

Global 236 – The Global Economy¹
Winter 2015

Objectives: The course aims to deepen your understanding of the dilemmas that policy makers confront within a global economy, and of the politics that influence the choices they make. We will examine employment, industrial, trade, monetary, fiscal, exchange-rate, social-protection, redistributive, and environmental policies. Key themes are that a country's position in the global economy influences and is in turn influenced by domestic politics; that what a country produces significantly impacts its domestic and foreign political and economic prospects; that policy is driven as much by distributive politics as anything else; and that the global economy has a structure – there are inviolable constraints that tie outcomes in one economy to those in the rest of the world.

We will pursue learning outcomes involving knowledge and personal/professional growth. I hope that by the end of the course you will:

Knowledge:

1. Understand the difference between tautology and theory, know how to use tautologies to structure your thinking, and understand a bit better how theories are tested in a political-economy setting.
2. Be familiar with standard macroeconomic concepts, objects and measures (and their weaknesses, omissions, etc); as well as with key events and phenomena in economic history.
3. Be able to work with standard short-run economic models to intuit the possible effects of shocks and policies under different assumptions. Through these models you should better understand how different assumptions (and interests) underpin diverse political views on economic management.
4. Have a basic knowledge of competing explanations regarding sources of national prosperity.
5. Better understand how nations' economies, institutions, distributional features and politics are interconnected.

Personal/Professional Growth

1. Undertake a critical assessment of your own positions on macroeconomic policy and politics.
2. Be more comfortable with equations, graphs and deductive logic.
3. Have greater interest and confidence reading the economic policy section of the newspaper (and connecting it to headline stories).
4. Have confidence using macroeconomic data to tell a political / policy story.
5. Improve your capacity to produce a professional quality Powerpoint presentation.

¹Program Note: Economics is traditionally divided into microeconomics (which studies people, families, firms and industries); and macroeconomics (study of whole economies). Global processes typically operate at the meso level. They alter institutions and the compositional structure of economies, with effects on both micro and macro phenomena. If there is student interest, I will be offering Global 234 and 236 in alternate years. The former is rooted in micro and meso and the latter in meso and macro.

Approach: The course will proceed along two tracks in parallel: theory and “empirics”. By empirics, I simply mean articles that either illustrate or call into question the theories we are discussing. Each meeting we will cover one or two theoretical concepts in macroeconomics or political economy, and will discuss 1-3 empirical readings. You will study the economic concepts before class with the aid of online videos and quizzes. Homework assignments will help to firm up the theory, and build some skills.

A key device will be the use of accounting identities – simple, atheoretic relationships that govern the interdependence of key components of global and national economies. After making sure you understand these, we will review enough basic macroeconomic theory to be able to understand, from different perspectives, the likely effects of fiscal, monetary, exchange rate and debt forgiveness/repayment policy on elements of these identities. Third, with a clear understanding of the distributional effects of different policies, we will examine governments’ policy choices in order to better understand the political-economy forces that seem to drive them. The final assignment will include a professional report that connects a country’s domestic politics analytically to its economic structure, its institutions, and its position in the global economy.²

Requirements: Quizzes (25%), Homework (30%), Country Project (35%), Course Participation (10%).

- **Quizzes:** Complete before class on the date due. Access will automatically turn off when class begins. Quizzes test you on material taught in the previous video. Videos and quizzes will permit us to “flip” the classroom, leaving time for politics once you have studied the economics, and to go deeper.
- **Homework:** Work on this in groups of 2-3 students (students with good reasons can request the right to work alone), and turn in group assignments. 5 assignments of differing length@ 6% each. Due in class on the date listed. One late assignment permitted, no questions asked.
- **Final Project:** Work alone, or in pairs. Each group must pick a country. Study its political and economic circumstances. Follow political developments in the news (there is an app for that), read background reports, and study the country’s macroeconomic and trade accounts. I expect that you will understand the basic structure of its government (who governs, how they are selected, etc.), its geography (neighbors, ports, waterways, basic topography, important economic/political/cultural sites) and its basic history. Completing the Country Facts assignments laid out in the “Country Report Checklist” will help to keep you on track and to cover the basics. Then, prepare a 12 minute presentation (as a group) laying out how these things are connected. Your paper/presentation must have a thesis – a statement about the political economy of the country that can be checked – and must provide evidence supporting that thesis. It must use some of the theories and accounting identities we cover in the course, along with macroeconomic data (which you will put into charts and graphs as needed) to explain how the country is positioned in the global economy, and how this position relates to domestic and international political forces.

² This analysis might be useful for understanding the country/region in which you conduct your thesis study.

I strongly recommend you pick a country in Asia, as the data you need are already collected in one place – this will save you many hours of work. If you have an academic reason to study a non-Asian country, please talk to me about it, and we'll do a quick survey of the state of the data.

Grading of the country project will work as follows (numbers add up to 35):

- Country Facts assignments (10 points). One late submission accepted, no questions asked.
- Assessment of your individual familiarity with your country case study in group meetings (10 points). We will discuss your case study in detail at this meeting, which will occur around Week 9.
- Presentation (15 points). The final presentations will be held on **TBD (Friday, 10 June Noon?)**. Your presentation will be graded on content (are your empirical and theoretical arguments convincing and internally consistent?), the appropriate use of charts and graphs, the professionalism of your slides and delivery (dress neatly), and the quality of your writing.

Materials: Please obtain copies of Raghuram Rajan (2011) *Fault Lines: How Hidden Fractures Still Threaten the World Economy*, as well as Daron Acemogul & James A. Robinson (2012) *Why Nations Fail: The origins of power, prosperity and poverty*. All other readings will be posted on Gauchospace. In addition I expect you to keep abreast of major developments in the global economy by reading a newspaper that has trained economists on its staff. The Financial Times is the best option, but is prohibitively expensive for most of us. The Washington Post, New York Times, and The Wall Street Journal are US-Centric alternatives. The Economist magazine is a useful resource, and serves as an excellent example of how to write succinctly and clearly. All have obvious political biases.

Mathematics: This course will require you to utilize arithmetic, including addition, subtraction and basic calculations using fractions, decimals and percentages. You will also be required to read graphs, work with the equation for a straight line, and be able to find the intersection of two straight lines. I will not cover this material in class, but talk to me if it makes you nervous, and I will help you to find materials that will jog your memory and boost your confidence.

Pedagogical Approach: The course content is tightly managed, leaving relatively little time for digressions. If you have burning questions about something that does not relate directly to the topics or readings for the day, please bring it to office hours, ask me after class, or write to me and send me a relevant newspaper article or two so that I can address it properly. I believe strongly that *what you or I think is far less important pedagogically than how we think, and how we can make our own thinking more flexible and responsive to evidence of all sorts.* We will manage our time accordingly.

Date	Day	Session	Topics	Readings	Videos & Quizzes	Assignments due:
INTRODUCTORY MATERIAL						
28-Mar	M	Session 1	Intro, Themes	Frankfurt, Science Friday, Kindleberger (selection), FT (IMF criticises bailout deal), Roubini, Cat in the Hat Comes Back		
30-Mar	W	Session 2	Adam Smith, Rajan Ch. 1	Adam Smith (Intro & Plan of Work, Ch. I, II, III), WEO, Rajan Intro & Ch. 1	1	
4-Apr	M	Session 3	Goals of macro policy; monetary, fiscal & exchange rate policy redux	B&B Ch. 5, 6	2, 3, 4	
6-Apr	W	Session 4	Brief history of economic thought	B&B Ch. 5, 6, other worldly philosophers, JohnsonKwak Ch. 1	Leverage	
ACCOUNTING IDENTITIES AND IMBALANCES						
11-Apr	M	Session 5	Accounting identities	Course note on identities, B&B Ch. 8	5, 6, 7	Country Facts A, HW#1: Wealth of Nations
13-Apr	W	Session 6	Trade policy: ISI/EOI, Rajan Ch. 2	Atlas of Economic Complexity (selection), Taylor & Lybbert (p. 345-351)	8, 17	
18-Apr	M	Session 7	Financial consequences of imbalances: Chi	Rajan, Ch. 2, 3; Horioko & Terada-Hagiwara	8.5	Country Facts B
20-Apr	W	Session 8	Financial consequences of imbalances: Merica	Levine, Inside job, Bris, Stiglitz Freefall Ch. 4, Rajan Ch. 6, Seuss		
THE BALANCE OF PAYMENTS						
25-Apr	M	Session 9	BOP & X-rates 1	Colander, Ch. 32	7 (recap), 17, 18	Country Facts C
27-Apr	W	Session 10	BOP & X-rates 2	Colander, Ch. 32, Impossible Trinity		
2-May	M	Session 11	Case studies: East Asia (1997), Greece/Europe, USA (2007-today), Argentina (now), Venezuela (now)	Stiglitz (2003) Ch. 3; TBD		HW#2: Colander, Ch. 32
STRUCTURE, GROWTH AND DISTRIBUTION						
4-May	W	Session 12	Orthodox Trade Theory	K&W, Ch. 17		
9-May	M	Session 13	Sources of growth	Acemoglu Robinson (whole book), Rodrik (Ch.1), Atlas (reprise)		Country Facts D, HW#3: Orthdox Trade Theory

Date	Day	Session	Topics	Readings	Videos & Quizzes	Assignments due:
11-May	W	Session 14	Cost disease, Services Trilemma	Felipe et al.(selection), Baumol (p. 3-72), Iversen & Wren		
MACROECONOMICS IN THE SHORT RUN						
16-May	M	Session 15	Keynesian Model 1	Course note section A.1, B&B Ch. 8 & 182-183.	9, 10, 11	Country Facts E
18-May	W	Session 16	Keynesian Model 2	Course note section A.2-End; B&B, Ch. 9	12, 13	
23-May	M	Session 17	Keynesian Model 3	B&B, Ch. 9	14, 15, 16	HW#4: Basic Keynesian Equilibrium
25-May	W	Session 18	The stimulus controversies	Krugman, Barro, Stiglitz <i>Freefall</i> Ch. 3		
1-Jun	W	Session 19	Conclusions - the new economic world order?	Cohen		HW#5: Politics and Assumptions