**Pardee School of Global Studies**

**IR 399: “Fundamentals of Global Money”**

**MW 10:10-11:25**

Prof. Perry Mehrling

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

**Zoom Link**: [https://bostonu.zoom.us/j/94632461785?pwd=dlIwWDJhZWQ0a2d4bmhKU2FmRWpHdz09](https://bostonu.zoom.us/j/94632461785?pwd=dlIwWDJhZWQ0a2d4bmhKU2FmRWpHdz09%20)

**Course Description:**

Financial globalization and global financialization are central features of modern society, but often difficult to see clearly using analytical frames inherited from a previous non-global and non-financial age. The first part of this course seeks to supplement these familiar frames by developing a “money view” that treats all agents—households, firms, governments, and entire nation states--as cash inflow/outflow entities, similar to banks. The second part uses this new frame to consider six specific issues of current topical interest. Throughout the course, 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.

Midterm and final exams are used to reinforce the goals of the two halves of the course. Midterm focuses on understanding of the conceptual framework, making use for example of "analytical distinction" questions that ask students to explain the connection between two concepts. Final focuses on application, with six essay questions, each on one of the post-midterm topics. Final will also ask students to use the concepts to make sense of a specific article from the Financial Times published in the previous week.

Students who complete this course will learn how to:

1) Follow an argument/analysis that uses balance sheet reasoning

2) Read, understand, and evaluate professional discourse about global money at the level of the Financial Times

**Prerequisites:**

EC101, EC102

**Hub:**

This course satisfies Social Inquiry I:

*Learning Outcome 1:  
Students will identify and apply major concepts used in the social sciences to explain individual and collective human behavior including,****for example,****the workings of social groups, institutions, networks, and the role of the individual in them.*

Understanding economic agents as balance sheets quite immediately leads to understanding society as a web of interlocking promises to pay, more formal and legally binding than other social and cultural bonds. Everyone's liabilities are someone else's assets, and vice versa. Even more, the settlement constraint operates to enforce these promises, forcing everyone to work toward lining up promised cash outflows with realized cash inflows, both today and prospectively in the future. The hierarchical character of the system can be seen in the fact that what is credit (a promise to pay) at one level in the system is money (means of payment) at a lower level of the system. This is true within nations, and also between nations, where the settlement constraint takes the form of the balance of payments constraint.

Individual behavior is conceptualized as management of the balance between cash inflow and cash outflow relative to the rest of society, paying particular attention to the challenge facing deficit agents who need to sell an asset, borrow, or draw down cash balances in order to sustain cash outflow. Deficit agents may be individuals or institutions such as businesses, governments, and even entire nations, and we explore both similarities and differences between the challenge confronting these different kinds of deficit agents.

Collective human behavior is conceptualized as the expansion and contraction of the hierarchical system of money and credit as a whole, at multiple time scales. At the scale of a single day, we see expansion of promises to pay that are cleared and settled at the end of the day. At the scale of years, we see credit expansion and contraction that takes the form of the business cycle, both national and international. At the longest time scale, we see the expansion of particular national currencies as international reserve, and then contraction and replacement by some other, paying particular attention to the shift from 19th century pound sterling to 20th century dollar system.

The problem of managing this inherently unstable fluctuation is conceptualized as the primary task of central banks, operating through the network of private banking institutions that use central bank liabilities as their reserves and depend on borrowing facilities at the central bank to meet their needs in times of trouble. Particular attention will also be paid to the network of central banks themselves, the borrowing facilities (so-called liquidity swaps) that join the top six, and also the less extensive borrowing facilities on which other central banks depend, lower down in the international hierarchy of money and credit.

This course satisfies Quantitative Reasoning I:

*Learning Outcome 1:  
Students will demonstrate their understanding of core conceptual and theoretical tools used in quantitative reasoning,****such as****statistics, computing, and mathematics.*

In the first half of the course, two problem sets and a midterm will provide opportunity for demonstrating understanding of the core conceptual and theoretical tools used in quantitative reasoning about global money, specifically balance sheet thinking and flow of funds accounting, both abstractly and concretely using actual data.

*Learning Outcome 2:  
Students will interpret quantitative models and understand a variety of methods of communicating them,****such as****graphs, tables, formulae, and schematics.*

Readings are chosen largely from the public-facing output of central banking, in particular the BIS, which readings are quite reliably heavy on graphs, tables, formulae, and schematics. These are mixed in with other readings from monetary economists and historians, as well as daily doses of financial journalism. In each case, the core “money view” conceptual framework is used as a common language enabling students to translate from quantitative models into everyday written and spoken English, as well as vice versa.

*Learning Outcome 3:  
Students will communicate quantitative information symbolically, visually, numerically,****or****verbally.*

Problem sets, midterm exam and final exam will provide opportunity for such communication.

*Learning Outcome 4:  
Students will recognize and articulate the capacity and limitations of quantitative methods and the risks of using them improperly.*

Financial crisis is the moment when our understanding of how the world works gets tested by reality, which reality is itself a moving target due to institutional evolution. In this course we look specifically at events during the Global Financial Crisis of 2008-2009 when so-called covered interest parity broke down, which deviation from the theoretical ideal has become the new norm ever since. Further, we also look specifically at events during the Global Covid Crisis of 2020, paying particular attention to the different tools available for central bankers in the Global North versus the Global South. More generally, we look at the historical moment when the postwar monetary system was being put in place after Bretton Woods, and the historical moment when Bretton Woods broke down in 1971. In all these cases, historical actors found themselves dealing with a reality that their quantitative methods allowed them only partially to understand.

**Grading:**

A comprehensive midterm examination covering the first half of the course, 30%.

A final examination covering the second half of the course, 40%. There will be a question on each of the six specific issues, but students will be asked to write on only three.

Problem sets (two), and class discussion, 30%.

**Required Texts:**

The central text is a selection of video lectures and lecture notes prepared by the professor, 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. All readings are posted on the course site at perusall.com, access code is MEHRLING-MCCMG.

**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 25, 27: The Big Picture

Mehrling, “Financialization and its Discontents.” Finance and Society (2017)

Mehrling, “Corona Stress Test.” BCRA (2020) video

Feb 1, 3: What is a bank?

Lec 4: “The Money View, Micro and Macro”

Feb 8, 10: Everyone is a bank

Chs. 2 and 4 in Ryan-Collins, Josh et al. Where Does Money Come From? New Economics Foundation, 2013.

Problem Set 1 due Feb 12

Feb 16, 17: Hierarchy of Money and Credit

Lec 2: “Natural Hierarchy of Money”

Feb 22, 24: Hierarchy of Global Money

Borio, “On the Centrality of the Current Account in International Economics.” Journal of International Money and Finance (2016)

Shin, “Redrawing Boundaries in International Finance.” (2018) video

Mar 1, 3: Arbitrage: Covered Interest Parity, Uncovered Interest Parity

Borio, Claudio et al “Covered Interest Parity Lost: understanding the cross-currency basis.” BIS Quarterly Review (September 2016)

Problem Set 2 due Mar 5

Mar 8, 10: Review and Midterm

Mar 15, 17: Financial Crisis—North

Avdjiev et al, “Dollar Funding costs during the Covid-19 crisis through the lens of the FX swap market.” BIS Bulletin #1 (April 2020)

Mar 22, 24: Financial Crisis—South

Arslan et al, “Central Bank Bond Purchases in emerging market economies.” BIS Bulletin #20 (June 2020)

Mar 29, Apr 5: Origins of Global Money

DeCecco, “Origins of the post-war payments system.” Cambridge Journal of Economics (1979)

Mehrling, “Beyond Bancor.” Challenge (2016)

April 7, 12: Crisis of the Dollar System

Kindleberger, “The Dollar System.” New England Economic Review (1970)

Kindleberger, “Why World Bankers are Worried.” Challenge (1974)

April 14, 21: Global Money and Capital Markets

Lec 17: “Direct and Indirect Finance”

April 26, 28: The New International Economic Order Reconsidered

Kindleberger, “The OECD and the Third World.” Pages 105-121 in From Marshall Plan to Global Interdependence (Paris: OECD, 1978)

FINAL Exam