

August 5, 2009

NEW YORK UNIVERSITY
Stern School of Business

C30.0011 Economics of Global Business

Fall 2009

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Office hours: Mon. and Wed. 1:30-3:00 and by appointment

The objective of this course is to provide future decision-makers with a systematic understanding of critical aspects of the global business environment. We start with the basic workings of the macro economy and then explain the role of international trade and finance. We examine how the forces of globalization affect international business and the careers of Stern students. The challenges presented by the financial crisis and the prospects for economic development are discussed.

The course is divided into three parts:

- ***Part I Trade and trade policy.*** As international trade plays a central role in fostering globalization, we start with an examination of the economics of international trade in goods and services. We examine the role of comparative advantage as a determinant of the location of production and the direction of trade. We also examine the reasons for and effects of government policies that create impediments to international trade. Trade policy is an enormously important issue in the contemporary world and we will discuss efforts to reduce trade barriers.
- ***Part II Understanding the modern macro economy.*** An understanding of the modern macro economy is an essential part of the economic relationships among countries. We start with the way economists measure economic performance and introduce key terms such as inflation, growth and unemployment. We examine how the economy grows in the long term and the role of productivity. We also examine the business cycle and how fiscal and monetary policies affect the economy in the short run and long run. Finally, we explore the role of banks and central banks.
- ***Part III - Exchange rates, international finance, crises and development*** The final module addresses the role of money and finance in an international context. We start with the role of exchange rates in international finance. We explore the factors that determine exchange rates such as inflation, growth and interest rates. Foreign exchange markets, including the use of forward markets and other derivatives for hedging, are examined. Government exchange rate policies and the choice between fixed and flexible exchange rates are examined, as well as the use of exchange controls. International

financial crises are examined. We also examine economic development and the role of international institutions such as the IMF and the World Bank.

In short, *Economics of Global Business* provides Stern students with an overview of global economic issues. It serves as the basis for the *International Studies Project* and is a prerequisite for many elective courses in international business and economics.

The prerequisite for this course is C30.0001 *Microeconomics*.

COURSE MATERIALS

Printed copies of both texts are available at the book store. Digital copies of the chapters assigned can also be purchased on line – detailed instructions to follow.

Thomas Pugel. *International Economics*, 14th edition, McGraw-Hill Irwin, 2009.
(Abbreviated TP)

Students with the 13th edition will be able to manage satisfactorily because the overall organization and chapter structure is unchanged. The theoretical sections are the same although chapter 6 has been extensively rewritten (it is better now). Discussions of the environment, financial crises, the IMF, the WTO and some other recent policy issues have been updated and revised. Students should carefully compare the chapter contents in these instances. The detailed table of contents from each edition will be on Blackboard.

Robert Hall and Marc Lieberman, *Macroeconomics for NYU Stern School of Business*, Cengage Learning, 2008. This is selected chapters from Hall and Lieberman, *Macroeconomics*, 4th edition. (Abbreviated HL)

Every student should keep up with current developments in the international business environment by regularly reading the financial press. You should be a regular reader of at least ONE of the following -- *Financial Times*, *Wall Street Journal*, or *Economist*. Student subscription prices are available for all.

Additional required readings will be available on Blackboard either as files that can be downloaded or as links to library materials.

BLACKBOARD

The Blackboard site will be an important resource for the class and you should check the announcements on the site every few days. All class handouts – including lecture slides, assignments, problem sets, answers, etc. will be on the site. Supplementary readings will be on Blackboard as files or as links.

TEACHING APPROACH

The most important personality characteristic that you will need in your career in the new global economy is the ability to continuously learn new skills and techniques. With this in mind, the course design relies on your ability to learn on your own. We will not try to teach everything in international economics but instead attempt to guide you as you learn it by yourself. In order for this process to succeed, it is essential that you keep up with the assigned reading. The class discussion will focus on the concepts that are most challenging and will reinforce and extend what is in the readings.

From time to time, I will announce (in class and via email) that there will be a class discussion on a specific reading or article that will be made available. When a discussion is announced, I will feel free to call on students at random and I will expect everyone to be present and to be prepared to participate.

It is important to develop the ability to use and apply the concepts and the best way to do this is to practice actively outside of class. Homework assignments / problem sets will be assigned. You are expected to submit them on time if requested. Answers will be posted on Blackboard.

Finally, our subject is always timely and you will find that the newspapers are full of topics that we will be discussing. I encourage you to bring such things to my attention as we will discuss current news items in class regularly.

RESPONSIBILITIES

Finally, we should all be aware of our responsibilities to the class and to each other. Specifically,

- As a teacher, I have the responsibility to organize and present the material in a way that facilitates your learning. I will try my best to make this happen.
- As a student, you have a responsibility to facilitate learning by keeping up with all reading assignments and class activities. Further, students are expected to attend class and to be prepared for class. Recruiting activities are not acceptable reasons for absence.
- Students should be aware of and adhere to the Stern Code of Conduct (<http://www.stern.nyu.edu/uc/codeofconduct>)
- No lying, cheating or plagiarism will be tolerated. Any suspected violations will be immediately referred to the Stern discipline committee.
- I will make every effort to begin classes on time and end on time as well. Thus, I expect you to arrive on time since late arrivals are very disruptive.
- Any action in the classroom that has a negative effect on others or on the learning environment will not be tolerated. Specifically,
 - Use of PCs, smart phones, cell phones, etc. is not allowed under any circumstances.
 - Dining in the class room is not allowed though you may bring in a coffee or other drink.

If you have a qualified disability and will require academic accommodation during this course, please contact the Moses Center for Students with Disabilities and provide me with a letter from them verifying your registration and outlining the accommodations they recommend

TEACHING ASSISTANT

Questions about class materials, assignments, etc. should be directed to the teaching assistant. In addition the assistant will have office hours that will be posted on Blackboard and will also be available by appointment. The teaching assistant for both section .02 and .03 is:

Christopher Weng

Christopher.weng@stern.nyu.edu

GRADING

The course grade will be based on the following items:

First exam	25%
Second exam	25%
Final exam	40%
Class participation	10%

In order to ensure fair and consistent evaluation of all students, grading will be guided by the Stern Grading Guidelines for the Core Courses at the Undergraduate College. That is, A's will be given for excellent work (25-35% of the class), B's for good or very good work (50-70%) and C's or below for work that is no more than adequate (5-15%).

KEY DATES

No class – Monday Sept. 28

Exam I – October 12

Exam II – November 16

Final Exam – Wednesday, December 23, 10:00-11:50

This is not a regular class session; it is a common exam time for all EGB sections. However, it is not a common exam. Location for the final will be announced.

A study guide will be distributed approximately one week before each exam which will include topics covered, practice questions and sample questions.

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Class Outline

Part I – Trade and trade policy

Class 1 – September 9

Introduction: Globalization and performance of national economies.

READINGS:

TP chapter 1 and for a review of basics, chapter 2

Ben S. Bernanke, *Global Economic Integration: What's New and What's Not?*

August 25, 2006

Globalization: The Story behind the Numbers, *IMF Finance & Development*,
March 2002.

Classes 2 - 4 – September 14, 16, 21

Why do countries trade?

READINGS:

TP chapters 3 to 7

Classes 5 -6 – September 23, 30

How governments restrain trade and why

READINGS

TP chapters 8 and 9

Edward Gresser, *Toughest on the Poor: America's Flawed Tariff System*, *Foreign Affairs*

Class 7- 8 – October 5, 7

Protectionism and the future of trade

READINGS

TP chapters 10 to 14

BB postings on dumping and on NAFTA

Class 9 – October 12 -- **Exam I**

Part II – Understanding the Modern Macro economy

Classes 10 -11 – October 14, 19` **Macroeconomics and measurement**

READINGS:

HL chapters 4 to 6

Classes 12 – 13 – October 21, 26

The economy in the long run

READINGS:

HL chapters 7 and 8

Classes 14 – 15 —October 28, November 2

Fluctuations and policy for the short run

READINGS:

HL chapters 9 and 10

Classes 16 – 17 – November 4, 9

Money and monetary policy

READINGS:

HL chapter 11 and 12

Class 18 – November 11

Putting it all together and prospects for the US economy

READINGS

HL chapter 13

Class 19 – November 16—**Exam II**

Part III – International finance and policy

Class 20 – November 18

Balance of payments

READINGS

TP chapter 16

M. Higgins and T. Klitgaard, [Viewing the Current Account Deficit as a Capital Inflow](#), NY Fed, Dec. 1998.

Classes 21 – 22 – November 23, 25

Exchange rates, interest rates and inflation

READINGS

TP chapters 17 to 19

The Economist's, [Big Mac Index](#)

Classes 23 - 24 -- November 30, December 2

Exchange rate regimes and policies

READINGS

TP chapter 20 and 25

Class 25 -- December 7

International financial institutions and financial crises

READINGS

TP chapter 21

Classes 26 - 27 -- December 9, 14

International Macroeconomics: policy in the open economy

READINGS

TP sections of chapters 22-24

Final Exam -- December 23, 10:00-11:50