Syllabus: Political Economy of Exchange Rate Politics

Instructor:

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Appointments:
- Wednesday, 2pm at the MPIfG (only after prior notice),
- Every time via email,
- Skype and telephone calls (after prior notice)

Course Details:

Dates:
October 29, 2016, 9:30am – 6:30pm, Seminarraum 2 (110 WiSo Modulbau),
November 12, 2016, 9:30am – 6:30pm, Seminarraum 2 (110 WiSo Modulbau),
November 26, 2016, 9:30am – 6:30pm, Seminarraum 2 (110 WiSo Modulbau)

Description:
The course focuses on the most important policy field for macroeconomic adjustment: exchange rate politics. We will analyze the basics of why macroeconomic governance is necessary for open capitalist economies, how it is pursued, and why conflicts over macroeconomic adjustment arise constantly between and within these economies. To overcome these adjustment needs, governments have only a limited set of instruments in four distinct policy fields at their disposal: exchange rate, fiscal, and monetary policy as well as wage setting. In its core, the course will take the perspective that institutional features of countries are responsible for differences in macroeconomic outcomes and performances.

The course will introduce into a variety of global and regional exchange rate regimes that governed monetary relations and provided macroeconomic governance. Then, adjustment conflicts are put in context of the process of European monetary integration and different capitalist growth models. It is noteworthy that the usage and applicability of exchange rate policy has been successively limited in the process of European integration, despite the fact that the causes for macroeconomic imbalances and its continuous emergence remain present. This aspect and the institutional embedding of macroeconomic adjustment in European economic policy will be find particular consideration.

Requirements:

**Mandatory reading:** Each block of the seminar contains four or five sessions, respectively. Each session will have one required reading, which means that each block will have between four and five required readings. Students are asked to read at least the required readings to ensure a minimum of discussion in the course.

**Caretaker for additional reading:** Instead of ordinary presentation, this course wants to engage in productive discussion about theories, problems, and empirical outcomes. The intellectual interaction of students is the eventual aim of this seminar. Therefore, the course will ask every student to be a caretaker for additional literature in at least one session.
A caretaker is expected to read and prepare not only the required reading for the respective session, but some additional texts as well. The task will be write up a short text of three to five pages that summarizes and discusses the texts and points to noteworthy aspects, questions, and concepts.

- Please send the prepared text at least five days before the respective session via email to all course participants. They are meant to support the capacity to discuss of all your fellow students.
- To fulfill the task in all its aspects at least once during the term is necessary to pass the requirements for course participation (‘Teilnahmeschein’).

**Term paper:** Term papers have to be handed in on March 31, 2017 at the latest. Students are required to consult with the instructor about their topics of choice before handing in. It is recommended to approach the instructor at the end of teaching period.

- The papers should have between 4500 and a maximum of 6000 words (15 and 20 pages).
- All papers need to follow the formal rules of academic writing (proper citations, a list of references and sources, etc.). A section on methodology is strongly recommended. Plagiarism as well as plagiarism attempts will lead to a failing of the course.

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**I: Concepts: Exchange rates and macroeconomic governance**

The first block of the seminar lays the groundwork for the discussion on exchange rate policy-making. We will first focus on external and internal dimension of macroeconomic imbalances and the necessity of adjustment between open economies. Therein, developments both in regard to inflation as well as the balance of payments will play a central role. We will elaborate on the internal and external management of prices for the purpose of macroeconomic governance in an open economy. Four this purpose, the course will introduce and discuss the four most important policy fields that are employed for the removal and management of macroeconomic imbalances. These policy fields are exchange rate policy for the steering of the external economic relations and monetary policy, fiscal policy and wage-setting for the domestic price level management.

**a) Introduction and organization**

No reading

**b) Internal and external dimensions of macroeconomic imbalances**


*Additional reading:*


**c) External price management Exchange rate policy, exchange rates, regimes etc.**

**Additional reading:**


d) **Internal price management: monetary, fiscal and wage policies**


**Additional reading:**


e) **Monetary relations and currency order**


**Additional reading:**


**II: Theories of exchange rate policy-making and monetary relations**

In the second block of the seminar, we will learn about theoretical approaches to exchange rate policy making. First, functionalist and macroeconomic contributions to the choice of exchange rate regimes will be discussed. In particular, the optimum currency area approach, (derived from this approach) a set of literature on macroeconomic convergence, as well as a broad literature on currency crises are examined. Afterwards, determinants of exchange rate policy-making will be discussed from two perspectives. The International Political Economy perspective stresses rational choice institutionalism based arguments that link exchange rate policies to economic and partisan preferences of important actors in a given economy. The Comparative Political Economy perspective focuses on institutions, especially those that serve as determinants of inflation, which create different macroeconomic outcomes, shifts in competitiveness, as well as incentives for its actors to pursue systematically distinguishable strategies of macroeconomic adjustment. This discussion will lead to a consideration of institutional heterogeneity of European political economies for explaining different
a) **Optimum currency area and convergence theories**


Additional reading:

b) **Currency crises and macroeconomic adjustment**


Additional reading:

c) **Determinants of exchange rate policy choices from an IPE perspective**


Additional reading:
WALTER, S. (2016). Crisis politics in Europe: Why austerity is easier to implement in some countries than in others. Comparative Political Studies, 49, 7, 841-873.

d) **Macroeconomic adjustment from a CPE perspective: Institutional determinants of inflation**


Additional reading:
e) Heterogeneity of European political economies and growth models


Additional reading:

III: Empirical analysis of exchange rate policy making and macroeconomic adjustment

In the third and last part of the seminar, we will analyze practices of macroeconomic policy-making with a particular focus on exchange rate politics in various empirical settings. First, we examine global arrangements such as the Bretton Woods System that existed between 1944 and 1973 and look on current institutions and practices of monetary governance. Then, we consider non-European exchange rate regimes as well as different forms of monetary cooperation on regional level below the far advanced example of EMU. Eventually, we study European monetary arrangements and forms of macroeconomic governance prior to EMU as well as since the introduction of the monetary union. The focus will lay on the institutional settings of European exchange rate regimes and macroeconomic adjustment practices in light of historical crises and challenges, such as the stagflation in the early 1980s and the ongoing euro crisis. We will elaborate on dominant policy paradigms during the process of European monetary integration and on how this shaped options for macroeconomic adjustment as well as distributional outcomes.

a) Bretton Woods System and global monetary governance


Additional reading:

b) Regional exchange rate regimes outside of Europe


Additional reading:
c) Pre-monetary Union macroeconomic governance in Europe: From the European Payments Union to the European Monetary System


Additional reading:

d) EMU: macroeconomic adjustment without nominal exchange rate policies


Additional reading:

e) Wrap up and discussion on term papers