

**POLI 81**  
**Problems in World Order:**  
**The Politics of Global Finance**  
Prof. Layna Mosley  
Department of Political Science  
UNC Chapel Hill  
Fall 2004

**Course Information:**  
Tuesday and Thursday, 3:30pm to 4:45 pm,  
Murphy 112

**Contact Information**

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**Office Hours**

Tues/Thurs,  
1:30 to 3:00pm,  
and by appt.

**I. Course Overview**

This course investigates the politics of global capital markets; we consider both the ways in which governments attempt to govern capital markets internationally, and the ways in which capital markets influence the choices of national policies. Topics will include the politics of financial liberalization; the role and effectiveness of the International Monetary Fund; the causes and consequences of recent financial crises (e.g. Argentina, East Asia, and Mexico); and the impact of multinational corporations on social policies in the developing world. Previous coursework in international economics or finance is not necessary; the course will introduce the basic economic concepts required.

**II. Course Requirements**

Students are expected to attend all class sessions (attendance will be taken), to complete the assigned reading prior to class, and to contribute to class discussion. Students also are expected to arrive in time for the start of class, and to refrain from behaviors (such as text messaging, passing notes, surfing the internet) that are distracting to themselves, to other students, and to the instructor.

Students also are encouraged, and will find it helpful, to stay abreast of current events in international finance, such as efforts to manage the value of national currencies, the occurrence and resolution of financial crises, and meetings of the International Monetary Fund and World Bank. These current events often will be used as examples in lectures or as the basis for exam questions. The best means of informing yourself about such events is by reading (in print *or* on-line) a newspaper or magazine with good international economic and political coverage; *The New York Times*, *The Financial Times*, the *Economist*, and the *Washington Post* are some possibilities.

**Books**

The following books are available for purchase at the UNC Bookstore, and are required for the course:

**Eichengreen, Barry. 2004. *Capital Flows and Crises*** (MIT Press, paperback edition). *Please note that the paperback edition of this book will be available at the bookstore beginning in mid-September.*

**Eichengreen, Barry. 1998. *Globalizing Capital***. (Princeton: Princeton University Press, New and Updated Edition).

**Stiglitz, Joseph. 2002. *Globalization and Its Discontents*** (W.W. Norton; paperback).

A fourth book is optional, but recommended for those of you who want background (a focus on politics, but also some additional explanation of the economics) on many of the issues we'll discuss:

**Oatley, Thomas. 2003. *International Political Economy: Interests and Institutions in the Global Economy*** (Longman). *We will read a few selections from Oatley's book, and this book provides a very good overview of the politics of the global economy. Students who have taken POLI 86 or POLI 140 may already have this book. I will make the assigned sections available electronically for those who do not want to purchase it.*

### **Readings on Blackboard**

We also will other articles and book chapters; all will be available via Blackboard (<http://blackboard.unc.edu>), under "Course Documents" and then "Course Packet."

These items are indicated with [BL] on the syllabus; on Blackboard, they are organized by date. These readings are as important as those from the texts, so please be sure to read them – either on the screen or in printed form -- prior to class. Please email me if you can't find a reading that is supposed to be on Blackboard.

### **Methods of Evaluation**

The final grade for the course is based on the mid-term and final examinations, a research paper, and class participation:

**Mid-Term Examination (25%).** An in-class mid-term examination will be given on **October 12**. This examination will cover materials from the assigned readings, the lectures, and the class discussions. No make-up examination will be given.

**Research Paper (35%).** A twelve to fifteen page paper is due on **Tuesday, November 30** at 5pm. The paper should address a well-defined research question, dealing with one or more of the themes of this course. A one-page statement of the research question, hypotheses and methods to be used is due in class on **Tuesday, November 2**. *This statement is a required part of the final paper; final papers will not be accepted unless you have turned in this statement.* The instructor's approval is required for any changes in topic made

after November 2. Further guidance regarding the research paper will be given in class, and I will schedule extra office hours to discuss papers with students.

The paper must be double-spaced, with one inch margins, and in twelve point Times New Roman font. A bibliography of works cited or consulted also must be included. ***Papers must be turned in at my office (Hamilton 307) rather than sent via email.***

Late Paper Policy: Late papers will be penalized with a one-half grade (e.g. B+ to B-) deduction for each 24 hours. For example, a B paper handed in 12 hours after the deadline will receive a C+.

**Class Participation (10%).** The class participation grade is based on contributions during class meetings (asking questions, offering ideas and arguments) or via e-mail discussions. A good participation grade requires class attendance, preparation for class, and completion of the reading assignments. Because attendance is a prerequisite for participation, **attendance will be taken at all class sessions.** Students who attend all classes but never participate will not receive the highest participation grade; similarly, students who miss multiple class sessions will receive a low participation grade. In order to gauge their progress, students will be given a mid-semester participation grade.

**Final Examination (30%).** The examination, scheduled for **December 16** at 2pm, will be a cumulative exam, with greater weight placed on materials discussed and read in the second half of the course. An optional review session will be held to help you prepare for the exam. Please note the date of the exam (it's the final day of exam week) when making your holiday travel plans.

### III. Course Schedule and Reading Assignments

#### **I. Key Concepts: Capital Flows and International Governance**

**August 24 Course Overview**

**August 26 Global capital markets overview, part I**

[BL] New York Times series on global capital markets, February 15-18, 1999 (57 pp.)

[BL] Moises Naim, "The Five Wars of Globalization," *Foreign Policy*, January/February 2003, pp. 29-36.

**August 31 – Global capital markets overview, part II**

[BL] Thomas L. Friedman, *The Lexus and the Olive Tree* (1999), Chapter 7, pp. 112-142.

[BL] *Economist*, Survey of Global Capital Markets, May 1, 2003. "A Cruel Sea of Capital," and "Catching the Tide" (11 pp. total). ***[readings continue on next page]***

[BL] *Economist*, The Big Mac Index, May 2004 (4 pp.)

## **September 2 – Financial openness and the global economy in the 1990s**

[BL] *Commanding Heights* background materials (14 pp).

[BL] Jagdish Bhagwati, “The Capital Myth: The difference between trade in widgets and dollars,” *Foreign Affairs* (May/June 1998), pp. 7-12.

## **September 7 – Governing International Finance: the World Bank and the IMF**

[BL] Robert Keohane, “International Institutions: Can Interdependence Work?” *Foreign Policy*, Issue 110 (Spring 1998), pp. 82-96.

[BL] International Monetary Fund, “What is the IMF?” August 2002 (28 pages).

## **September 9 – A Backlash against Global Capital and Global Financial Institutions?**

[BL] Barry Eichengreen, *Toward a New Financial Architecture* (1999); Appendix C, “Understanding Asia’s Crisis,” pp. 143-169.

[BL] Joseph E. Stiglitz, “Globalism’s Discontents,” *The American Prospect*, Winter 2002, pp. A16-A21.

## **II. Exchange Rates and Currency Arrangements**

### **September 14 – Exchange Rate History: The Gold Standard**

Eichengreen, *Globalizing Capital*, pp. 25-67.

### **September 16 – Exchange Rate History: The Bretton Woods System**

Eichengreen, *Globalizing Capital*, pp. 93-135.

*For more background on the Bretton Woods system and its collapse, see Oatley, pp. 230-246.*

### **September 21 – Contemporary Exchange Rates: Fixed vs. Floating**

Oatley, pp. 246-265

*[readings continue on next page]*

[BL] Articles on the Chinese yuan, and the potential need for revaluation (two articles from the *Economist*), 5 pp.

## **September 23 – Contemporary Exchange Rates: Domestic Politics, Currency Unions**

Eichengreen, *Globalizing Capital*, pp. 181-196.

[BL] Jeffrey Frieden, “Invested Interests: National Economic Policies in a World of Global Finance,” *International Organization* (1991), pp. 425-451.

## **III. Short-Term Capital Flows and Financial Crises**

### **September 28 – Review of Capital Flows; the Mexican peso crisis**

Eichengreen, *Capital Flows and Crises*, Chapters 2 and 4 (entire; 58 pp. total).

\*Moses Naim, “Mexico’s Larger Story,” *Foreign Policy* 99 (Summer 1995) (13 pp.)

### **September 30 – The Asian financial crisis**

Joseph Stiglitz, *Globalization and Its Discontents*, Chapter 4, entire (43 pp.)

*For a summary of financial crises in the 1990s, also see Oatley, pp. 346-355.*

### **October 5 – Lessons from the Asian financial crisis**

Eichengreen, *Capital Flows and Crises*, Chapter 5 and Chapter 9, entire (79 pp).

### **October 7 – The Late 1990s: Contagion**

Stiglitz, *Globalization and Its Discontents*, Chapter 5, entire (46 pp).

### **October 12 -- Midterm Exam**

### **October 14 -- no class (fall break)**

### **October 19 – Crises in the Contemporary Period**

Eichengreen, *Capital Flows and Crises*, Chapter 6, entire (30pp).

*[readings continue on next page]*

[BL] *Economist*, “A Decline Without Parallel,” February 28, 2002 (6 pp).

## **October 21 – The Case for Capital Controls**

Eichengreen, *Capital Flows and Crises*, Chapters 10 and 11, entire (27 pp).

*You may also want to review the Bhagwati reading from September 2.*

## **October 26 – The Role of Bank Regulation**

*The first part of today's class will be devoted to a discussion of your research papers. We will talk specifically about "research design:" how do you come up with a paper topic that allows you to formulate and test a specific hypothesis or set of hypotheses? What makes a strong research paper?*

[BL] Set of articles on banking regulation (Basel I and Basel II accords); (12 pp). *You also may want to start reading for Thursday's class, as the bulk of this week's reading is assigned then.*

## **October 28 – Reform of the "International Financial Architecture," part I**

Joseph Stiglitz, *Globalization and Its Discontents*, Chapters 1, 2 and 3, entire (85 pp).

[ER] Kenneth Rogoff, "The IMF Strikes Back," *Foreign Policy*, January/February 2003, pp. 39-46.

## **November 2 – Research paper topic statements due**

### **Reform of the "International Financial Architecture," part II**

Stiglitz, *Globalization and Its Discontents*, Chapters 7 (all), 8 (all) and 9 (up to "Reforming the World Bank"). (61 pp).

## **IV. Debt, Development and Foreign Investment**

### **November 4 – Foreign Aid and Development**

[BL] The World Bank, "Working for a World Free of Poverty" (2004) (24pp).

[BL] Jessica Einhorn, "The World Bank's Mission Creep," *Foreign Affairs* (September/October 2001), pp. 22-35.

### **November 9 – Developing Country Debt**

[BL] Oatley, pp. 325-346.

### **November 11 – Debt Relief**

[BL] International Monetary Fund, Materials on the HIPC initiative (16 pages).

[BL] M. A. Thomas, "Getting Debt Relief Right," *Foreign Affairs*, vol. 80: 5 (September/October 2001), pp. 36-45.

### **November 16 – Foreign Direct Investment and Global Production – Patterns and Trends**

[BL] Oatley, pp. 170-204.

[BL] Susan Strange, "States, Firms and Diplomacy," *International Affairs*, Vol. 68, no. 1 (January 1992), pp. 1-15.

### **November 18 – Foreign Direct Investment – Regulation**

[BL] Oatley, pp. 210-218.

[BL] Jay Mandle, *Globalization and the Poor*, Chapter 5 ("The Anti-Globalization Movement and the Multilateral Agreement on Investment"), pp. 53-73.

### **November 23 – Foreign Direct Investment and Workers' Rights**

[BL] Jay Mandle, *Globalization and the Poor*, Chapter 7 ("The Student Anti-Sweatshop Movement"), pp. 97-120.

[BL] Jagdish Bhagwati, *In Defense of Globalization* (2004), Chapter 10 ("Wages and Labor Standards at Stake?"), pp. 122-134.

[BL] Oatley, pp. 204-210.

### **November 25 – Thanksgiving Break**

### **November 30 – Research Papers Due, 5pm The Outsourcing Debate**

[BL] Daniel W. Drezner, "The Outsourcing Bogeyman," *Foreign Affairs*, May/June 2004

[BL] McKinsey and Company, "Offshoring: Is it a Win-Win Game?" August 2003.

### **December 2 – Course Wrap-up and Overview**

Joseph Stiglitz, *Globalization and Its Discontents*, Chapter 9 (remainder), pp. 241-252.

[BL] Dani Rodrik, "Sense and Nonsense in the Globalization Debate," *Foreign Policy* vol. 107 (Summer 1997), pp. 19-38.

*Research papers will be returned by December 10. An optional review session will be scheduled sometime between December 3 and December 15.*

**December 16 – Final Exam**