

Political Science 579: The Politics of International Finance
Friday, 9:30-12:15, Fenno Room (Harkness 329)

Fall 2014

Randall Stone
Professor of Political Science
University of Rochester
randall.stone@rochester.edu

Harkness Hall 336
273-4761

Purpose of the course: This is an advanced course intended for Ph.D. students. The course conducts a broad survey of the field, focusing on the politics of substantive issues in international finance, including macroeconomics, money, coordination, international trade, and economic adjustment, and European integration.

Course Requirements: Each student writes a dated and research paper (20-25 pages, double-spaced, 12pt font). A draft of the research paper is due at 5:00 pm November 15, and the final version is due December 12 at 12:00 noon (no extensions). Each student will have at least one opportunity to present a preliminary version of the paper during the semester. In addition, there will be a take-home final exam due December 12 at 12:00 noon. A playing card class on October 17, final paper due final. Note also the Block Seminar on Saturday, December 13, when all students will present their papers.

Please review the day we are moving off campus for a change of venue.

Research Papers: Although the papers are short (no more than 25 pages, please), the standards are high. The papers are expected to formulate a hypothesis, a research agenda, illustrate an argument or puzzle using qualitative evidence, and test the hypothesis using quantitative evidence. Please speak to me before the second class so I can get you started.

Readings: The following books are recommended for purchase; I recommend ordering on-line.

- Kirschner, Jonathan. *Currency and Coercion: The Political Economy of International Monetary Power*. Princeton: Princeton University Press, 1995.
- Eichengreen, Barry. *Globalizing Capital: A History of the International Monetary System*. 2nd Ed. Princeton: Princeton Univ. Press, 2008.
- Cohen, Benjamin J. *The Geography of Money*. Ithaca: Cornell UP, 1998.
- Reinhart, Carmen M. and Kenneth S. Rogoff. *This Time is Different: Eight Centuries of Financial Crises*. Princeton: Princeton University Press, 2009.
- Simmons, Beth. *Who Adjusts? Domestic Sources of Foreign Economic Policy during the Interwar Years*. Princeton: Princeton Univ. Press, 1994.
- Halleiner, Eric. *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s*. Ithaca: Cornell Univ. Press, 1994.
- Stone, Randall W. *Lending Credibility: The International Monetary Fund and the Post-Communist Transition*. Princeton: Princeton Univ. Press, 2002.
- Moravcsik, Andrew. *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht*. Ithaca: Cornell Univ. Press, 1998.
- Tomz, Michael. *Reputation, Debt, and International Cooperation*. Princeton: Princeton University Press, 2007.

Course Outline:

Friday, Sept. 5: Overview

Friday, Sept. 12: Money and Power

Kirshner, Jonathan. *Currency and Coercion: The Political Economy of International Monetary Power*. (Princeton: Princeton Univ. Press, 1995).

Cohen, Benjamin J. *The Geography of Money*. (Ithaca: Cornell UP, 1998.)

Friday, Sept. 19: Sovereign Debt

Rulow, Jeremy, and Kenneth Rogoff. "A Constant Recentering Model of Sovereign Debt." *Journal of Political Economy*, 97, No. 1 (1989)

Tommaso Padoa-Schioppa. "The International Monetary System." *IMF Staff Papers*, 2007

Drazen (2000), 587-601.

Friday, Sept. 26: Default, Banking and Currency Crises

Reinhart, Carmen M. and Kenneth S. Rogoff. *This Time is Different: Eight Centuries of Financial Folly*. Princeton: Princeton University Press, 2009. Chapters 1-15.

Student presentations

Friday, Oct. 3: Foreign Aid

Morgenthau, Hans. "A Political Theory of Foreign Aid." *American Political Science Review* 56 (2) (June 1962): 301-09.

Drazen, *Political Economy in Macroeconomics*, pp. 601-613.

Bueno de Mesquita, Bruce, and Alastair Smith. 2009. A Political Economy of Aid. *International Organization* Vol. 63, No. 2 (Spring, 2009) (pp. 309-340).

Alesina, Alberto, and David Dollar. 2000. Who Gives Aid to Whom and Why? *Journal of Economic Growth* 5 (March): 33-63.

Burnside, Craig and David Dollar. 2000. Aid Policies and Growth. *American Economic Review* 90 (September): 847-68.

Fasterly, William Ross, Levine, and David Rodman. 2004. Aid Policies and Growth: Comment. *American Economic Review* 94 (3):774-80

Kuziemko, Ivana and Eric Werker. 2006. How Much Is a Seat on the Security Council Worth? Foreign Aid and Bribery at the United Nations. *Journal of Political Economy* 114 (4): 905-30.

Carton, David B. and Randall W. Stone. (Forthcoming, 2015). Multilateralism and Democracy: The Case of Vote Buying in the United Nations General Assembly. *International Organization*.

Friday, Oct. 10: Foreign Direct Investment

Vernon, Raymond. 1971. *Sovereignty at Bay: The Multinational Squeeze on U.S. Enterprises*. New York, NY: Basic Books. Selections.

Holzrath, Johannes, Mara J. Malitz and Stephen R. Yeaple. 2004. Export versus FDI with Heterogeneous Firms. *American Economic Review* 94(1): 300-316.

Henisz, Witold J. 2000. The Institutional Environment for Multinational Investment. *Journal of Law, Economics, and Organization* 16: 334-364.

Li, Qian. 2009. "Democracy, Autocracy, and Expropriation of Foreign Direct Investment." *Comparative Political Studies* 42: 1098-1127.

Rüfke, Tim, and Helen V. Milner. 2008. The Politics of Foreign Direct Investment and Development in Developing Countries: Increasing FDI through International Trade Agreements? *American Journal of Political Science* 52(4): 741-762.

Elkins, Zachary, Andrew T. Guzman, and Beth A. Simmons. 2006. Competing for Capital: The Diffusion of Bilateral Investment Treaties, 1959-2000. *International Organization* 60: 811-846.

Jensen, Nathan M. 2008. Political Regimes and Political Risk: Democratic Institutions and Expropriation Risk for Multinational Investors. *Journal of Politics* 70 (4): 1040-1052.

Friday, Oct. 17: Multilateral Lending

Stone, Randall W. *Lending Credibility: The International Monetary Fund and the*

Stone, Randall W. 2004. The Political Economy of IMF Lending in Africa. *American Political Science Review* 98:577-591.

Kilby, Christopher. 2009. The Political Economy of Conditionality: An Empirical Analysis of World Bank Loan Disbursements. *Journal of Development Economics* 89 (1) (May): 51-81.

Friday, Oct. 24: International Finance under the Gold Standard

Eichengreen, Globalizing Capital. Chapters 2, 3.

Simmons, Beth. *Who Adjusts? Domestic Sources of Foreign Economic Policy during the Interwar Years*. (Princeton: Princeton Univ. Press, 1994)

Friday, Oct. 31: International Finance in the Bretton Woods Era

Eichengreen, Globalizing Capital, Chapter 4

Milner, Helen V. *Interests, Institutions, and Information: Domestic Politics and International Relations*. Princeton: Princeton Univ. Press, 1997. Chapter 5, pp. 135-57.

Keohane, Robert O. *After Hegemony: Cooperation and Discord in the World Political Economy*. (Princeton: Princeton Univ. Press, 1984), Chapters 8, 9.

Helleiner, Eric. *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s*. (Ithaca: Cornell Univ. Press, 1994). Chapters 1-5.

Drazen, Allen. *Political Economy in Macroeconomics*. BUP, 2000. (pp. 529-44)

Friday, Nov. 7: International Finance under Flexible Exchange Rates

Eichengreen, Globalizing Capital. Chapter 5.

O'Leary, John S. *Negotiating the World Economy*. (Cornell Univ. Press, 2000). Chpt. 4

Helleiner, Eric. *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s*. (Ithaca: Cornell Univ. Press, 1994). Chapter 6-9

Drazen, *Political Economy in Macroeconomics*, (pp. 559-87.)

Friday, Nov. 14: No Class (IPES)

5:00: Paper Draft due

Friday, Nov. 21: The Origins of the Euro

Moravcsik, Andrew. *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht*. Ithaca: Cornell Univ. Press, 1998. Chpt. 6.

Hennig, C. Randall. "Systemic Conflict and Monetary Integration in Europe." *International Organization* 52 (5) (Summer 1998): 537-74.

Drazen, *Political Economy in Macroeconomics*, (pp. 544-59.)

Giovazzi, Francesco, and Marco Pagano. 1988. The Advantage of Tying One's Hands: EMS Discipline and Central Bank Credibility. *European Economic Review* 32: 1055-1082.

~~Stone, Randall W. *Controlling Institutions: International Organizations and the Global Economy*. (Cambridge: Cambridge University Press, 2011), Chpt. 6~~

Fri., Nov. 28: No class (Thanksgiving)

Fri., Dec. 5: The Future of the Euro

~~Herring, Randall G. *Tangled Governance: International Regime Complexity in the Euro Crisis*. Manuscript, 2014.~~

Feldstein, Martin. 2012. The Failure of the Euro. *Foreign Affairs* 91 (1) (Jan/Feb): 105-16.

~~Eichengreen, Barry. 2012. When Currencies Collapse. *Foreign Affairs* 91 (1) (Jan/Feb): 117-134.~~

~~Fri. Dec. 12: No class. Final exam 12:00 noon~~

Monday, Dec. 15: Final exam due, 5:00 pm

Additional suggested readings:

Ahdalal Rawi. *Capital Rules: The Construction of Global Finance*. HTTP 2007

Aggarwal, Vinod K. *Debt Games: Strategic Interaction in International Debt Rescheduling*. (New York: Cambridge Univ. Press, 1996). Chpts. 11, 13, 14.

Alesina, Alberto, and Beatrice Weder. 2002. Do Corrupt Governments Receive Less Foreign Aid? *The American Economic Review* 92 (4): 1126-38

Blustein, Paul. 2001. *The Chastening: Inside the Crisis that Rocked the Global Financial System and Humbled the IMF*. New York: Public Affairs

Eichengreen, Barry. 1992. The Origins and Nature of the Great Slump Revisited. *The Economic History Review* New Series, Vol. 45, No. 2 (May): 213-239.

Frieden, Jeffrey A. 1991. *Debt, Development, and Democracy: Modern Political Economy and Latin America, 1965-1995*. Princeton: DUP, Chapter 2 (pp. 42-64)

Helleiner, Eric. *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s*. (Ithaca: Cornell Univ. Press, 1994). Chapter 9.

Jensen, Nathan M. 2002. Democratic Governance and Multinational Corporations: Political Regimes and Inflows of Foreign Direct Investment. *International Organization* 57 (3): 587-616.

Oso, Kenneth. *Economic Discrimination and Political Exclusion: World Political Economy in the 1930s and 1990s*. Princeton: Princeton Univ. Press, 2002. Chpt. 6

Reinhart, Carmen M., and Kenneth S. Rogoff. 2004. The Modern History of Exchange Rate Arrangements: A Reinterpretation. *The Quarterly Journal of Economics*, Vol. 119, No. 1 (Feb.): 1-48.

Stinnett, J. M. 2008. The International Monetary Fund: A Review of the Recent Evidence. *Review of International Organizations* 3 (2) (June): 123-49.