



## Economics 395L: Financial and Economic Crises, Exchange Rate Regimes, and Monetary and Fiscal Policy

### Course Outline

Fall 2023, unique number 34965

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**Office hours:** Tuesday and Thursday 3:30-4:30, and by appointment

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I check email multiple times per day and usually I reply within minutes or hours. **Please do not use Canvas messaging.**

### COURSE DESCRIPTION AND OBJECTIVES

The overarching objective is for students to understand why sound macroeconomic policies (financial market regulation, exchange rate regime, money growth rate and interest rates, fiscal policy, etc.) are important for a set of interrelated outcomes: investment (including capital flows); productivity (and therefore incomes and growth); exchange rate and price level stability; stability of interest rates, government debt, and foreign exchange reserves; and financial sector depth and development.

The approach will be to discuss financial and economic crises jointly with the economic theory needed to understand why the crises happened and how well-designed policies could have prevented them or better handled them. The crises we'll consider are listed below. Relevant economic theory will include aspects of international finance, monetary theory, growth theory, theories of banking and financial intermediation, and macroeconomics. The crises will serve as "laboratories" that reveal the characteristics of well-designed policies.

Economic theory we will cover includes the following:

- A short-run model of the exchange rate based on uncovered interest parity. A long-run model of the exchange rate based on differential real growth rates and trend inflation rates. How an exchange rate is "defended" (the capacity to do so is limited, which can lead to crises).
- Why a country might give up a flexible exchange rate in favor of a fixed exchange rate (European Monetary System, Chile, Mexico), currency board (Argentina), or common currency (Eurozone). Relationship between a country's exchange rate regime and its monetary and fiscal policy options (an exchange rate regime constrains monetary and fiscal policy, and vice versa).
- Topics in growth theory, in order to understand why, internationally (and within a country), funds flow to where their marginal productivity is highest; why international capital flows are not sufficient to equalize output per worker; and how freely-flowing capital can increase the output gap between poor and rich countries. Relevant within the Eurozone and for developing countries.
- Basic theory of financial intermediation (banking), in order to understand how a drop in the value of bank assets can lead to a financial crisis. Drop can be in government bond prices (due to a fiscal crisis, or rise in interest rates) or in the value of mortgages (when a house price bubble bursts). Moral hazard in banks. The importance of regulators shutting down almost-insolvent banks. Relevant to the Eurozone debt crisis, the US financial crisis of 2008, and US bank failures in 2023.
- Diamond-Dybvig model of bank runs, illustrating the runs in the "shadow" banking system in the US in 2008, and the US bank runs in 2023.
- Role of private information in financial markets (using Akerlof's lemons model), in order to explain why the market for mortgage-backed securities (MBS's) froze in 2008, which transformed mortgage defaults into a US and global financial and economic crisis.

- Joint equilibrium in the markets for money and foreign exchange (and central bank balance sheets), in order to analyze the impact of shocks (recession, rise in foreign interest rates, risk premium due to possible sovereign default, bank bailouts) on a country's ability to maintain a peg (fixed exchange rate). Argentina, Mexico, Asian economic crisis.
- Model of a speculative attack on a fixed exchange rate. Calculation of the critical level of foreign exchange reserves when the government is monetizing a budget deficit. When reserves fall to the critical level, speculators drain all remaining reserves. Argentina, Mexico.
- "Unpleasant monetarist arithmetic" (if the real interest rate is higher than the real growth rate of GDP, the government debt-to-GDP ratio will rise, becoming unsustainable at some point, unless the government runs a sufficiently large budget surplus). Crisis countries in the Eurozone, Brazil.
- Monetary theory of hyperinflation. Chile, Brazil, and Argentina (and Zimbabwe, time permitting).

The exposition will be analytical (mathematical and graphical). Each theory or model will be motivated by a specific crisis, and then also applied to other crises. We'll need multiple theories and models to understand each crisis. This approach will show you commonalities between historical episodes, and allow you to apply what you will learn to crises we won't consider and to future crises.

As a result, this course will be valuable, regardless of whether or not a student has had prior courses in macroeconomics, international finance, monetary theory, and growth theory. If a student has not had these courses previously, they'll learn self-contained theories and how to apply them. If a student has had one or more of these courses previously, this course will extend the student's knowledge, and show how material from multiple courses can be utilized jointly to analyze complex crises and policy questions.

This course will cover a number of crises:

- European sovereign debt crisis and the Eurozone economic crisis (2008-present): The European Union represents the most ambitious attempt in history by sovereign states to create an integrated economic structure. The Single Market of the EU promises the "four freedoms" (freedom of movement of people and capital and free trade in goods and services). EU members commit to join the Eurozone (except Denmark and the UK before Brexit), which requires the country to give up its national currency in favor of a common currency controlled by the European Central Bank, and to adhere to fiscal targets on the government budget deficit and level of government debt. Although there were warning signs during the first decade of the euro, the European debt crisis (starting in Ireland and Greece, and then broadening to include Spain, Italy, and Portugal) revealed the consequences of incomplete banking and fiscal unions. Crises developed for different reasons among these countries, but in each case the architecture of the EU and the Eurozone, and the dynamics of capital flows and debt within it, shaped the circumstances of the crisis and how the crisis went. Capital flows and free trade were supposed to cause convergence of living standards but this has not occurred. Financial markets are still segmented. Italy's huge government debt could lead to a resurgence of the crisis. Keep in mind that the US is a currency union; that currency boards are similar in important ways to currency unions; and that currency boards and currency unions are discussed on a regular basis in countries that seek greater integration with trade partners or that need fiscal and monetary discipline.
- Iceland (2008) shows that a country doesn't need a fixed exchange rate or a big government budget deficit to have an exchange rate crisis and banking crisis. Poor monetary policy and poor banking regulation set Iceland up as a destination for the "carry trade" (capital flows that take advantage of departures from "uncovered interest parity"). Banks were allowed to grow explosively via expansion of euro-denominated deposits, although Iceland's central bank did not have enough euros in reserve to bail out Iceland's banks.

- Chile (late 1970's and early 1980's): This crisis presaged the Asian economic crisis. It shows us the importance of financial market regulation and the hazards of using a fixed exchange rate with convertibility of the currency as a commitment device when attempting fiscal reform, for a country with a history of high inflation. Foreign capital flooded in, causing an asset price bubble and causing unsupervised banks to spring up like “mushrooms”.
- Brazil had decades of high inflation and hyperinflation, due to fiscal deficits, showing us the limits of “money-printing” and the futility of attempting to escape its inflationary impact by borrowing.
- Argentina instituted a currency board in 1991 to tie the government’s hands with respect to “money-printing”, which had caused hyperinflation, and to enhance Argentina’s credibility in global financial markets. However, Argentina’s policies were inconsistent. We will see why a currency board is an unforgiving regime if a country does not adhere to its requirements. Argentina experienced several episodes of bank runs and speculative attacks on foreign exchange reserves, culminating in the abandonment of the currency board in 2001 at the same time as the largest sovereign default in history at that point. It has moved from crisis to crisis since then. Currently, Argentina’s inflation rate exceeds 100%, and its liquid foreign exchange reserves are negative. Argentina is about to slide into a severe economic crisis.
- Mexican peso crisis (1994-95): In Mexico, a poorly-regulated banking system, a fixed exchange rate and a big government budget deficit led to a speculative attack on the currency, a banking crisis and an economic crisis.
- Asian economic crisis (1997-98): Several Asian countries had currency crises as a result of a “sudden stop” in capital inflows. Understanding why “sudden stops” occur is important for good monetary policy and financial market regulation. (Time permitting)
- US financial crisis of 2008-09: This financial crisis happened when a house price bubble burst, and the resultant surge in delinquencies and defaults on mortgage payments hit the financial sector hard. But where did the funds that flowed into housing come from, and why did they flow into housing? Expansion of the “shadow banking system” is a big part of the answer. What is the “shadow banking system” and why did it expand? Why was there a proliferation of types of mortgage-backed securities whose values could not be calculated, and which prevented banks from offering forbearance and refinancing? How can bank regulation and financial intermediary sector regulation more generally be updated to keep the valuable parts of financial innovation while containing the risk of crises? In some ways the impact on banks was reprised in the European debt crisis, with government bonds playing the role of mortgage-backed securities.
- Bank runs and bank failures in the US (2023): In March 2023, there were bank runs on several US banks. Several banks failed – most spectacularly, Silicon Valley Bank, a medium-sized bank to the venture capital community. Several others were closed by their regulators. This episode raises important policy questions about deposit insurance and bank supervision.
- Puerto Rico: The bankruptcy of Puerto Rico, due to government debt and an economic crisis, is important within the US context, because Puerto Rico’s debt is issued in the municipal bond market, and unfunded pension obligations are an important factor. These features are in common with US states such as Illinois and New Jersey. (Time permitting)
- Other current crises: Zimbabwe’s monetary and fiscal situations are unstable. Zimbabwe seemed to be on the edge of hyperinflation a few months ago, and that still may happen. Its currency regime is in flux and its fiscal deficit is unsustainable. China’s property sector is creating huge problems for banks and local governments, as well as individuals who put their wealth into apartments that never were built, as developers have succumbed to bankruptcy. Sri Lanka is in crisis – a fiscal and sovereign debt crisis. Its real GDP fell more than 10% in the first quarter of 2023. While we will not have time to consider these and other crises as separate topics, I will do my best to weave some comments about them into our discussions, where there are similarities.

## PREREQUISITES

Enrollment in the MA in Economics program or permission from Dr. Stephanie Houghton, Director of the MA in Economics

## EVALUATION

Your grade in this course will be based on 12 homework assignments (some with multiple parts), and on attendance. There are no exams.

Attendance over the semester will contribute 10% of your course score, and homework assignments will contribute 90%. Let me know if you cannot attend specific lectures for important reasons, and I will make sure your absences do not hurt your grade. For example, you may join the course late or you may be ill. I want complete attendance, but I will be understanding about legitimate reasons for absences.

Homework assignments vary in their point values. The point value of each question is given. All of the homework assignments will count (none will be dropped).

The homework assignments are substantial (although varying quite a bit in length). When considering the amount of time the assignments involve, keep in mind that (i) there are no exams, (ii) there is no required reading aside from specific articles for the assignments (more below), (iii) the lecture slides are a good source when doing the assignments (and you will already be familiar with those), and (iv) aside from lectures, doing the homework is when you actually learn the material of this course. In total, this course is not more time-consuming than other courses.

In this course, substantial homework assignments (and no exams) will result in more learning compared to an alternative with exams. Students will be able to proceed steadily through the material. You'll have plenty of time to learn from the lectures and articles, and to formulate good answers.

Your course score will be

$$\text{COURSE SCORE} = 0.1 \underbrace{(4 * \text{lectures attended})}_{\substack{\text{maximum attendance} \\ \text{score is } 4*28=112\%}} + 0.9 \left( \underbrace{100 * \frac{\text{HW points earned}}{\text{required HW points}}}_{\substack{\text{maximum homework score is} \\ \text{approximately } 105\% \text{ to } 110\%, \\ \text{depending on the number of} \\ \text{extra credit points all semester}}} \right)$$

The percentage of students receiving any particular letter grade is not predetermined. It is possible for all students to an A or a B. However, lower grades will be assigned to students who do not demonstrate proficiency or mastery of the material. Pluses and minuses will be used.

## HOMEWORK ASSIGNMENTS

On Canvas, you will find an Excel spreadsheet that has the schedule of topics and lectures, along with a list of homework assignments with point values and due dates. It is in the "syllabus" module and in the "homework assignments" module. I will keep this Excel spreadsheet updated on Canvas.

The list of homework assignments, point values, and due dates is below (from the Excel spreadsheet).

Students are welcome to approach me about changes to homework due dates (extensions). I will be amenable to changes/extensions, provided there is enough time for the TA to grade the assignments.

The homework assignments are posted in a module called "Homework assignments". You'll submit your answers as pdf's using the "Assignments" tab (the "Assignments" tab is used only for answers). I anticipate that you'll choose a mixture of handwritten and typed answers. For some assignments, typing will be faster, but for most of them, your answers will include equations and/or graphs, and handwriting will be faster. Either is fine. It is easy to create a pdf from a document, scan, or photograph.

Over the semester, there is a mix of types of questions and problems in the homework. Many are short answer questions (a couple of sentences or a couple of paragraphs). The assignments provide guidance as to the lengths of answers that is expected. Other questions involve calculations or graphical analysis based on a model. Some assignments instruct you to read a set of newspaper articles, or articles from think tanks or blogs, in a specific order; the questions then lead you through the analysis (i.e., the questions indicate how to apply the concepts and models of the course, and what you should be getting out of the articles). Your ability to analyze and to think critically about current events articles will be developed by this course. By the end of the semester, you will think about economic models and you will see graphs and equations in your mind when you read articles about inflation, exchange rates, capital flows, interest rates, banking systems, fiscal deficits, and monetary policy. One assignment uses FRED, the global database at the Federal Reserve Bank of St. Louis. The assignment will provide step-by-step instructions for using FRED. Another asks you to retrieve data from the Bureau of Economic Analysis (with step-by-step instructions).

## SCHEDULE OF HOMEWORK ASSIGNMENTS

The following schedule of assignments is from the Excel spreadsheet on Canvas:

<u>Topic</u>	<u>Assignments</u>	<u>Due date</u>	<u>Points</u>	<u>HW posted</u>
T2-1	HW#1 EU monetary arrangements & exchange rates	11-Sep	150	yes
T2-1	HW#2 Money growth & inflation, capital mobility, international transactions	18-Sep	200	yes
T2-1	HW#3 Using FRED to study Eurozone debt crisis	2-Oct	225	yes
T2-1	HW#4 Eurozone banking crisis	9-Oct	240	yes
T2-1	HW#5 Common currency areas, European debt crisis	16-Oct	150	yes
T2-1	HW#6 Solow, AK, "brain drain" models	23-Oct	75	yes
T2-2, T2-3, T2-4, T2-5	HW#7 Ireland, Spain & Germany, Greece, Italy	30-Oct	315	yes
T3, T4	HW#8 Iceland, Chile	6-Nov	155	yes
T5	HW#9 Brazil***	13-Nov	185	
T6	HW#10 Argentina***	27-Nov	230	
T7	HW#11 Mexican peso crisis	4-Dec	100	yes
T9-1, T9-2	HW#12 US financial crisis of 2008, bank failures in 2023***	4-Dec	250	

**Approximate point total for assignments**

**2275**

Due dates are subject to change but they will not be moved forward (only delayed, at students' requests).

\*\*\*DRAFTS. HW#9, HW#10, and HW#12-1 are largely complete (and the completed questions are posted), but I may add a few questions. HW#12-2, on bank failures in 2023, hasn't been written yet.

## LECTURES

On Canvas, each topic has its own module. In each topic module, you'll find one or more web pages (one for each topic or sub-topic). On each web page, you'll find links to the lecture slides, as well as introductory comments, explanations, and links to articles that are required for the assignments and optional articles and other reading. In many cases, there are comments on the articles and books.

Lecture slides will be posted on Canvas in advance (most are already posted). Sometimes there will be detail in the posted lecture slides that we will jump over or cover quickly in class.

For some lectures (but not all), narrated Power Point slides are posted, in addition to a "no audio" pdf. It is not required that you listen to the narrated slides except where specifically noted. However, it may be useful for you to listen to some of the slides as you review or do the homework assignments. With Power Point, you can listen to specific slides – you do not have to scroll through a video.

## Supplementary lectures (theory)

In addition to the main lectures, there are supplementary lectures in the first set of topics, the Eurozone debt crisis (and one on Brazil). These are short. Most of them will be covered in class. Each of the supplementary lectures covers a theory or a model from international finance, growth theory, monetary economics, banking theory, or macroeconomics that is essential for understanding crises. All of them will be applied immediately when they are introduced (they are introduced in the context of a specific crisis), and also in subsequent topics. That is why they are “front loaded”. Examples of supplementary lectures are uncovered interest parity, bank leverage and moral hazard, and the Solow growth model and the “AK” growth model. There is also one on the “seigniorage Laffer curve”, associated with hyperinflation, when we cover Brazil’s currency crisis.

The schedule of topics and lectures is on the next page (from the Excel spreadsheet described earlier).

## CANVAS

This course will use Canvas for all posted material (lecture slides, links to articles, homework assignments, etc.) and for announcements. If you would like Canvas announcements to be emailed to you (recommended), be sure to choose that option on Canvas. All Canvas announcements will remain posted for the semester. **Please monitor Canvas announcements, because this is how the TA and I will communicate with you.**

## EMAIL

My email is [valerie.bencivenga@utexas.edu](mailto:valerie.bencivenga@utexas.edu). **Please do not use Canvas messaging.** Canvas messaging does not have the features I need to answer questions, and email is better for “back and forth” conversations and for labeling.

## OFFICE HOURS

My office hours will be on Tuesdays and Thursdays from 3:30-4:30 and by appointment. You are also welcome to email me to ask questions. I am very good at answering questions by email, and I am happy to do so!

## TEACHING ASSISTANT

Your TA for this course is TBA (office TBA, email address [TBA@utexas.edu](mailto:TBA@utexas.edu)). The TA’s office hours will be posted on Canvas, in the “TA and professor office hour information” module.

## TENTATIVE SCHEDULE OF LECTURES

<u>Topic</u>	<u>Number of lectures</u>	<u>Approximate dates of lectures</u>
T1 Introduction to the course	1	22-Aug
T2-1 EU 1 History PART 1 European integration	1	24-Aug
T2-1 EU 1 History PART 2 European monetary arrangements	2	Aug 29, Aug 31
EU 1a Intro to exchange rates		
EU 1b Capital mobility		
EU 1c r equals MPK*		
EU 1d Money growth & inflation	1	5-Sep
EU 1e International transactions accounts		
EU 1f LR neutrality of money & classical dichotomy*		
EU 1g Uncovered interest parity*		
T2-1 EU 2 Common currency areas PART 1		
T2-1 EU 2 Common currency areas PART 2	2	Sep 7, Sep 12
T2-1 EU 3 European sovereign debt crisis PART 1		
T2-1 EU 3 European sovereign debt crisis PART 2	3	Sep 14, 19, 21
T2-1 EU 3 European sovereign debt crisis PART 3		
EU 3a Solow & AK models		
EU 3b Banks, leverage, moral hazard		
EU 3c Unpleasant monetarist arithmetic*	2	Sep 26, Sep 28
EU 3d Fiscal policy multiplier*		
EU 3e Capital flows & Lucas human capital model		
T2-1 EU Banks (ARTICLES)**		
T2-1 Germany*		
T2-2 Ireland	0.5	3-Oct
T2-3 Spain (Portugal is optional, but very interesting)	0.5	3-Oct
T2-4 Greece 1 TIMELINE OF GREEK SOVEREIGN DEBT CRISIS*		
T2-4 Greece 2 AUSTERITY & DEBT-TO-GDP RATIO (optional)*		
T2-4 Greece 3 EXPORTS & STRUCTURAL REFORM (optional)*		
T2-4 Greece 4 POSSIBLE GREXIT & EFFECTS OF FEARS	1	5-Oct
T2-5 Italy PART 1 growth & productivity		
T2-5 Italy PART 2 debt crisis, Italy's banks, & EU	2	Oct 10, Oct 12
T2-5 Italy PART 3 Italy's Recovery Plan*		
T2-5 Italy PART 4 EU & ECB pandemic responses and Italy's future (optional)*		
T3 Iceland	1	17-Oct
T4 Chile	1	19-Oct
T5 Brazil-2	2	Oct 24, Oct 26
BRAZIL-1 Seigniorage Laffer curve*		
T6 Argentina	2	Oct 31, Nov 2
T7 Mexican peso crisis (late 1994-95)	1	7-Nov
T8 Asian financial crisis (time permitting)		
T9-1 US financial crisis of 2008	4	Nov 9, 14, 16, 28
T9-2 Bank runs and bank failures in 2023 (Silicon Valley Bank, etc.)	1	30-Nov
T10 Puerto Rico (time permitting)		
<b>Total number of lectures</b>	<b>28</b>	

\*Dark shading means "listen to the recorded lecture on your own" (it will not be covered in class)

\*\* These articles are in the corresponding Canvas module.



## READING

**Required** reading includes articles from The Financial Times, Vox EU, Project Syndicate, The New York Times, The Wall Street Journal, etc. They are short. There will be quite a few articles for each crisis. Some will be discussed in lecture, and you will read some in the context of homework assignments. **There is a link to each of these articles in the relevant topic module on Canvas. These required articles are not listed in the course outline.**

**Required** reading on the bank runs and bank failures in the US in 2023 (Silicon Valley Bank, First Republic Bank, etc.) includes several chapters from **SVB and Beyond: The Banking Stress of 2023**, edited by Viral Acharya, Matthew Richardson, Kermit Schoenholtz, and Bruce Tuckman (New York University Stern School of Business, July 2023). This book is downloadable (free) from the NYU Stern website. **The link is in the relevant topic module on Canvas.** The required chapters (also listed on Canvas) are Ch 1: Overview of Banking Stress; Ch 4: SVB: Failures in "Detective" and "Punitive" Supervision Far Outweighed the 2019 Tailoring of Preventive Supervision; Ch 7: Expanding Mark-to-Market Accounting for Banks' Debt Investment Securities and Regulatory Capital; and Ch 8: Revisiting the Design of Deposit Insurance.

**Optional** reading consists of books and articles in books (as well as optional articles with links on the topic web pages). There are several groups of optional titles: a new (July 2023) book on crises; chapters in the Handbook of Macroeconomics; books on the European debt crises; and books on the US financial crisis of 2008. These are listed below. **Some of the topic modules point you to optional books. However, some of the optional books are not mentioned in any topic module; some are listed only in the course outline because their role is as background, support, further reading, etc.**

**All of the optional books and articles are excellent** and reading them will make you a better economist and a better-informed person. What's best for any one student to read will depend on their previous courses (including as an undergraduate) and on their interests.

## OPTIONAL NEW BOOK ON CRISES

Markus K. Brunnermeier and Ricardo Reis, A Crash Course on Crises: Macroeconomic Concepts for Run-ups, Collapses, and Recoveries, Princeton University Press (2023). Available for Kindle.

*This new, interesting book is worth reading. However, its approach is simplified compared to the approach of our course. The authors go from concept to concept, and for each concept they discuss how it applies to two crises. The breadth of crises considered is a strength, as are the insights and history provided. But this approach prevents the authors from offering complex explanations where multiple interacting or sequential "causes" and dynamics are at play, and from developing in depth the similarities across crises.*

*Some chapters will be cited in the topic modules.*

## OPTIONAL ARTICLES IN THE HANDBOOK OF MACROECONOMICS

The Handbook of Macroeconomics is an ongoing project started in 1999 that consists of multiple volumes. They are very expensive. You can utilize the UT library or try to find working paper versions of the chapters on the authors' websites. From Volume 2 (2016), edited by John Taylor and Harald Uhlig:

- "Fiscal and Financial Crises" (ch 7) by M.D. Bordo and C.M. Meissner. *Relevant to all crises where fiscal profligacy is a factor.*
- "Wholesale Banking and Bank Runs in Macroeconomic Modeling of Financial Crises" (ch 16) by M. Gertler, N. Kiyotake, and A. Prestipino. *Relevant to all banking crises.*
- "Quantitative Models of Sovereign Debt Crises" (ch 21) by M. Aguiar, S. Chatterjee, H. Cole, and Z. Stangebye. *Relevant to all sovereign debt crises (Europe, Iceland, Chile, Brazil, Argentina, Mexico).*



- “Understanding Inflation as a Joint Monetary-Fiscal Phenomenon” (ch 30) by E.M. Leeper and C. Leith. *Relevant to crises caused by monetization of a government budget deficit.*
- “Fiscal Multipliers: Liquidity Traps and Currency Unions” (ch 31) by E. Farhi and I Werning. *Relevant especially to Greece in the European debt crisis.*
- “What is a Sustainable Public Debt?” (ch 32) by P. D’Erasmus, E.G. Mendoza, and J. Zhang. *Relevant to sovereign debt crises.*
- “The Political Economy of Government Debt” (ch 33) by A. Alesina and A. Passalacqua. *Relevant to sovereign debt crises.*

From Volume 1 Part C (1999), edited by John B. Taylor and Michael Woodford:

- “Inflation stabilization and Balance of Payments Crises in Developing Countries” (ch 24) by G.A. Calvo and C.A. Vegh. *Relevant to crises precipitated by “sudden stops” (Asian economic crisis, Mexico).*
- “Government Debt” (ch 25) by D.W. Elmendorf and N.G. Mankiw. *Relevant to sovereign debt crises.*

## OPTIONAL BOOKS ON THE EUROPEAN DEBT CRISES

Richard Baldwin and Charles Wyplosz, The Economics of European Integration, 6<sup>th</sup> edition, McGraw Hill (April, 2021). *Recommended for students who are interested in the European Union and the Eurozone. This book covers the relevant theory of international trade as well as the monetary economics of a currency union. It is a classic reference.*

Paul de Grauwe, Economics of Monetary Union, 13<sup>th</sup> edition, Oxford University Press (2020). *This book complements Baldwin and Wyplosz. Students who already have had macroeconomics and monetary economics will get the most out of book.*

Robert C. Feenstra and Alan M. Taylor, International Macroeconomics, 5<sup>th</sup> edition, Worth Publishers, 2020). Any edition from the 2<sup>nd</sup> to the 5<sup>th</sup> will work. *Classic international finance textbook. If you are interested in international finance and did not have an undergraduate course, you will enjoy this book.*

Markus K. Brunnermeier, Harold James, and Jean-Pierre Landau, The Euro and the Battle of Ideas, Princeton University Press (2017). *A political economy treatment of why European countries have differed on their desired design of the European Union and the Eurozone, and on the response the EU and the ECB should have had to the European debt crisis (2010-present).*

Martin Sandbu, Europe’s Orphan: The Future of the Euro and the Politics of Debt, Princeton University Press (2015, updated paperback edition 2017). *An interesting, popular book arguing that those who blame the euro (the common currency) for the Eurozone crisis are mistaken, which is a heterodox view.*

## OPTIONAL BOOKS ON THE US FINANCIAL CRISIS OF 2008

If you’re going to read only one book on the US financial crisis of 2008, read one of these two (or even better, read both):

Ben Bernanke, Timothy Geithner, and Hank Paulson, Jr., Firefighting – The Financial Crisis and its Lessons, Penguin Book (2018). *Well-written and clear narrative of what happened and why, and how the Fed and the Treasury responded in real time, and why.*

Gary Gorton, Misunderstanding Financial Crises, Oxford University Press (2012). *Fascinating history of financial crises in the US over two hundred years, with clear factual and conceptual explanations of how and why the financial sector evolved. The emphasis is on why there were many crises up to the Great Depression; why there was a “quiet period” from 1934 to 2007; and why the financial crisis of 2008 happened.*

Other excellent books:

Martin Wolf, The Shifts and the Shocks: What We've Learned — and Have Still to Learn — From the Financial Crisis, PUBLISHER (2015). *Links between global macroeconomic developments, especially the rise of China and the global savings glut, and the financial crisis. A "big picture" account.*

Ben Bernanke, The Courage to Act, W.W. Norton (2015). *An interesting memoir by Bernanke. (Geithner also has an interesting memoir called Stress Test.)*

Gary Gorton, Slapped by the Invisible Hand, Oxford University Press (2010). *Another interesting book by Gorton.*

Other books:

Mark Zandi, Financial Shock, FT Press (2009). *Detailed fact-based discussion by an expert on the housing market and the mortgage market.*

Andrew Sorkin, Too Big to Fail, Penguin Books (2010, updated 2018). *Many consider this book to be the most readable popular history of the financial crisis.*

William Cohan, House of Cards, Random House (2010). *Another readable popular history of the financial crisis.*

Gillian Tett, Fool's Gold, Free Press (2010).

Viral Acharya and Matthew Richardson, editors, Restoring Financial Stability, John Wiley & Sons (2009). *A valuable, early, policy-oriented volume. The papers are academic in nature.*

**ACCOMMODATIONS FOR STUDENTS WITH DISABILITIES.** A student with a disability may request academic accommodations from Services for Students with Disabilities (512-471-6259, <http://diversity.utexas.edu/disability/>). SSD accepts documentation of the disability, and provides the student with letters for their instructors stating the appropriate accommodations. SSD also provides guidelines for informing instructors about needed accommodations.

**Let me know of any accommodation(s) you will need as early in the semester as possible, even if you don't have your accommodation letter yet.** In order to receive an accommodation, I need either the SSD letter or knowledge that the letter is on its way at least as far ahead as specified by SSD guidelines for informing instructors. (If you receive an accommodation, I will need your SSD accommodation letter in order for your score to count toward your course grade.)

**RELIGIOUS HOLY DAYS.** By UT Austin policy, you must notify me of your pending absence as far in advance as possible prior to the date of observance of a religious holy day. Because religious holy days are dates on the calendar that are known at the start of the semester in almost all cases, I require you to notify me at least two weeks in advance of an exam you must miss for a religious holy day, unless there is an acceptable reason why this is not possible. This is necessary in order to provide you with suitable options for making up the exam. If you must miss a class, an examination, or an assignment, in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable amount of time after the absence.

**ACADEMIC INTEGRITY.** Each student in this course is expected to abide by the University of Texas Honor Code:

“The core values of The University of Texas at Austin are learning, discovery, freedom, leadership, individual opportunity, and responsibility. Each member of the university is expected to uphold these values through integrity, honesty, trust, fairness, and respect toward peers and community.”

On all graded work in this course, you are expected to submit work that is your own. On homework and quizzes, you are welcome to discuss with others how to approach a problem, but the last step before you submit your answer should be that you solve the problem yourself. However, discussion in class about clicker questions is allowed and encouraged.

During exams, you must do your own work. Unless it is explicitly allowed, you may consult only the materials provided as part of the exam, and you may not look at notes, books, articles, etc., whether yours or anyone else's. No communication of any kind is permitted between students during exams (written, verbal, non-verbal, etc.). You may not look at another student's work, and you may not show another student your work. Any such behavior during the examinations will result in failure of the exam, and may lead to failure of the course and University disciplinary action.

**USE OF EMAIL FOR OFFICIAL CORRESPONDENCE TO STUDENTS.** All students should become familiar with the University's official email student notification policy. It is the student's responsibility to keep the University informed of any changes in his or her email address. Students are expected to check email on a frequent and regular basis in order to stay current with University communications, recognizing that certain communications may be time-critical. This includes emails from instructors. It is recommended that email be checked daily.

**EMERGENCY EVACUATION.** From the Office of Campus Safety and Security ([512-471-5767](tel:512-471-5767), <http://www.utexas.edu/safety/>):

- Occupants of buildings on The University of Texas at Austin campus are required to evacuate buildings when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside.
- Familiarize yourself with all exit doors of each classroom and building you may occupy. Remember that the nearest exit door may not be the one you used when entering the building.
- Students requiring assistance in evacuation shall inform their instructor in writing during the first week of class.
- In the event of an evacuation, follow the instruction of faculty or class instructors.
- Do not re-enter a building unless given instructions by the following: Austin Fire Department, The University of Texas at Austin Police Department, or Fire Prevention Services office.
- Behavior Concerns Advice Line (BCAL): [512-232-5050](tel:512-232-5050)
- Link to information regarding emergency evacuation routes and emergency procedures can be found at: [utexas.edu/emergency](http://utexas.edu/emergency).

**BEHAVIOR CONCERNS ADVICE LINE (BCAL).** If you become worried about someone who is acting differently, you may call the Behavior Concerns Advice Line at 512-232-5050 to discuss your concerns about their behavior. This service is provided by the Office of the Dean of Students, the Counseling and Mental Health Center (CMHC), the Employee Assistance Program (EAP), and the University of Texas Police Department (UTPD). Visit <http://www.utexas.edu/safety/bcal> for more information.