

Monetary and economic situation in the Eurozone and its implications on the international monetary system

MSE-MSU

Executive summary for the November 2014 lectures.

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The 2014-2015 lectures will encompass issues from the monetary situation in the Eurozone to their consequences both in different countries and in the global economy. We would examine in the first chapter the actual situation of the monetary and banking sector of different countries, asking the question would the monetary situation be considered as “stabilized”, then look at the situation of the real sector in the second chapter and ask the question is the Eurozone really contributing to world growth or exerting a drag effect on the world economy. In the third chapter we would address various theoretical issues arising from this situation, looking first to the risk of inflation and deflation, then to the dilemma of devaluation vs. internal devaluation with the problem raised by mistakes made about the fiscal multiplier and the correlation of the debt ratio to growth. This would lead us to question the validity of DSGE model and to wonder what theoretical tools are to be left to European decision makers. The fourth chapter will deal with consequences of this situation for the international monetary system, consequences of a possible Eurozone dissolution, the need for reserve currencies and a look on undercurrents of the present crisis.

Chapter 1.

Monetary situation in the Eurozone

1. The interest rates situation – A comparison.
 - a. What has been the evolution of interest rates.
 - b. From LTRO to OMT: the powerful but limited actions of the ECB.
 - c. What is the possibility for a new speculative crisis?
2. Real vs. Nominal rates.
 - a. How real interest rates are evolving.
 - b. What do they implies for economic agents?
3. What are transmission tools for monetary policy left?
 - a. Active prices and the wealth effect.
 - b. The funding of economic activity.
 - c. Depreciation and appreciation of a currency.
4. The situation of the banking sector and the “monetary union”.
 - a. Is European bank situation good?
 - b. What is the reality of the banking union.

- c. Why some countries are against the banking union.
- 5. Is the situation stabilized?
 - a. Short term, medium term and long term stability.
 - b. Can a sound monetary situation develop in a bad real-sector one?

Chapter 2.

The real-sector situation.

1. The GDP growth and perspectives.
 - a. Comparison of forecasts.
 - b. Explaining the differences.
 - c. How reliable are forecasts?
2. The investment growth, and decline.
 - a. Investment growth.
 - b. What is the real situation.
3. The foreign trade balance.
 - a. How countries from Southern Europe have balanced their trade balance.
 - b. How sustainable is it.
 - c. What possible consequences?
4. The unemployment situation.
 - a. The unemployment situation.
 - b. How unemployment is computed.
 - c. From the direct to indirect measures of unemployment.
5. The federalist perspective and its costs.
 - a. What would be a federalist solution?
 - b. Evaluation of the cost of a federalist solution.
6. Is the Eurozone a global drag on to the world economy?
 - a. The Eurozone in the global economy.
 - b. The global drag effect since 2002.
 - c. What could be consequences in the near future.

Chapter 3.

Theoretical issues raised by this situation.

1. The monetary nature of inflation and the deflation risk.
 - a. Is inflation purely a monetary phenomenon?
 - b. The “structural inflation” concept.
 - c. The deflation risk.
2. Devaluation, internal devaluation and the fiscal multiplier: what precisely is at stake?
 - a. What is “internal devaluation”
 - b. A comparison of both processes.
 - c. The time-lag factor.
 - d. Mistakes and illusion about the fiscal multiplier.
 - e. The debt ratio and growth comparison.
3. The failure of DSGE model.
 - a. What DSGE models are.
 - b. Are DSGE models useless?

- c. Theoretical problems raised by DSGE models.
- 4. What theoretical tools are available for European leaders?
 - a. Why the EU still sticks to discredited models?
 - b. How policies are estimated?

Chapter 4.

The international monetary system at bay.

1. Evolution of respective shares of the Euro and the USD as reserve tools, transaction tools and financial transaction tools.
 - a. The history of the Euro as a reserve tool.
 - b. The weight of Euro as a transaction tool.
 - c. Euro vs. Yuan as a financial transaction tool.
2. What would be consequences of Eurozone dissolution?
 - a. What a dissolution would mean.
 - b. What financial consequences.
 - c. What prospects for growth?
 - d. Is a dissolution possible?
3. The need for new reserve currencies.
 - a. What is the impact of reserve currencies.
 - b. The development of “new currencies”.
 - c. The debt ration needed to sustain a reserve currencies.
 - d. From a bi-polar to a multi-polar world.
4. Undercurrents of the present crisis.
 - a. From Bretton Woods to the current state of the situation.
 - b. Old debates and fresh approach.
 - c. An economic or a political issue?

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