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International Banking and Finance

-- Course outline --

I. INTERNATIONAL BANKING AND FINANCE

1. Stylized facts
2. Financial markets in an open economy: analytical framework
3. Welfare effects of financial integration

II. INTERNATIONAL CAPITAL MOBILITY

1. Quantity measures of capital mobility
2. Price measures of capital mobility
3. Portfolio models and the Home Bias

III. INFORMATION COSTS AND THE STRUCTURE OF INTERNATIONAL CAPITAL FLOWS

1. The structure of international capital flows: stylized facts
2. Explaining the structure of international capital flows
3. International activities of banks

IV. INTERNATIONAL BANKING AND FINANCIAL STABILITY

1. Financial crises and volatility: stylized facts
2. Liquidity risks and international banking
3. Banks and balance of payments crises
4. Capital account liberalization and volatility
5. International banking and the transmission of shocks

References

The basic textbook used for this lecture are selected chapters from Obstfeld, M., and K. Rogoff (1996). *Foundations of International Macroeconomics*. Cambridge, Mass. In addition, the class will draw on recent working papers and published articles in the field of international economics and finance. In addition, a full set of lecture notes will be provided to the students for Chapters I - III.

(*) Kose, Ahyan, Eswar Prasad, Kenneth Rogoff, and Shang-Jin Wei (2006). *Financial Globalization: A Reappraisal*, IMF Working Paper 06/189. Washington DC.

is an additional background readings summarizing trends in current international financial markets and the literature on financial integration.

Useful websites and data sources providing relevant class material are

- www.nber.org (National Bureau of Economic Research, Cambridge MA, in particular the research program “International Finance and Macroeconomics”)
- www.bis.org (Bank for International Settlements, Basel, in particular the banking and financial markets statistics)
- World Bank database on financial regulations (Barth, J.R., G. Caprio Jr., and R. Levine (2003). *The Regulation and Supervision of Banks Around the World*. http://www.worldbank.org/research/projects/bank_regulation.htm)
- Database on international capital flows by Philip Lane and Gian-Maria Milesi-Ferretti on Philip’s Lane homepage at Trinity College (Dublin) (see Lane, P., and G.-M. Milesi-Ferretti (2003). *International Financial Integration*. Institute for Integration Studies, International Monetary Fund, and CEPR. Mimeo)

Requires reading are marked by an asterix (*).

Part 1 (International Banking and Finance)

(*) Freixas, X., and J.-C. Rochet (1998). *Microeconomics of Banking*. Cambridge (MIT Press). (Chapter 1)

Gourinchas, P.-O., and O. Jeanne (2006). The Elusive Gains from International Financial Integration. *Review of Economic Studies* 73(3): 715-471

Klein, Michael (2003). The Variety of Experience of the Effect of Capital Account Openness on Growth. Tufts.

(*) Obstfeld, M., and K. Rogoff (1996). *Foundations of International Macroeconomics*. Cambridge, Mass. (Chapter 1)

+ **Lecture Notes**

Part 2 (International Capital Mobility)

- Baxter, M., and U.J. Jermann (1997). The International Diversification Puzzle Is Worse Than You Think. *American Economic Review* 87 (1): 170–180.
- Bayoumi, T. (1999). Is There a World Capital Market? In: Siebert, H. (ed.), *Globalization and Labor*. (Tübingen, J.C.B. Mohr).
- Bekaert, G., C.R. Harvey, and R.L. Lumsdaine (2002). Dating the Integration of World Equity Markets. *Journal of Financial Economics* 65(2): 203-247.
- Bordo, M.D., B. Eichengreen, and J. Kim (1998). Was There Really an Earlier Period of International Financial Integration Comparable to Today?. National Bureau of Economic Research (NBER). Working Paper 6738. Cambridge, MA.
- Obstfeld, M. (1995). International Capital Mobility in the 1990s. In: P.B. Kenen (ed.), *Understanding Interdependence — The Macroeconomics of the Open Economy*. Princeton, New Jersey.
- (*) Obstfeld, M., and K. Rogoff (1996). *Foundations of International Macroeconomics*. Cambridge, Mass. (Chapter 3, Section 4, and 5)

+ Lecture Notes

Part 3 (Information Costs and the Structure of International Capital Flows)

- Ahearne, A., W. Grier, and F. Warnock (2004). Information Costs and Home Bias: An Analysis of U.S. Holdings of Foreign Equities. *Journal of International Economics* 62(2): 313-336.
- Buch, Claudia M. (2003). Information or Regulation: What Drives the International Activities of Commercial Banks?. *Journal of Money, Credit, and Banking* 35(6): 851–869.
- Daude, C., and M. Fratzscher (2006). The pecking order of international financial integration. European Central Bank. ECB Working Paper No. 590. Frankfurt a.M..
- Portes, R., and H. Rey (2005). The Determinants of Cross-Border Equity Flows. *Journal of International Economics* 65(2): 269-296.
- (*) Razin, Assaf, Efraim Sadka and Chi-Wa Yuen, 1998. A pecking order of capital flows and international tax principles. *Journal of International Economics* 44: 45 – 68.

+ Lecture Notes

Part 4: International Banking and Financial Stability

- (*) Allen, F., and D. Gale (2000). Financial Contagion. *The Journal of Political Economy* 108(1): 1–33.
- (*) Buch, C.M. and R.P. Heinrich (1999). Twin Crises and the Intermediary Role of Banks. *International Journal of Finance and Economics* 4: 313–323.
- (*) Goldberg, Linda S. (2001). When is U.S. Bank Lending to Emerging Markets Volatile? National Bureau of Economic Research. NBER Working Paper 8209. Cambridge, MA. Published in *Preventing Currency Crises in Emerging Markets*. Eds. Edwards, S. and Frankel J., University of Chicago Press 2002.

(*) Prasad, E. S., K. Rogoff, S.-J. Wei and M.A. Kose (2003). 'Effects of financial globalisation on developing countries: some empirical evidence', IMF occasional paper 220.

Further readings:

Berger, A.N., and R. DeYoung (2001). The Effects of Geographic Expansion on Bank Efficiency. *Journal of Financial Services Research*.

Buch, Claudia M., J. Döpke, C. Pierdzioch (2005). Financial Openness and Business Cycle Volatility. *Journal of International Money and Finance* 24 (5): 744-765.

Claessens, S., A. Demirgüç-Kunt, and H. Huizinga (2001). How Does Foreign Entry Affect the Domestic Banking Market? *Journal of Banking and Finance* 25(5): 891–911.

Claessens, S., D. Klingebiel, and L. Laeven (2001). Financial Restructuring in Banking and Corporate Sector Crises: What Policies to Pursue? National Bureau of Economic Research. NBER Working Paper 8386. Boston, MA.

Focarelli, D. and A.F. Pozzolo (2001). The patterns of cross-border bank mergers and shareholdings in OECD countries, *Journal of Banking and Finance*, 25(12): 2305-2337.