

Barcelona Macroeconomics Summer School 2008

Globalization and Financial Markets

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This course studies the workings of financial markets in a globalized world, focusing on theoretical results, empirical evidence and policy implications. The first part of the course analyzes the problems associated with sovereign risk, while the second part studies the origins and effects of asset bubbles.

Lecture notes will be distributed during the course.

Part 1. Sovereign risk

A. Sovereign risk and secondary markets

A brief history of sovereign debt and default. Canonical models of sovereign debt. Borrowing constraints and default. Reputation, default and retaliation. The role of secondary markets.

Grossman, H. and J. van Huyck, "Sovereign Debt as a Contingent Claim: Excusable Default, Repudiation and Reputation," *American Economic Review*, 1988.

Bulow, J. and K. Rogoff, "Sovereign Debt: Is to Forgive to Forget?," *American Economic Review*, 1989.

Broner, F., A. Martin and J. Ventura, "Sovereign Risk and Secondary Markets", CEPR DP6055 and NBER WP12783, 2006.

Broner, F., A. Martin and J. Ventura "Enforcement Problems and Secondary Markets", *Journal of the European and Economic Association*, forthcoming.

B. The effects of financial liberalization

The effects of financial liberalization: theory and evidence. Investment, economic growth and volatility. The role of institutions. Interactions between capital account liberalization and other policy reforms.

Kose, A., E. Prasad, K. Rogoff, and Shang-Jin Wei, “Financial Globalization: A Reappraisal”, IMF working paper, 2006.

Henry, P.B., “Capital Account Liberalization: Theory, Evidence and Speculation,” *Journal of Economic Literature*, 2007.

Broner, F., and J. Ventura, “Rethinking the Effects of Financial Liberalization,” unpublished manuscript, 2008.

C. The international financial architecture

An analytical framework to study crisis prevention and resolution. Ex-ante issues: dealing with overborrowing and liquidity shortages. Ex-post issues: debtor and creditor strategies, buying time, aligning incentives and solving coordination problems.

Eaton, J. and R. Fernandez, “Sovereign Debt”, in G. Grossman and K. Rogoff, eds. Handbook of International Economics, Elsevier, 1995.

Borensztein, E., M. Chamon, O. Jeanne, P. Mauro and J. Zettelmeyer, “Sovereign Debt Structure for Crisis Prevention” IMF Occasional Paper 237, 2004.

Fischer, S., “On the Need of an International Lender of Last Resort,” *Journal of Economic Perspectives*, 1999.

Rogoff, K. and J. Zettelmeyer, “Bankruptcy Proceedings for Sovereigns: A History of Ideas, 1976-2001” IMF Staff Papers, 2002.

Rogoff, K., “International Institutions for Reducing Global Financial Instability,” *Journal of Economic Perspectives*, 1999.

Part 2. Asset Bubbles

A. Basic theory. Searching for bubbles in the data

The Samuelson-Tirole model and recent extensions. Rational vs. irrational bubbles. Empirical tests of bubbles. Applications: the US stock market in the late 1990s and the real state market in the 2000s.

Tirole, J., "Asset bubbles and overlapping generations," *Econometrica*, 1985.

Abel, A.B., N.G. Mankiw, L.H. Summers and R.J. Zeckhauser, "Assessing dynamic efficiency: theory and evidence," *Review of Economic Studies*, 1989.

Ventura, J., "Economic Growth with Bubbles," unpublished manuscript, 2003.

Bond, S., and J. Cummings, "The Stock Market and Investment in the New Economy: Some Tangible Facts and Intangible Fictions," *Brookings Papers on Economic Activity*, 2000.

Himmelberg, C., C. Mayer and T. Sinai, "Assessing High House Prices: Bubbles, Fundamentals and Misperceptions," *Journal of Economic Perspectives*, 2005.

B. Fiscal policy and crowding-out

A crowding-out theory of bubbles, investment and government debt. Application to global imbalances. Is the US current account deficit sustainable? The adjustment process.

Obstfeld, M. and K. Rogoff; "Global Current Account Imbalances and Exchange Rate Adjustments," *Brookings Papers on Economic Activity*, 2005.

Kraay, A., and J. Ventura, "The Dot-Com Bubble, the Bush Deficits, and the US Current Account," in R. Clarida ed., *G7 Current Account Imbalances: Sustainability and Adjustment*, University of Chicago Press, chapter 11, 2007.