privilege, not a right. I reserve the right to reverse this policy if the presence of laptops becomes a distraction.

Lecture slides will be placed on the class Blackboard page. In general, I will attempt to post these the evening before class, but offer no guarantees. The slides should not be seen as a replacement for lecture, as they are there to provide guide posts for lecture, present relevant data, and aid in exam preparation.

I am most easily accessible to you on email (Kelly.Wurtz@trincoll.edu). However, I expect you to respect the fact that I am not online and at your disposal 24-7. As such, I will try to answer any email received in 24 hours, though from time to time this may not be possible.

Finally, this syllabus does not establish a contract of any form. Any changes made will be announced in class and noted on the class Blackboard page.

### **Required Readings**

#### **Week 1**

January 20<sup>th</sup>

January 22<sup>nd</sup>

Barry Eichengreen, 2008. *Globalizing Capital*, pp. 7-45

#### **Week 2 - Financial integration and monetary cooperation before 1973**

January 27<sup>th</sup>

Eichengreen, *Globalizing Capital* 46-135

January 29<sup>th</sup>

Thomas Oatley, *International Political Economy* (3<sup>rd</sup> Ed.) Ch. 12 and 13

### **Week 3 - The industrialized countries: national policies and international financial integration**

February 3<sup>rd</sup>

Quinn. "The Correlates of Change in International Financial Regulation." *American Political Science Review*. 1997. Vol. 91: 531-52.

William Bernhard, J. Lawrence Broz and William Roberts Clark, 2002. "The Political Economy of Monetary Institutions," *International Organization*, Volume 56, Issue 04, (November):693-723

February 5<sup>th</sup>

Layna Mosley, 'Room to Move: Financial Markets and National Welfare States,' *International Organization*, 54 (4) Autumn 2000, pp. 737-73

William Bernhard and David Leblang, 2002, "Political Parties and Monetary Commitments," *International Organization*, Volume 56, Issue 04, (November): 803-830.

### **Short paper assignment handed out**

### **Week 4 - Regional monetary options: Europe, Asia and Latin America**

February 10<sup>th</sup>

Jeffrey A. Frieden, 2002. "Real Sources of European Currency Policy: Sectoral Interests and European Monetary Integration," *International Organization*, Vol. 56 No. 4 (Autumn): 831-860.

Charles Wyplosz "A Monetary Union in Asia? Some European Lessons," in David Gruen & John Simon (ed.) *Future Directions for Monetary Policies in East Asia*, Reserve Bank of Australia, 2001

<http://www.rba.gov.au/PublicationsAndResearch/Conferences/2001/wyplosz.pdf>

February 12<sup>th</sup>

Ernesto Hausmann, "Currencies: Should there be Five or One Hundred and Five?"  
<http://www.iadb.org/res/publications/pubfiles/pubS-121.pdf>

Guillermo A. Calvo, "On Dollarization,"  
<http://www.econ.yale.edu/alumni/reunion99/calvo1.htm>

## Short paper #1 due

### Week 5 - The developing countries: national policy choices and international financial integration

February 17<sup>th</sup>

Oatley, Ch. 14

Elkins, Zachary, Andrew T. Guzman, and Beth A. Simmons. 2006. "Competing for Capital: The Diffusion of Bilateral Investment Treaties, 1960-2000." *International Organization* 60 (fall): 811-846.

February 19<sup>th</sup>

Michael Mussa, "Exchange Rate Arrangements of Developing and Transition Countries" in *Exchange Rate Regimes in an Increasingly Integrated World Economy*, pp. 13-35.  
<http://www.imf.org/external/pubs/ft/op/193/chap3.pdf>

Eichengreen, *Globalizing Capital*, pp. 181-190

Augusto de la Torre, et al, 2002. "Financial Globalization: Unequal Blessings," *International Finance*, Vol. 5 No. 3: 335-357.

### Week 6 - The developing countries: capital flows and financial crises

February 24<sup>th</sup>

video: *Commanding Heights*, Ch. 3

Oatley, Ch. 15

Nouriel Roubini and Brad Setser, *Bailouts or Bail-ins?: Responding to Financial Crises in Emerging Economies*, Washington, DC : Institute for International Economics, 2004, pp. 25-72  
[http://www.petersoninstitute.org/publications/chapters\\_preview/378/2iie3713.pdf](http://www.petersoninstitute.org/publications/chapters_preview/378/2iie3713.pdf)

February 26<sup>th</sup> – Trinity Days (No Class)

### Week 7 - The Developing countries: financial flows and development

March 3<sup>rd</sup>

Devesh Kapur, "Remittances: The New Development Mantra?" (Washington, DC: The World Bank, 2005) [http://www.unctad.org/en/docs/gdsmdpbg2420045\\_en.pdf](http://www.unctad.org/en/docs/gdsmdpbg2420045_en.pdf)

World Bank, 2005. *World Development Report 2005: A Better Investment Climate For Everyone*, overview  
[http://siteresources.worldbank.org/INTWDR2005/Resources/02\\_WDR\\_Overview.pdf](http://siteresources.worldbank.org/INTWDR2005/Resources/02_WDR_Overview.pdf)

March 5<sup>th</sup>

Theodore H. Moran , Edward M. Graham and Magnus Blomström, 2005. “Conclusions and Implications for FDI policy in developing countries, new methods of research, and a future research agenda,” in *Does Foreign Direct Investment Promote Development?* eds. Theodore H. Moran , Edward M. Graham and Magnus Blomström, (Washington, D.C.: Institute for International Economics)

[http://www.iie.com/publications/chapters\\_preview/3810/14iie3810.pdf](http://www.iie.com/publications/chapters_preview/3810/14iie3810.pdf)

William Easterly, “The Cartel of Good Intentions,” *Foreign Policy*, No. 131. (Jul. - Aug., 2002), pp. 40-49.

**supplemental reading:**

Greg Linden et. al., “Who Captures Value in a Global Innovation System: The Case of Apple's iPod,” pp. 1-10. <http://pcic.merage.uci.edu/papers/2007/AppleiPod.pdf>

## **Take-home midterm Handed Out**

### **Week 8 - The International Monetary Fund, the World Bank and conditionality**

March 10<sup>th</sup>

Miles Kahler, “Bargaining with the IMF: Two-Level Strategies and Developing Countries,” in Peter B. Evans, Harold K. Jacobson, and Robert D. Putnam, eds., *Double-Edged Diplomacy: International Bargaining and Domestic Politics*, pp. 363-394

James Raymond Vreeland, “The International and Domestic Politics of IMF Programs,” [http://pantheon.yale.edu/~jrv9/International\\_and\\_Domestic\\_Politics\\_of\\_IMF\\_Programs.pdf](http://pantheon.yale.edu/~jrv9/International_and_Domestic_Politics_of_IMF_Programs.pdf)

March 12<sup>th</sup>

Kenneth Rogoff, “The IMF strikes back,” *Foreign Policy*, January-February 2003. [http://post.economics.harvard.edu/faculty/rogoff/papers/IMF\\_Strikes\\_Back.pdf](http://post.economics.harvard.edu/faculty/rogoff/papers/IMF_Strikes_Back.pdf)

Joseph E. Stiglitz, 2001. “Failure of the Fund: Rethinking the IMF Response” *Harvard International Review*, Summer 2001, p. 14-18. [http://www2.gsb.columbia.edu/faculty/jstiglitz/download/2001\\_Failure\\_of\\_the\\_Fund.pdf](http://www2.gsb.columbia.edu/faculty/jstiglitz/download/2001_Failure_of_the_Fund.pdf)

## **Take-home midterm due**

### **Week 9**

March 17<sup>th</sup> – Spring Break (No Class)

March 19<sup>th</sup> – Spring Break (No Class)

## **Week 10**

March 24<sup>th</sup> - Taxation

Swank, Duane and Sven Steinmo. 2002. The New Political Economy of Taxation in Advanced Capitalist Democracies. *American Journal of Political Science* 46 (3):642-55.

Jeffrey F. Timmons, 2005 "The Fiscal Contract: States, Taxes, and Public Services," *World Politics* 57 (July):530-67

March 26<sup>th</sup> - Theories of Regulation

McCubbins, M. D. and T. Schwartz. 1984. Congressional Oversight Overlooked: Police Patrols Versus Fire Alarms. *American Journal of Political Science* 28: 165-179.

McCubbins, M. D., R. G. Noll, and B. R. Weingast (McNollgast). 1987. Administrative Procedures as Instruments of Political Control. *Journal of Law, Economics, and Organization*. 3: 243-77.

Huber, John D., and Charles R. Shipan. 2000. "The Costs of Control: Legislators, Agencies, and Transaction Costs." *Legislative Studies Quarterly*. 25 (1): 25-52.

## **Short paper #2 handed out**

## **Week 11**

March 31<sup>st</sup>

Till Angels Govern, Ch. 2

Luigi Guiso, Paola Sapienza and Luigi Zingales, "The Cost of Banking Regulation," NBER Working Paper 12501, August 2006

## **Short paper #2 due**

April 2<sup>nd</sup>

## **No Class**

## **Week 12**

April 7<sup>th</sup>

Till Angels Govern, Ch. 3

April 9<sup>th</sup>

Barry Eichengreen, "Governing Global Financial Markets: International Responses to the Hedge-Fund Problem," in *Governance in a Global Economy*, Lake and Kahler Eds., 2003:

168-198.

Gary H. Stern, Ron J. Feldman, 2004. *Too big to fail the hazards of bank bailouts*  
<http://site.ebrary.com/lib/trinity/Doc?id=10063877> pp. 1-5, 12-28

Beth A. Simmons, 'The International Politics of Harmonization: The Case of Capital Market Regulation,' *International Organization*, 55,3 (Summer 2000), 589-620

### **Week 13**

April 14<sup>th</sup>

Till Angels Govern, Ch. 4

April 16<sup>th</sup>

Mian, Atif R. and Sufi, Amir, "The Consequences of Mortgage Credit Expansion: Evidence from the U.S. Mortgage Default Crisis(December 12, 2008). Available at SSRN:  
<http://ssrn.com/abstract=1072304>

### **Week 14**

April 21<sup>st</sup>

Till Angels Govern, Ch. 5

Gary H. Stern, Ron J. Feldman, 2004. *Too big to fail the hazards of bank bailouts*  
<http://site.ebrary.com/lib/trinity/Doc?id=10063877> pp. 43-59

April 23<sup>rd</sup>

Mian, Atif R., Sufi, Amir and Trebbi, Francesco, "The Political Economy of the U.S. Mortgage Default Crisis"(January 7, 2009). *Chicago GSB Research Paper No. 08-17*. Available at SSRN:  
<http://ssrn.com/abstract=1291524>

### **Week 15**

April 28<sup>th</sup> -

Till Angels Govern, Ch. 6

Gary H. Stern, Ron J. Feldman, 2004. *Too big to fail the hazards of bank bailouts*  
<http://site.ebrary.com/lib/trinity/Doc?id=10063877> pp.89-110, 141-148, (skim 111-130 and appendices for additional details if desired.)

**Take-home final handed out**

**May 7<sup>th</sup> – Take-Home Final Exam due**

