

Global Economy (COR1-GB.2303)
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, at the level of firms and markets, and to be comfortable with single-variable algebra.

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 TA Troy. He is friendly, knowledgeable and good at explaining economics. He'll be around before and after class, in office hours and by appointment. I think you'll find him to be a valuable resource.

Course Materials

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

- Textbooks. We will use the NYU global economy book. I will distribute it free of charge on the first day. You can also download an electronic copy from Stern's Global Economy and Business Center website or at:

www.stern.nyu.edu/GEMatter

- 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 electronic files on blackboard.
 - Notes. For some sessions, I have prepared additional short 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.** Learning is not a spectator sport. A successful learning environment requires the collaboration of all classroom participants. Your participation grade will be based, in part, on the quality (not quantity) of your contributions to class sessions. But an equal weight will be given to non-verbal contributions to the classroom. These include providing thoughtful feedback on the class, evaluating others’ case debates in a careful way, emailing your TF articles relevant to the upcoming class that we can use for discussion, or being a team player in group assignments.
- **Forecasts.** 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.
- **Case debate.** Each person participates in one debate. The idea is to apply economic principles to a real problem and hone your communication skills.
- **Practice interviews.** Practice interview questions ask each class member to use what they have learned to answer a real interview question based on the material we have just learned. This is a written exercise. Interviews are distributed and answered in class. They are graded in order to encourage each student to review course material and keep up with the class, but only with a check plus/minus grading system. This exercise gives everyone practice synthesizing what they’ve learned in an articulate way. Since we will discuss questions after the answers are collected, you cannot make up interviews for illness, travel or family emergencies. However, I do understand that emergencies happen. So, everyone gets 2 free passes: I will drop the lowest 2 interview grades at the end of the class.
- **Exams.** There will be two exams. Their content will be similar to the past exams posted on blackboard, with a caveat: The course content shifts slightly each year to reflect current events. A few old questions will cover topics I will not teach this year. The exam dates are noted on the syllabus. Please plan to be here on exam days.

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

Class Participation	5%
Forecasts	15%
Case Debate	15%
Practice interviews	10%
First Exam	25%
Second Exam	30%

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 collective work of your group. 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 will affect your participation grade.

Finally, **I do not allow the use of laptops or tablets** in the classroom. I realize that writing with pencil and paper is out-of-date. However, research on classroom learning has shown that use of laptops, even for typing notes, impedes information retention. Most importantly, even responsible laptop use is distracting to your fellow classmates.

Global Economy (B01.2303): Outline and Calendar

A. Measuring Economic Performance

Topic 1 (February 2, 4).

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: Global Economy ch.s 1-3.

Recommended (optional) Reading: See learning resources section of blackboard and the end of each chapter in Global Economy book for all recommended reading.

B. Growth: Long-Run Economic Performance

Topic 2 (February 9, 11).

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

Read before class: Global Economy ch.s 4-5

Topic 3 (February 16, 18).

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: Global Economy ch. 6

C. Long-Run Flows of Goods and Capital

Topic 4 (February 23, 25).

Trade and international capital flows. Why does capital flow from some countries and to others? Trade deficit and current account balance. Why are these significant?

Read before class: Global Economy ch.s 9.1, 9.3-9.5

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

Topic 5 (March 1, 3, 8).

Government deficits and debt crises. Government deficits, debt default and debt sustainability. Review.

Read before class: Global Economy ch. 17

Midterm examination, March 10. Similar to the practice exams on NYU classes. 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**Topic 6 (March 22, 24).**

Business cycles. Properties and theories, leading indicators, forecasting, secular stagnation.

Read before class: Global Economy ch.s 10-11 and executive summary on business cycles.

Topic 7 (March 29, 31).

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

Read before class: Global Economy ch. 12 and executive summary on money.

Topic 8 (April 5, 7).

Monetary and fiscal policy, banking crises. Conventional and unconventional monetary policy, quantitative easing. 2008 financial crisis, bank runs. Fiscal policy, stimulus and bank bailouts.

Read before class: Global Economy ch. 15

E. Exchange Rates and International Capital Flows**Topic 9 (April 12, 14).**

Exchange rates. Real exchange rates, purchasing power parity. What fundamentals determine exchange rates?

Read before class: Global Economy ch. 18

Topic 10 (April 19, 21, 26).

Fixed exchange rate regimes. How do the effects of fiscal and monetary policy change when exchange rates are fixed or flexible? Optimal monetary unions. The Euro zone. Runs on currencies and debt.

Read before class: Global Economy ch. 19-20, executive summary on exchange rates and macro policy.

Second Exam, April 28. Similar to the practice exams on NYU classes. You may consult one page of notes (a standard-size piece of paper with anything on it you like, both sides) and a calculator.

Topic 11 (May 3).

Macro-Forecasting

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

Topic 12 (May 5).

Class Wrap-Up Greece and Argentina. Economic implosions and future prospects.

May 15

Case debate write-up due
