

Global Economy (B01.2303.13 and .00)
Prof. Laura Veldkamp
Syllabus

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Course Description

This course is about the economic performance of countries. Why are some countries rich, and others poor? Why do poor countries sometimes catch up, and rich countries sometimes fall behind? Why do all countries experience variation in their growth rates? Why do countries occasionally experience financial panics or crises? These questions form the core of the field of macroeconomics. As we work our way through them, we will consider the impact on performance of saving and investment, productivity, capital and labor markets, legal and political institutions, monetary and fiscal policies, and international flows of goods and capital.

Our emphasis on the “global environment” will allow you to do your own country analysis: Is country X likely to do well? Is it a good investment opportunity? A promising location for production? A promising destination for your product? By the end of this course, you will be able to:

- (i) Comment intelligently on current global economic events and trends.
- (ii) Assess and critique the opinions of market analysts and journalists. Is their analysis based on sound theory? Is it supported by the data?
- (iii) Forecast future economic events and evaluate the prospects for profitable investment in countries around the globe.

Prerequisites

You are expected to be comfortable with basic economics, logarithms, and calculus.

Help

There may be times when you need help understanding class material. Office hours are minimal because there are few common times that are convenient with everyone's work schedules. Feel free to set up an appointment or stop by my office (KMC 7-77). I am happy to answer questions anytime. Also, make use of our outstanding TAs. They are friendly, knowledgeable and good at explaining economics. They'll be around before and after class and by appointment. I think you'll find them a valuable resource.

Course Materials

Notes, slides, and deliverables (see below) will be posted on blackboard. The course material consists of:

- Textbooks. We will use two required and one recommended book:
 - William Easterly, *The Elusive Quest for Growth* (MIT, 2001). (required)
 - Paul Krugman, *The Return of Depression Economics and the Crisis of 2008* (W.W. Norton, 2009). (required)
 - David Miles and Andrew Scott, *Macroeconomics* (Wiley, 2005). (recommended)

All are available in the bookstore – or buy them online, whichever you prefer. Any edition of the Miles and Scott textbook is fine. If you don't have the most up-to-date version, just look on blackboard for the correct chapter numbers for each topic. For the Krugman book, you should buy the 2009 edition because it discusses the recent global downturn.

- Articles. Throughout the semester, I'll post extra articles of interest. These are not required reading.
 - Slides. I will distribute the slides in a course pack on the first day of class. If you miss the distribution, I will put extras in a box outside my office. I will also post the files on blackboard.
 - Notes. For some sessions, I have prepared notes that explain technical material in more detail. They are posted on blackboard and included in the course pack.
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Deliverables and Grades

The various “deliverables” in the course are designed to develop different skills:

- Class participation. It’s important to integrate what you learn and be able to express it effectively. Your participation grade will be based on the quality (not quantity) of your contributions to class sessions.
- Written assignments. Apply the tools learned in class to analyze data in business-relevant situations. You may work in groups, but you are not required to. If you work in a group, turn in one copy of the assignment for the whole group. See the class calendar for due dates.
- Group presentations. The idea is to apply economic principles to a real problem and hone your communication skills.
- Quizzes. Quizzes are on-line on blackboard. They will take place almost every week, with the exception of the first week and exam weeks. Dates are noted on the calendar below. The intent of the quizzes is to encourage each student to do the assigned reading and review previous course material before class. This will avoid the problem of poorly prepared students wasting in-class time for well-prepared students. If you are out of town or have a technical problem, you cannot make the quiz up. However, you get 2 free passes: I will drop the lowest 2 quiz grades at the end of the class.
- Exams. There will be two exams. Their content will be similar to the quizzes and review questions on blackboard. Practice exams will also be posted. The midterm date is noted on the syllabus. **The final exam is on the last scheduled class date.** Please plan to be here on these days.

Your grade for the course will be based on your performance on all of these deliverables, weighted as follows:

Class Participation	10%
Written Assignments	10%
Group Presentation	10%
Quizzes	10%
Midterm Exam	25%
Final Exam	35%

Final grades will follow the School’s guideline for core courses: no more than 35% of the class will receive an A or A-. This guideline was instituted to address student concerns that different sections of a course might be graded by different standards.

Honor Code

We in the Stern community believe that honesty and integrity are necessary for a rewarding educational experience. These qualities form the basis for the strong trust among members of the community (students, faculty, and administrators) that is essential for educational excellence. The Honor Code requires that each student to act with integrity in all academic activities and to hold his or her peers to the same standard.

In this course, you may discuss assignments with anyone – in fact, we encourage it — but any written assignments or presentations should be the work of your group. Quizzes should be done by yourself. On exams, you may bring in and consult one piece of paper with anything on it you like (standard paper size, both sides), but your answers should be entirely your own work.

We also hold ourselves to a high standard of professional behavior. Accordingly, lateness, using cell phones, holding private conversations, and indeed any behavior that disrupts me or your colleagues will be considered inappropriate. Repeated violations of this standard may affect your participation grade.

**Global Economy (B01.2303):
Outline and Calendar****A. Measuring Economic Performance****Session 1 (September 24, 26).**

Introduction and overview. Why are some countries rich, and others poor? Are the poor catching up? Why does economic performance vary so much over time?

Measuring output. Value added, output of firms and countries, growth rates and logarithms.

Read before class: Easterly (ch 1), handout #2 on measurement.

Recommended Reading: Miles and Scott (ch 2).

B. Growth: Long-Run Economic Performance**Session 2 (October 1, 3).**

A model of growth. Solow's model, production functions (inputs and outputs), saving and investment, diminishing marginal returns.

Read before class: Easterly (ch.s 2, 3).

Recommended Reading: Miles and Scott (ch 4, skip 4.7).

Session 3 (October 8, 10).

Sources of growth: Technology and institutions. Using technology to promote growth. Development traps. What are the keys to sustained growth? Do markets for technology work?

Read before class: Easterly (ch 8, 9), handout #3 on growth rates.

Recommended Reading: Miles and Scott (ch 5.3-5.5).

Group Presentations: 1. Taiwan and Mauritius: Choosing a road to growth.

2. India vs. China: Which will grow faster?

Take on-line before class: Quiz #1 - Covers Easterly reading (ch.s 1-3,8-9), handout #3, and material from classes 1 and 2.

C. Trade

Session 4 (October 15, 17).

Consequences of globalization. Comparative advantage. Who gains from trade, who loses? Productivity and jobs. Gains from specialization, political economy of trade.

Recommended Reading: Miles and Scott (ch 8.1-8.2, 8.8).

Group Presentations: 1. De-globalization: The recent collapse of world trade
2. The world trade organization (WTO) and the future of trade negotiations.

Due at the start of class: Assignment 1: Growth Forecast.

Take on-line before class: Quiz #2 - Covers material in class 3.

Session 5 (October 22, 24).

Trade deficits and government deficits. Trade deficit and current account balance. Government deficits and debt sustainability.

Read before class: Easterly (ch 7).

Recommended Reading: Miles and Scott (ch 19.4)

Group Presentations: 1. Is the US trade deficit an anchor on the US economy? (2 groups).

2. Is the US government debt sustainable?

Take on-line before class: Quiz #3 - Covers Easterly ch.7 and material in class 4.

Session 6 (October 29, 31).

Summary and review. We'll review in the first half. Come with questions.

Do before class: Practice midterm examination.

Midterm examination. Same format as the practice exam. You may consult one page of notes (a standard-size piece of paper with anything on it you like, both sides) and a calculator.

D. Business Cycles: Short-Term Economic Performance

Session 7 (November 5, 7).

Business cycles. Properties of business cycles, leading indicators, forecasting, theories of business cycles.

Recommended reading: Handout on business cycles, Miles and Scott (ch 14.1-14.4, 14.6-14.8, 16.3-16.4).

Session 8 (November 12, 14).

Money and prices. Banks and the money supply, liquidity traps, Japan's banking woes, velocity, expectations-driven inflation, hyperinflation, disinflation.

Read before class: Krugman introduction, ch.s 1 and 3

Recommended reading: Handout on money, Miles and Scott (ch 11.1-11.9, 15.6-15.10).

Group Presentation: Israel's hyperinflation: Lessons for successful reform.

Take on-line before class: Quiz #4 - Covers Krugman reading and class 7.

E. Exchange Rates and International Capital Flows

Session 9 (November 19, 21).

Exchange rates. How are currencies traded? Real exchange rates, purchasing power parity. What fundamentals determine exchange rates?

Read before class: Krugman ch.s 7-9.

Recommended reading: Miles and Scott (ch 19.1-19.3, 20.8).

Group Presentation: Is the US credit crisis similar to the Swedish banking crisis?

Due at the start of class: Assignment 2: Business cycle forecasting.

Take on-line before class: Quiz #5 - Covers Krugman reading and class 8.

Session 10 (December 3, 5).

Fixed exchange rate regimes. How do the effects of fiscal and monetary policy change when exchange rates are fixed or flexible? Optimal monetary unions. Speculative currency attacks.

Read before class: Krugman ch. 5.

Recommended reading: Handout on business cycles in an open economy, Miles and Scott (ch 20.3-20.7, 21.1-21.5).

Group Presentation: 1. Should Poland adopt the Euro?

2. Which country is ripe for a speculative attack?

Take on-line before class: Quiz #6 - Covers Krugman reading and class 9.

Session 11 (December 10, 12).

Financial and economic crises. Debt default. How are exchange rate crises, debt crises, and growth disasters related to each other? Argentina's economic implosion.

Read before class: Krugman ch.s 2 and 4.

Recommended reading: Miles and Scott (ch 10.6-10.8, 21.7-21.9).

Group Presentation: Should Ben Bernanke be re-appointed as chairman of the Federal Reserve? (1-2 groups)

Take on-line before class: Quiz #7 - Covers Krugman reading and class 10.

Session 12 (December 17, 19).

Final examination. Same format as the practice exam, similar to quizzes. You may consult one page of notes (a standard-size piece of paper with anything on it you like, both sides) and a calculator.
