

UNIVERSITAT DE VALÈNCIA

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Facultat d'Economia

MASTER IN ECONOMICS

COURSE OUTLINE
**FINANCIAL AND
MONETARY
INTEGRATION**

ACADEMIC YEAR 2016-17

ASIGNATURA:
CURSO:

*OPTIONAL
POSTGRADE*

40 anys
Fouder d'Economia
UNIVERSITAT DE VALÈNCIA

Datos iniciales de identificación

Course	MONETARY and FINANCIAL INTEGRATION
Subject	Optional, 5 ECTS credits
Degree	Master in Economics
Level	Postgraduate
Department	Estructura Económica: Economía Aplicada II
Coordinator	Cecilio Tamarit Facultad de Economía Edificio Departamental Oriental Office 4E07 Cecilio.Tamarit@uv.es http://www.uv.es/tamac Teléfono: 96 3828349

1. Summary of course content.

The aim of this course is to equip students with a critical understanding of the economic issues in the financial and monetary integration debate, with a special emphasis in the euro area. The course provides a blend of descriptive information, theory and empirical analysis. The emphasis is on economic issues but these issues are studied in their political and social context. Theoretical analysis forms an essential part of the course and requires knowledge of intermediate micro- and macroeconomics. Particular attention is devoted to policy areas in which EU co-ordination has progressed furthest: monetary and fiscal integration and the internal market. The aim of the course is to provide the theoretical underpinnings to analyse the economic effects of monetary integration processes, using as a case study the European experience. It is a 5 ECTS credit course comprising theory and practice.

Learning Outcomes

At the end of the module, students should be able to:

- (i) Describe and discuss mainstream theories of exchange rate determination and, where appropriate, comment upon their relevance to actual exchange rate movements.
- (ii) Demonstrate knowledge relevant to the theory of fixed exchange rates, target zones, currency/financial crises and speculative attacks and, where appropriate, use this knowledge to analyse real world events.
- (iii) Demonstrate a good command of bibliographical and databases related to monetary and financial integration.
- (iv) Show ability to draft a short paper on specific issues on financial and monetary integration.
- (v) Demonstrate a good understanding of reports issued by international monetary institutions like the ECB, IMF or the European Commission.
- (vi) Demonstrate knowledge relevant to the European debt crisis.

Teaching and learning methods

The learning experience will consist of:

In-class

- Lectures, where theory, models and techniques are presented and explained
- Discussion seminars, where students discuss theories, models and techniques
- Case seminars, where students apply models and techniques to solve case studies
- Problem solving seminars,

Self-managed learning

- Provided learning material is studied individually and in groups
- Provided case studies are solved in groups
- Relevant learning material is researched and studied upon one-to-group tutorials

Research directions tutorials

- Coursework directions are provided for presentations
- Case study reports are presented in class

Assessment rationale

Students will be assessed through a **30%-coursework and a 70%-final exam**.

The coursework is group-based in order to enhance students' interactive and social skills when analytical and presentation abilities are required. The coursework is also an opportunity for the students to self evaluate their learning achievements.

The exam consists of a set of questions. This method allows the students to show their ability to carry out articulated analysis based on in-depth reasoning and their ability to express numerical skills and personal judgment. The exam is also an opportunity for the students to improve their achievements, building upon their reflections on the coursework feedback and individually meeting the assessment criteria.

The coursework (30% of the final mark):

- assessment of all types of learning outcomes.
- individual or, alternatively, team grade¹ (max 3 students per group)
- assessment on an *optional* up to a 5,000 word-report (around 15 pages). **(up to 1 extra point over the final mark).**
- assessment on *compulsory reading*.

The final exam (70% of the final mark):

- assessed learning outcomes: (i), (ii) and (vi).
- closed-book - seen questions
- individual grade

¹ Under exceptional circumstances and if the module leader is informed well in advance, a case of different grades, related to different effort and commitment within a group, may be arisen. Students who feel that one or more group-mates in their group are providing unreasonably less effort (“free-riders”) or are showing a lack of commitment and think that this might affect the overall performance of the group, must report as soon as possible to the instructor and provide him with minutes of all the group meetings and arrange a meeting with him.

- 2 hour exam

Course Outline.

MONETARY AND FINANCIAL INTEGRATION.

Outline.

- Lesson 1.** History of European Monetary Integration.
- Lesson 2.** Incomplete monetary unions: the OCA theory and the European Monetary System.
- Lesson 3.** Complete monetary unions: the European Monetary Union.
- Lesson 4.** The EMU crisis: fundamentals, expectations, contagion and resolution.
- Lesson 5.** The euro external dimensión and financial markets.

Core textbooks reading list.

De Grauwe, P. (2016): *Economics of Monetary Union*, Oxford University Press, 11th edition)².

Camarero, M y Tamarit, C. (2014): Lecture Notes.

Baldwin, R. and Ch. Wyplosz (2015): *The Economics of European Integration*, 5th edition, MacGraw-Hill

Supplementary textbooks:

Copeland L.S (2008): *Exchange Rates and International Finance*, fifth edition, Addison-Wesley. Web-learning page: <http://uk.geocities.com/copelandls/>

Taylor M.P. and Sarno L. (2002): *The Economics of the Exchange Rates*, Cambridge University Press.

Terra, C. (2015): *Principles of International Finance and Open Economy*

² Existe version en español: Teoría de la Integración Monetaria. Hacia la Unión Monetaria Europea. Celeste Editores. Madrid, 1999.

Macroeconomics. Theories, Applications, and Policies. Elsevier.

INTERNET resources

Links to useful websites:

- All the **information** about the development of the subject (material, exercises, marks, quiz...) can be visited through intranet “virtual classroom”.

(<http://aulavirtual.uv.es>)

- The **European Documentation Center of the Universidad de Valencia** is located in the Library of Social Sciences.

<http://www.uv.es/cde/>

- Another useful address is the official server of **the European Union**.

<http://europa.eu/>

- The **technical factsheets of the European Parliament** are particularly interesting to update the development of the different aspects and policies of the EU integration process.

<http://www.europarl.europa.eu/atyourservice/en/displayFtu.html>

- A very interesting and useful address for information about **macroeconomic** and, specially, **monetary issues** is the web page of the **European Central Bank**:

<http://www.ecb.int/>

- A site with **good articles on developments within the euro area** are at **Eurointelligence**. It also has a daily update of news about the latest economic and financial developments:

<http://www.eurointelligence.com/Eurointelligence.901.0.html>

- There are a number of important websites of **Think-tanks** dealing with International and European economic issues:

- The **Centre for European Policy Studies** (CEPS in Brussels):

<http://www.ceps.eu/>

- **Bruegel (Brussels):**

<http://www.bruegel.org/>

- **Centre for European Reform (London):**

www.cer.org.uk

- **The Peterson Institute (Washington)**

<http://www.piie.com/>

- A site where **academics discuss topical economic issues (VoxEu-CEPR)**. Many interesting articles about the financial crisis and how to resolve it:

<http://www.voxeu.org/>

- The **Financial Times** (limited access) is the main international financial newspaper. Its **blogs** where famous economists discuss current issues are very interesting:

<http://www.ft.com>

- **The Economist** (limited access) is very well informed and contains many perceptive articles on international economics issues (including the Eurozone):

<http://www.economist.com/>

- The site of Roubini (limited access) has interesting material on macroeconomic issues. It covers the whole world:

<http://www.roubini.com/>

- A popular website of Professor Brad DeLong of Berkeley with lots of controversy about macroeconomic issues:

<http://delong.typepad.com/main/>

- Paul Krugman has a blog that is worth following:

<http://krugman.blogs.nytimes.com/>

Links to data sources

All the links below were correct at the time of publishing and are checked regularly. However, we are unable to guarantee that web addresses or the content on external web pages won't change. If you do find any broken links, please e-mail me with the details.

The **ECB** is the main source for monetary and banking data in the eurozone. It also contains general information about the operations of the Bank, and many interesting research papers. Its Monthly Bulletin also contains very good analyses of the state of the Eurozone economies:

<http://www.ecb.int/home/html/index.en.html>

The **European Central Bank** has a “statistical data warehouse” that has important monetary and financial information on the Eurozone as a whole:

<http://sdw.ecb.europa.eu/>

Statistical information can be checked and downloaded from the official server of the **Statistical Office of the EU**:

<http://ec.europa.eu/eurostat>

The **European Commission** website contains a wealth of information for economists. Especially important are the national account data and sectoral data for the European Union:

<http://ec.europa.eu/>

http://ec.europa.eu/euro/index_en.html

The **AMECO data base** is especially useful to find the most important macroeconomic data for the Eurozone countries:

http://ec.europa.eu/economy_finance/db_indicators/ameco/index_en.htm

The **Quarterly Report on the Euro area** has a wealth of statistical information:

http://ec.europa.eu/economy_finance/publications/qr_euro_area/2012/qrea1_en.htm

The **Bank for International Settlements (BIS)** is the central banks' banker. It has a lot of interesting data on financial markets and the banking sectors at the worldwide level.

<http://www.bis.org/statistics/index.htm>

Also the **research papers of the BIS** are worthwhile reading. Economists of the BIS have been among the first to warn about the risk of a financial meltdown:

<http://www.bis.org/>

The **International Monetary Fund (IMF)** collects valuable economic, monetary, and financial information for practically all countries in the world:

<http://www.imf.org/external/index.htm>

Its **world economic outlook database** is an important source of information:

<http://www.imf.org/external/ns/cs.aspx?id=28>

The **Organization for Economic Cooperation and Development (OECD)** has a wealth of economic data of its members:

http://www.oecd.org/home/0,2987,en_2649_201185_1_1_1_1_1,00.html

Its statistical database is impressive:

<http://stats.oecd.org/>

The **Bank of England** has important data for readers interested in the UK economy, and generally very good economic analysis:

<http://www.bankofengland.co.uk/>

PROGRAM

Lesson 1. History of European Monetary Integration.

- 1.1. Prehistory: metallic, gold, and gold exchange standard.
- 1.2. A brief history of the post-WWII international monetary system: Bretton-Woods.
 - How it worked

- Flaws of the system and the Triffin's dilemma.
- 1.3. Monetary agreements in Europe.
- The need for exchange rate stability between European countries.
 - The functioning of the "Snake".
 - The functioning of the EMS: monetary co-operation, the ERM, and the ECU.
 - The ERM crisis of 1992/3, its causes and consequences.

Core text:

Baldwin, R. and Ch. Wyplosz (2015): *The Economics of European Integration*, 5th edition, MacGraw-Hill, Chaps. 13 and 14.

Lesson 2. Incomplete monetary unions: the OCA theory and the European Monetary System.

- 2.1 A historical introduction to the European monetary integration process.
- 2.2 The choice of exchange rate regimes.
- 2.3 Monetary integration theory: Cost-benefit analysis from the Optimum currency areas approach (OCA).
- 2.4 The fragility of incomplete monetary unions.
- 2.5 An assessment of the European Monetary System.
- 2.6 The transition to a monetary union: the costs of the disinflation process in the 80's.
- 2.7 The Maastricht Treaty: a critical assessment of the convergence criteria.
- 2.8 Is Emu an optimum currency area?

Core text:

De Grauwe, P. (2016): Op. cit., ch. 1-5.

Baldwin, R. and Ch. Wyplosz (2013): *The Economics of European Integration*, 4th edition, MacGraw-Hill, Caps. 13, 14 and 15.

McKinnon, R. I., (2005): "Optimum Currency Areas and key currencies: Mundell I vs. Mundell II en MCKINNON, R. I., (ed): *Exchange Rates under the East Asian Dollar Standard (Living with conflicted virtue)*, The MIT Press.

Supplementary Reading:

- Camarero, M. y C.R. Tamarit (2013):** “La Unión Monetaria Europea”, en Jordán, JM y C. Tamarit (coordinador): *Economía de la Unión Europea*, 7ª. edición, Civitas-Thomson Reuters. Cap. 8.
- Gärtner, M. (1997):** *A Primer in European Macroeconomics*, Prentice Hall, ch. 9.
- Sanchis i Marco (2014):** *The Economics of the Monetary Union and the Eurozone Crisis*. Springer. Ch. 1.

Lesson 3. Complete monetary unions: the European Monetary Union.

- 3.1 Economic Governance under Emu.
- 3.2 The European Central Bank: targets, instruments and institutional setup.
- 3.3 Monetary policy in Emu.
- 3.4 Fiscal policies in Emu.

Core texts:

Baldwin, R. y Ch. Wyplosz (2015): op. cit., chaps, 16 y 17.

De Grauwe, P. (2016): Op. cit., chaps. 8, 9 and 10.

OECD (2014): OECD Economic Surveys. Euro area. April 2014.

Supplementary Reading (Research line breakdown):

Camarero, M. y C.R. Tamarit (2013): “Las políticas macroeconómicas en la UEM”, en Jordán, JM y C. Tamarit (coordinadores): Op. cit. Cap. 9.

Eijffinger, C.W. S. Y J. de Haan (2000): *European monetary and fiscal policy*, Oxford University Press.

Emerson et al (1.992): *One Market, One Money*, Oxford University Press.

Gärtner, M. (1997): *Ob. Cit*, Cap. 10 and 11.

OECD (1999): *Emu. Facts, challenges and policies*, Paris.

Sanchis I Marco, M. (2014):. *Op cit.* ch. 2 and 3.

Lesson 4. The EMU crisis: fundamentals, expectations, contagion and resolution.

- 4.1 Fixed exchange rates: financial crises and speculative attacks.
- 4.2 The case for fixed exchange rates: The Barro-Gordon model.
- 4.3 Currency crises and speculative attacks: First-, second- and third-generation models.
- 4.4 The EMU debt crisis.
- 4.5 Crisis resolution: ¿Sinn vs. De Grauwe (Gros)?

Core texts:

De Grauwe, P. (2016): Op. cit., chaps. 5.

Terra, C. (2015): Op. Cit. Chaps. 9-11.

Supplementary Reading

Arghyrou, M.G. and Kontonikas, A. (2012) “The EMU sovereign debt crisis: Fundamentals, expectations and contagion” *Journal of International Financial Markets, Institutions and Money*, vol 22, 658-677

Arghyrou, M.G. and Tsoukalas, J. (2011), “The Greek debt crisis: Likely causes, mechanics and outcomes”, *The World Economy*, vol. 34, 173-191.

Arghyrou, M.G. and Tsoukalas, J. (2010) “The option of last resort: A two currency EMU”, Available at:

http://www.roubini.com/euromonitor/258379/the_option_of_last_resort_a_two-currency_emu

Baldwin, R. et al (2015): “Rebooting the Eurozone: Step I- agreeing a crisis narrative”, CEPR Policy Insight no. 85.

Baldwin, R. and F. Giavazzi eds (2016): How to fix Europe’s monetary union: Views of leading economists. VoxEU.org eBook. CEPR Press.

Van Riet, A. (2016): Safeguarding the euro as a currency beyond the state. ECB Occasional Paper Series, no. 173, May.

Lesson 5. The euro external dimensión and financial markets.

- 5.1 The euro as an international currency.
- 5.2 The role of the euro in the financial markets.
- 5.3 Determinants of the euro/\$ exchange rate.
- 5.4 Has the ECB to manage the euro exchange rate?
- 5.5 Problems of exchange rate policy coordination.
- 5.6 Relations with third countries.

Core text:

De Grauwe, P. (2014): Op. Cit , ch. 11.

Baldwin, R. y Ch. Wyplosz (2013): op. cit., chap. 18 and 19.

Camarero, M., J. Ordóñez y C. Tamarit (2005): “The euro-dollar exchange rate: is it fundamental?” in De Grauwe, P. (ed.) *Exchange Rate Modelling, Where Do We Stand?*, MIT university press.

Supplementary reading:

Sarno, L. y Taylor, M. P. (2002): *The Economics of Exchange Rates*, Cambridge University Press, Cambridge, UK.

Camarero, M. y C.R. Tamarit (2013): “Las políticas macroeconómicas en la UEM”, in Jordán, JM y C. Tamarit (coordinadores): Op. cit. Cap. 9.

Camarero, M. y C.R. Tamarit (1998): “La dimensión externa del euro”, en A. Anchuelo (ed.) ob. Cit , pp. 91-119.

De Grauwe, P. (1996): *International Money*, Chps. 10 and 11.

Gandolfo, G. (2001): *International Finance and Open-Economy Macroeconomics*, Springer, Ch. 24.

Classes:

Students are required to attend and prepare for weekly classes, designed to review and supplement the lecture material. Reinforcing the theories and issues covered in the lectures classes will be based around structured exercises, short presentations, class discussions and group work. More precisely:

1. Students are expected to read as **a compulsory reading** the following book:

- **Sinn, H-W (2014): *The Euro Trap. On bursting bubbles, budgets, and beliefs*, Oxford University Press.**

There will be a detailed questionnaire for every chapter with a schedule at the virtual campus webpage. Students are expected to upload the answers meeting the deadline for every single chapter. Moreover, for every question some students will be responsible for the public presentation of the answers in the classroom. After some general discussion, they will receive a mark for that task that can be as high as 1 point to add to the score obtained at the final exam.

3. Moreover, the students can obtain extra marks on a **non-compulsory** basis (**up to 1 extra point**) preparing **short papers** (10-15 pages) on topics related to the course.
4. Students are expected to **attend seminars and conferences** organized (if any) by the Jean Monnet Chair in Economic Integration and the Joint Research Unit in Economic Integration (INTECO) of the Universitat de València and Jaume I. Of particular relevance is the Workshop in Economic Integration (www.uv.es/inteco). Students will be properly briefed in advance about the program and dates.

Supplementary Reading (research line breakdown):

On credibility:

Camarero, M. y C.R. Tamarit (1994): “La peseta en el SME: de la fortaleza a la crisis”, *ICE. Revista de Economía*, 728, pp. 145-159.

Camarero, M. y C. Tamarit (1995): "A rationale for macroeconomic policy coordination - Evidence based on the Spanish peseta", *European Journal of Political Economy*, vol. 11, no 1 pp. 65-82.

Camarero, M. y C.R. Tamarit (1996): "Cointegration and the PPP and the UIP Hypotheses: An Application to the Spanish Integration in the EC", *Open Economies Review*, Vol. 7, No. 1, pp. 61-76.

Sapena, J. y C.R. Tamarit (2001): “La credibilidad del SME en el proceso de desinflación europeo. Aspectos teóricos y evidencia empírica”. *Información Comercial Española. Revista de Economía*, núm. 789, pp.153-178.

Camarero, M., V. Esteve y C.R. Tamarit (1999): “Efectos del programa de Desinflación Competitiva en España sobre el tipo de cambio real”, *Revista de Análisis Económico*, 14, pp. 23-43.

Esteve, V., Sapena, J. Y C.R. Tamarit (1998): “Reputación antiinflacionista y compromiso cambiario: el caso de la peseta en el SME”, *Revista de Análisis Económico*, vol. 13, núm. 2, pp. 81-105.

Esteve, V., J. Sapena y C.R. Tamarit (1999): “Expectativas de devaluación y variables macroeconómicas: el caso de España”, *ICE. Revista de Economía*, 780, pp. 35-48.

On convergence:

- Camarero, M., J. Ordóñez y C.R. Tamarit** (2002): "Tests for interest rate convergence and structural breaks in the EMS: further evidence", *Applied Financial Economics*, 12, 447-456
- Camarero, M., V. Esteve y C.R. Tamarit** (2000): "Price convergence of peripheral European countries on the way to EMU: A time series approach", *Empirical Economics*, 25, pp. 149-168.
- Camarero, M., R.G. Flôres y C. Tamarit** (2006): "Monetary Unions and productivity differences in Mercosur countries", *Journal of Policy Modelling*, 28, 53-66
- Camarero, M., R. Flôres and C. Tamarit** (2008): "A "SURE" approach to testing for convergence in regional integrated areas. An application to output convergence in Mercosur". *Journal of Economic Integration*, vol. 23, n. 1, 1-23.
- Camarero, M., J.L. Carrion-i-Silvestre y C. Tamarit** (2009): "Testing for real interest rate parity using panel stationarity tests with dependence: a note", *The Manchester School*, Vol 77, no. 1, 113-128.
- Camarero, M., J.L. Carrion-i-Silvestre y C. Tamarit** (2010): "Does real interest rate parity hold for OECD countries? New evidence using panel stationarity tests with cross-section dependence and structural breaks", *Scottish Journal of Political Economy*, Vol. 57, no. 5, 568-590

On OCA:

- Camarero, M. y C. Tamarit** (2004): "Estimating exports and imports demand for manufactured goods: The role of FDI", *Weltwirtschaftsflitches Archiv*, vol. 140, n. 3, 347-375.
- Camarero, M., Gómez, E. y C. Tamarit** (2013) "EMU and trade revisited: long-run evidence using gravity equations", *The World Economy*, 36 (9): 1146-1164.
- Camarero, M., Gómez, E. y C. Tamarit** (2014) "Is the 'euro effect' on trade so small after all? New evidence using gravity equations with panel cointegration techniques", *Economics Letters*, 124 140-142.

On monetary policy:

- Camarero, M., J. Ordóñez y C. Tamarit** (2002): "An analysis of the transmission mechanism of monetary policy in Spain using a structural cointegrated VAR approach", *Applied Economics*, vol. 34, 2201-2212.
- Camarero, M. , J. Ordóñez y C. Tamarit** (2009): "External macroeconomic factors and the link between short and long-run

European interest rates: a note", *Southern Economic Journal*, 75(4), 1212–1219.

On fiscal policy:

Esteve, V., Sosvilla, S. y C. Tamarit (2000): “Convergence in fiscal pressure across EU”, *Applied Economics Letters* 7, pp. 117-123.

Camarero, M., Carrion-i-Silvestre, J. L. and Tamarit, C. (2014), “The Relationship Between Debt Level and Fiscal Sustainability in Organization for Economic Cooperation and Development Countries”. *Economic Inquiry*. doi: 10.1111/ecin.12126

On external imbalances:

Camarero, M., J.L. Carrion-i-Silvestre y C. Tamarit (2013): “Global imbalances and the Intertemporal External Budget Constraint: A multicointegration approach”, *Journal of Banking and Finance*, 37:5357-5372.

Camarero, M., Carrion-i-Silvestre, J. L. and Tamarit, C. (2014), Testing for external sustainability under a monetary integration process. Does the Lawson doctrine apply to Europe?, *Economic Modelling*, DOI: 10.1016/j.econmod.2014.06.010