1. Globalization and Finance
    a. Globalization has led to momentous changes in many areas of international relations
        i. Through states, businesses, and individuals that deal with financial markets
        ii. Financial integration has tremendous advantages by offering access to overseas markets and the possibility of better returns on investment
    b. The case in 2008 of the economic downturn began in the US due to American taking out loans on their homes and were unable to pay them back.
        i. Value of the houses began to fall and banks were unable to recover even if they reclaimed it
        ii. US banks were falling and affected the whole world's banking crisis
        iii. Stock markets tumbled dramatically and unemployment increased worldwide
            1. Financial problems began from Greece and started to spread in Spain, Portugal, and even giant Italy, threatened the European UNion as a whole while holding back growth in the US and China
2. Currency system
    a. Every state prints its own money because of the ability of print one's own currency is one of the hallmarks of state sovereignty
        i. A globalized system of trade and finance, businesses and individuals often need other state's currencies to do business
    b. International economy is based on national currencies, not a world currency
        i. They create their own currency as the sole legal currency and of no inherent value in another country and can only be exchanged
        ii. Gold and silver used to be world currency but there was no functional value of gold or silver
    c. World has not used a gold standard but has developed an international monetary system divorced from any tangible medium such as precious metals
        i. International currency exchange allowed currency to be exchanged for a different state's currency according to an exchange rate
            1. Affects almost every international economic transaction - trade, investment, tourism, and so forth
            2. Value of currencies are arbitrary and only the changes in value are meaningful
        ii. Some states do not have convertible currencies because it has no guarantee of being able to trade it for another currency
        iii. Some are inflating so rapidly that holding them can mean losing money
            1. Inflation reduces a currency's value relative to more stable (more slowly inflating) currencies
            2. Extremely high, uncontrolled inflation is called hyperinflation
        iv. Hard currency is money that can be readily converted to leading world currencies (which now have relatively low inflation)

d. States maintain reserves of hard currency and are the equivalent of the stockpiles of gold in centuries past
    i. National currencies are now backed by hard-currency reserves
    ii. Forms of currency exchange uses fixed exchange rates
        1. Governments decide, individually or jointly, to establish official rates of exchange for their currencies
e. Floating exchange rates are now commonly used for the world's major currencies
    i. Rates are determined by global currency markets in which private investors and governments alike buy and sell currencies
        1. Government intervention to manage the otherwise free-floating currency rates is called a managed float system
        2. Interventions usually happen quickly and control only a small fraction of the money moving on such markets
f. Why currencies rise of fall
    i. Exchange rates depend on speculation about the future value of currencies
    ii. Printing too much money creates inflation because the amount of goods in the economy is unchanged but more money is circulating to buy them with
        1. Demand for a currency depends on the state's economic health and political stability
        2. People do not want to own the currency of an unstable country because political instability leads to the breakdown of economic efficiency and of trust in the currency
    iii. States experience conflicts over currency exchange and often prefer a low value for their own currency relative to others because a low value promotes exports and helps turn trade deficit to surplus
        1. Exchange rates and trade surpluses or deficits tend to adjust automatically toward equilibrium
            a. Overvalued currency, whose exchange rate is too high, creates a chronic trade deficit
            b. Deficit can be covered by printing more money
        2. Unilateral move to reduce the value of one's own currency by changing a fixed or official exchange rate is called a devaluation
            a. The quick fix for financial problems in the short term creates new problems.
g. Stable exchange rates for international currency can be seen as a collective good, all members of the international economy benefit from a stable framework for making investments and sales
    i. An individual country can benefit from evaluating its own currency
    ii. International exchange rate stability should be more readily achieved in two circumstances
        1. under a hegemony (the dominance principle)

            2. Under an arrangement among a small group of key states (where the reciprocity principle operates effectively.

3. Central banks
    a. Government control the printing of money and the politicians or generals who control the government directly control the amount of money printed
        i. To enforce self-discipline and enhance public trust in the value of money, these decision are over to a central bank
        ii. The economists and experts who run the central bank seek to maintain the value of the state's currency by limiting the amount of money printed and not allowing high inflation
            1. Central bank managers try to run the bank in the national interest
        iii. They are constrained by the limited share of world money they own and most wealth is controlled by private banks and corporations
            1. Central bank decisions about the discount rate have important international consequences. If interest rates are higher in one state than in another, foreign capital tends to be attracted to the state with the higher rate. And if economic growth is high in a foreign country, more goods can be exported to it.
4. The World Bank and the IMF
    a. The Bretton Woods system was adopted at a conference of the winning states in 1944
        i. The World Bank is a source of loans to reconstruct the Western European economies after the war and to help states through future financial difficulties
        ii. The World Bank is linked with the International Monetary Fund and coordinates international currency exchange, the balance of international payments, and national accounts
            1. The IMF continue to be the pillars of the international financial system
            2. The currency markets opened within a narrow range around the fixed rate
            3. A currency fell more than 1 percent from the fixed rate, the country had to use its hard-currency reserves to buy its own currency back and thus shore up the price
                a. The price rose more than 1 percent
        iii. To replace gold the IMF created the Special Drawing Right, paper gold, because it is created in limited amounts by the IMF
            1. When one currency rises, another falls, the SDR does not change value much but if all currencies rise, the SDR rises with them
            2. The major national currencies have been governed by the managed float system
5. State Financial Positions

a. The IMF maintains a system of national accounts statistics to keep track of the overall monetary position
    i. A state's balance of payments is the financial statement of a company
    ii. It summarizes all the flows of money in and out of the country and itself is technical and not political in nature
        1. The current account
        2. Flows of capital
        3. Changes in reserves
    iii. The current account is basically the balance of trade, the goods imported or exported include both merchandise and services
    iv. Capital flows are foreign investments in, and by, a country
        1. They are measured in net terms, the total investments and loans foreigners make in a country minus the investments and loans that country's companie, citizens, and government invest in other countries.
        2. Most of such investment is private and are divided into foreign direct investment such as owning a factory, company, or real estate, and indirect portfolio investment
    v. Changes in foreign exchange reserves makes the national accounts balance
        1. Difference between the inflows and outflows and is made up by an equal but opposite change in reserves
        2. They consist of the state's purchases and sales of SDRs, gold, and hard currencies other than its own, and changes in its deposits with the IMF
        3. A state has more money flowing out than in, it gets that money from its reserves
b. International debt contain standing wealth, the reserves owned by governments are one form of standing wealth, but not the most important
    i. Capitals goods are products that can be used as inputs for further production
    ii. Standing wealth creates new wealth, so the economy tends to grow over time.
        1. As it grows, more standing wealth is created and money makes more money
        2. Interest rates reflect this inherent growth dynamic and real interest rates are the rates for borrowing money above and beyond the rate of inflation.
    iii. If the state's economy is healthy, it can borrow money from foreign governments, banks, or companies and create enough new wealth to repay the debts a few years later
        1. A state or business can create wealth again and overtime pay back the principal on its debts to climb out of the hole.

            2. Failure to repay debts make it hard to borrow in the future
    c. States go into debts mainly due to trade deficits or the income and consumption pattern among households and businesses
        i. If people and firms spend more than they take in, they must borrow to pay their bills
        ii. Another reason for national debt is government spending relative to taxation
            1. Under Keynesian economic governments sometimes spend more on programs than they take in from tax revenue, deficit spending, to stimulate economic growth
            2. If the strategy works, increased economic growth generates higher tax revenues to make up the deficit
        iii. Government decisions about spending and taxation are called fiscal policy; decisions about printing and circulating money are called monetary policy.
6. The multinational corporations (MNCs) are companies based in one state with affiliated branches or subsidiaries operating in other states
    a. Industrial corporations make goods in factories in various countries and sell them to businesses and consumers
    b. Financial corporations also operating multinationally, but usually with more restrictions
    c. The role of MNCs are complex and disputable as some see agents of their home national governments
        i. Resonates with mercantilism and economic activity serves political authorities
        ii. Some see it as citizens of the world beholden to no government
7. Foreign direct investment involves tangible goods such as factories and office buildings
    a. Paper can be traded on a global market relatively freely, but direct investments is long terms and not freely moved
    b. A state in which the MNC operates is called the host country and the headquarters is called its home country
        i. Dislike foreign policies