

## **The Trilemma, International Currencies, Capital Controls and Financial Development**

Lecturer: Prof. Dr. Menzie D. Chinn (University of Wisconsin-Madison)

Date: December 17, 2015 – December 22, 2015 (Universität Leipzig)

Venue: Leipzig University, Faculty of Economics and Management Science, Grimmaische Straße 12, Seminargebäude, Room S 203 (17th – 18th December 2015); Institutsgebäude, Room SR 7 (21st – 22nd December 2015)

Course website: <http://cgde.wifa.uni-leipzig.de/program/special-course-financial-market-stability-2015/>

Course materials website: [http://www.ssc.wisc.edu/~mchinn/web\\_trilemma\\_f15.html](http://www.ssc.wisc.edu/~mchinn/web_trilemma_f15.html)

**Course Description:** The course will cover the key concept in international finance, namely the choices imposed by the international trilemma (also known as the impossible trinity), the proposition that a country cannot simultaneously pursue full monetary autonomy, exchange rate stability, and financial integration/absence of capital controls. Considerable attention will be devoted to issues of measurement and estimation of the effects of policy combinations. Finally, the linkage of financial integration to financial development and to the internationalization of currencies will be examined.

### **Course Outline**

Thursday

10-11:30 The Trilemma: Background and “theory”

12:30-14:00 Measurement of the Trilemma [1], [2]

14:30-16:00 Impacts on growth and inflation [3]

Friday

10-11:30 The Trilemma and Monetary Spillovers [4],[5],[6]

12:30-14:00 Capital controls measured [7]

14:30-16:00 Capital control efficacy (I) [8]

Monday

10-11:30 Capital control efficacy (II)

12:30-14:00 Capital controls and financial development [9]

14:30-16:00 International currencies defined [10]

Tuesday

10-11:30 The future of reserve currencies

12:30-14:00 Aspects of currency internationalization

14:30-16:00 Exam

## Readings

- [1] Aizenman, Joshua, Menzie Chinn and Hiro Ito, 2013, "The "Impossible Trinity" Hypothesis in an Era of Global Imbalances: Measurement and Testing," *Review of International Economics* 21(3): 447-458.
- [2] Aizenman, Joshua, Menzie Chinn and Hiro Ito, 2010, "The Emerging Global Financial Architecture: Tracing and Evaluating the New Patterns of the Trilemma's Configurations," *Journal of International Money and Finance* 29: 615-641 (with Joshua Aizenman and Hiro Ito).
- [3] Aizenman, Joshua, Menzie Chinn and Hiro Ito, 2011, "Surfing the Waves of Globalization: Asia and Financial Globalization in the Context of the Trilemma," *Journal of the Japanese and International Economies* 25: 290-320.
- [4] Rey, Helene, 2013, "Dilemma not Trilemma: The Global Financial Cycle and Monetary Policy Independence," prepared for the 2013 Jackson Hole Meeting.
- [5] Klein, Michael and Jay Shambaugh, 2015, "Rounding the Corners of the Policy Trilemma: Sources of Monetary Autonomy," *American Economic Journal: Macroeconomics* 7(4): 33 – 66.
- [6] Aizenman, Joshua, Menzie Chinn and Hiro Ito, 2015, "Monetary Policy Spillovers and the Trilemma in the New Normal: Periphery Country Sensitivity to Core Country Conditions," *mimeo* (August).
- [7] Quinn, Dennis, Martin Schindler, and A. Maria Toyoda, 2011, "Assessing measures of financial openness and integration." *IMF Economic Review* 59(3): 488-522.
- [8] Ostry, Jonathan, Atish Ghosh, Karl Friedrich Habermeier, Luc Laeven, Marcos Chamon, Mahvash Qureshi, and Annamaria Kokenyne, 2011, "Managing Capital Inflows; What Tools to Use?" *IMF Staff Discussion Note* No. 11/06. International Monetary Fund.
- [9] Chinn, Menzie and Hiro Ito, 2006, "What Matters for Financial Development? Capital Controls, Institutions and Interactions," *Journal of Development Economics* 61(1): 163-192.
- [10] Chinn, Menzie and Jeffrey Frankel, 2007, "Will the Euro Eventually Surpass the Dollar as Leading International Reserve Currency?" in R. Clarida (ed.), *G7 Current Account Imbalances: Sustainability and Adjustment* (U. Chicago Press), pp. 285-322.
- [11] Chinn, Menzie, 2015, "Emerging Market Economies and the Next Reserve Currencies," *Open Economies Review* 26(1): 155-174.
- [12] Ito, Hiro and Menzie Chinn, 2015, "The Rise of the "Redback" and China's Capital Account Liberalization: An Empirical Analysis on the Determinants of Invoicing Currencies," in *Renminbi Internationalization: Achievements, Prospects, and Challenges*, edited by Barry Eichengreen and Masahiro Kawai (Brookings Institution Press for ADBI).

Evaluation will be based on a comprehensive exam.