

THE GLOBAL ECONOMY
B01.2303.85
Stern Lehman MBA Alliance – Group 6

January – April 2008

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The Global Economy provides a framework for understanding and analyzing the causes and consequences of domestic and international macroeconomic events. The objective of this course is to provide decision-makers with a systematic understanding of critical aspects of the international business environment. We examine the forces driving toward globalization—the integration of national business activities into globally competitive markets. We also examine forces that maintain differences between countries and regions. The class provides a framework for examining and explaining the major economic issues facing both the United States and the global economy. Class discussions will provide opportunity to discuss contemporary issues.

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TEXT AND OTHER MATERIAL:

David Miles and Andrew Scott, *Macroeconomics and the Global Business Environment*, 2nd ed., 2005. (M&S)

Joseph Stiglitz, *Making Globalization Work*, 2005

Paul Blustein, *The Chastening*, 2003.

Additional materials will be distributed by email or in class and/or posted on the Blackboard web site.

Students will be expected to keep up to date with current macroeconomic events by reading at least one of the following regularly: *Wall Street Journal*, *Financial Times* or *The Economist*.

The RGE Monitor – the renowned Roubini Global Economics data and information source maintained by Stern's Prof. Nouriel Roubini – is a useful resource for finding information for the presentations. It is available to all Stern students. To register for it, you need to use a campus computer; the registration screen will allow free registration as long as a valid NYU email address is used for registration. After registration, RGE can be accessed from any computer with your username and password.

<http://www.rgemonitor.com/>

Lehman's own *Global Weekly Economic Monitor* and other economics publications are often worth a look. You should know how to get hold of these.

COURSE REQUIREMENTS:

1. Assignment due February 1st – **Essay** on Stiglitz book. See the description.
2. Group **data report**: Each study group will make a 5-10 minute presentation during the intensive week on data announcements that will be taking place in January. See the description and make sure that you are prepared.
3. Group **presentation and paper**: Each study group is required to make a 30 minute class presentation and prepare an evaluative paper. Topics will be chosen at the first class and presentations will begin on February 6th. See the full description of this assignment.
4. Three 20 minute **quizzes**.
5. Additional short written assignments and homeworks.
6. Class discussions of cases, current events or of an article distributed in advance will be announced. Students will be expected to participate in the discussion if called upon.

COURSE SCHEDULE

1. January 28 PM	Data report Study Group #5
2. January 29 AM	Data report Study Group #4
3. January 30 PM	Data report Study Group #1
4. January 31 AM	Data report Study Group #3
5. February 1 AM	Data report Study Group #2 Assignment on Stiglitz
6. February 6	Quiz 1 - Trade Presentation Study Group #4
7. February 20	Presentation Study Group #5
8. March 5	Quiz 2 – Growth and productivity Presentation Study Group #1
9. March 19	Presentation Study Group #2 Assignment on Blustein Discussion of March 18 FOMC meeting
10. April 2	Presentation Study Group #3 Quiz 3 - Final

Assignment due Feb. 1 – Essay on Stiglitz's book

“Making Globalization Work” addresses a large number of macro and micro issues that Joe Stiglitz finds problematic. That is aspects of globalization with outcomes that are not entirely wonderful. We will spend much of the course touting the benefits of globalization but we should know our limits. So, I would like you to read this book before we start classes – it also serves as an excellent introduction to our subject and will hopefully motivate your interest.

The assignment for Feb. 1st is simple. Pick one of Stiglitz's problems with globalization and one solution or response to that problem that is suggested. In a 2 page (double or 1½ spacing, 2 page absolute maximum, no exceptions) essay provide a clear statement of the problem and the solution. You should explain how the solution addresses the problem. Feel free to disagree – Stiglitz may not always be right.

Data Report: Is the recession of 2008 underway?

During our intensive class week, January 28-February 1, each study group will make a short (5-10 minute presentation) on some recent data announcements. The study groups have been assigned randomly as follows.

Assignments for data reports

Study group	Date	Announcements	Day of announcement
#5	Mon. Jan. 28	Employment situation	Jan. 4
#4	Tues, Jan, 29	Manufacturer's Shipments, Inventories and Orders	Jan. 3
#1	Wed. Jan. 30	Industrial production and capacity utilization	Jan. 16
#3	Thurs. Jan. 31	Producer Prices Consumer Prices	Jan. 15 Jan. 16
#2	Fri. Feb. 1	Advanced retail sales Business inventories	Jan. 15 Jan. 15

To prepare you can go the data announcement calendar at the NY Fed web site and follow the links associated with your announcement:

http://www.newyorkfed.org/research/national_economy/nationalecon_cal.html

You can also look for some charts at the same site:

http://www.newyorkfed.org/research/national_economy/nationalindicators.html

You can do this in advance of the announcement date to see what happened last month and to learn about the data. Also, data are presented and discussed in *Lehman's Global Weekly Economic Monitor*. Finally, newspaper articles and other web sources can provide more information.

Your report should include the following:

- Describe the information announced. What does it tell us?
- What are the new data announced? Provide some perspective that helps us interpret the number.
- Tell us whether the new information is surprising and / or important.

A few PowerPoint slides might be helpful in order to show the data to the class. No written report is required.

Group Presentations and Paper

Each study group is required to make a class presentation. I have assigned dates randomly for each study group. (Changes are allowed by mutual agreement.) Topics for the presentations are listed below. Although there are more topics than groups, make your choice as soon as possible since some might be more popular than others. To reserve a topic send me an email with your choice and be sure that all group members are copied on the email.

The assignment consists of the following parts:

1. Presentation to be emailed to pwachtel@stern.nyu.edu the **day before** the presentation. (In addition, I will be glad to look at and comment on earlier submissions.) The presentation will be posted and you should make copies for the class.
2. **At least one** day before the presentation, provide Prof. W. with one suggested reading for the class. A web address or a file is best but a Xerox copy will do as well. The reading will be provided to the whole class and everyone will be expected to be familiar with it (at the presentation and at the final exam too). So, if you provide a dense treatise of several hundred pages, you will have to deal with the enmity of your colleagues. A clear, informative and provocative article will be best.
3. In class the presentation should last about 30 minutes including time for Q and A. (Be sure to provide enough information to start and provoke class discussion.)

Presentation topics / questions

1. Is China's current account surplus sustainable? Is it food for the Chinese economy? Will the rest of the world continue absorbing Chinese goods? Can China continue accumulating foreign exchange reserves?
2. Is it time for a change in fiscal policy? Has the fiscal policy of the Bush administration been reckless? Is it time for a short term fiscal stimulus? How do you balance the long term recklessness with a short term stimulus?
3. The US unemployment rate is consistently lower than in Europe and the US productivity growth rate is consistently higher. Why is this so and will it continue for another decade?
4. The EU now extends from Bulgaria to Ireland and from Finland to Portugal and all new member states are slated to adopt the Euro. Is all this expansion a good idea? Should the EU continue to expand? Are there logical limits on the Euro area?
5. The IMF was created after World War II for a world with fixed exchange rates and limited capital mobility. What was its role in the 'Bretton Woods era'? What is the role of the IMF today in a world where exchange rates are largely market determined and capital markets are open and active?
6. Banks and other financial institutions around the world are drowning from years of poor lending standards and ill conceived securitization, particularly in the US mortgage markets. The Fed, the Bank of England and the ECB seem to be quite willing to provide additional liquidity to the financial system. Does that solve the problem?
7. Argentina has bounced from economic crisis to economic crisis for as long as anyone can remember. How did it successfully get rid of hyperinflation at the start of the 1990s? Why did the approach fail miserably after a decade? More recently, Argentina told the IMF to 'bug off' and succeeded. What did the IMF do wrong? Did Argentina get it right or is it just on the way to another crisis?
8. Japan has been suffering from low growth (if any) for over a decade and is still flirting with deflation. What is wrong with deflation? What are the structural problems and/or policy mistakes that have been so costly for Japan? (Remember, Japan of the 1980s was the growth miracle that was on its way to dominating the world economy and knocking the US off its pedestal, just like China today).

CLASS OUTLINE and READINGS

Class 1: January 28

Macro measurement

Reading: M&S chapters 1- 2 and 19.4
“Globalization: The Story Behind the Numbers,” IMF *Finance and Development*, March 2002.
A. Ghosh and U. Ramakrishnan, [Do Current Account Deficits Matter?](#) *Finance and Development*, Dec. 2006.
M. Higgins and T. Klitgaard, Viewing the Current Account Deficit as a Capital Inflow, NY Fed, Dec. 1998.

Class 2 and 3: January 29 and 30

Trade and globalization

Reading: M&S chapter 8 and 9
Edward Gresser, “Toughest on the Poor: America’s Flawed Tariff System,” *Foreign Affairs*, 2002

Class 4 and 5: January 31 and February 1

Understanding growth

Reading: M&S chapters 3-6

Class 6: February 6

Measurement, trade and growth: Wrap up and case discussions

Class 7: February 20

Business cycles, fiscal policy and government debt

Reading: M&S chapter 10, 14
Federal Reserve, Monetary Policy Report to Congress

Class 8: March 5

Money, central banks and monetary policy

Reading: M&S chapters 11, 15 and 16
Wachtel, Notes on Monetary Policy

Class 9: March 19

Exchange rates, prices and interest rates

Reading: M&S chapters 19-20

Class 10: April 2

Stabilization policy, exchange rate systems and currency crises

Reading: M&S chapters 21