

# **Economics of Global Business**

## **C30.0011 Section 002**

Fall 2008 / Room: Tisch, UC52  
Monday/Wednesday:  
11:00am-12:15pm  
Office Hours: Wed. 2.00pm - 4.00pm

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### **COURSE GOALS**

The objective of this course is to provide future decision-makers with a systematic understanding of critical aspects of the international business environment, especially the roles of international trade, finance and investment. We also examine how the forces of globalization affect international business (and your future careers) as well as the challenges of economic development.

### **COURSE STRUCTURE**

The course is divided into three main sections or modules:

I. The first module looks at the economics of international trade in goods and services. International trade is a key driver of global integration. We examine the role of comparative advantage as a determinant of the location of production and compare it to other theories of trade. We look at how trade creates economic winners and losers, government policies with respect to trade, and the impact of those policies. Lastly, we examine whether trade, by creating a race to the bottom effect, is harming the environment.

Students should be able to answer/understand the following questions/concepts:

- What are the economic advantages of trade? (Why do states specialize economically?)
- What are the economic effects and distributive consequences of trade, especially for workers?
- What are the economic arguments for intra-industry trade?
- What are the effects of tariffs and non-tariff barriers to trade?
- What are the economic arguments for and against protectionism?
- What are the political causes of protectionism?

II. The second module looks at issues in the modern macro-economy. Students are introduced to how economists measure the economy and key macroeconomic terms (for example, how we define and measure economic growth, inflation, and unemployment). We examine how the economy grows in the short and long run, the role of productivity and impact of the business cycle. We also explore the role of money, inflation and banking.

Students should be able to answer/understand the following questions/concepts:

- What do terms like GDP, CPI or durable goods measures quoted in the newspapers measure?
- What are the long-term sources of economic growth and why is productivity so important to economists?
- How do we define a recession or recovery?
- Who counts in unemployment figures?
- What monetary and fiscal policies do countries have to manage the business cycle?
- What is inflation and why does it matter?
- How do banks matter for the modern economy?
- Why is money valuable and how do governments decide how much to print?

III. The final module of the course surveys the role of money and finance in the world today. Specifically, we examine the role of foreign exchange in global finance. We show how the foreign exchange market can be used to hedge risk or to speculate and we develop some key principles of international financial investment. We explore what factors affect the value of currencies. We also examine the role of government policies toward the foreign exchange market, including the choice between fixed and floating exchange rates, strategies to keep currencies under or overvalued, and the use of exchange controls to create impediments to currency flows. It also examines the different issues in the international business environment, including the nature of financial crises, the impact of globalization, the role of foreign investment and multinational firms and current debates on immigration and outsourcing. Students will also examine the problems of development and the role firms can play in fostering growth. This is both an ethical issue facing business (How can firms assist states?) as well as a practical one as developing markets are likely to be a key source of future growth (How can firms succeed in these markets?).

Students should be able to answer/understand the following questions/concepts:

- How do individuals, firms and states buy and sell currencies?
- What are the spot and forward exchange rates? (What are options, swaps and forwards?)
- What determines the value of currencies in the short and long runs? What is PPP?
- What choices do states have in setting their currencies? What tools do they employ?
- Why do financial crises occur? What are the warning signs? How can they be avoided?
- What different strategies for economic development have states pursued?
- What is globalization? How do current trends alter business today and your future career?
- How have government-business relationships changed due to globalization? What is the race to the bottom? Does it exist? Is globalization undermining the wages of workers?

In short, the course provides a survey of big-picture global issues. It also serves as the base for the International Studies Project course. In addition, C30.0011 is a prerequisite for several IB elective courses, including International Business Management, International Financial Management, and International Marketing Management.

### **COURSE MATERIALS**

Required textbooks: Thomas Pugel, *International Economics*, 13th edition, Irwin McGraw-Hill, 2006. (Abbreviated TP)  
Hall and Lieberman, *Macroeconomics*, 4th edition, Thomson Learning.

Other readings will also be posted on blackboard or with links for download from the library.

### **TEACHING PHILOSOPHY**

The course has two objectives.

1. The first objective is to teach you many of the fundamental concepts, theories and tools of international economics. Some of the information imparted will be quite specific and exams will test your ability to solve them as the problem sets at the end of the chapters of the textbook demonstrate. However, the true value of the course is in its ability to teach you fundamental concepts about international economics that you can put to use in your future careers. While exams will feature some problems similar to those found in class and in the text, they will also test your ability to explain, defend or criticize theories or concepts. You will find also that many international economic issues are subject to simplification, distortion or misunderstanding in media coverage. As informed observers, this class will equip you with the tools to analyze such issues, dispel myths and make informed decisions.

2. A second and equally important objective is to encourage critical thinking to aid you in your future business careers. Students are expected to dissect many leading debates of the day – Do free trade and offshoring lead to lower wages for workers? Is protectionism economically efficient and if not why do states resort to it? What strategies can countries employ to aid development? How can firms assist states in such endeavors while adding to their profitability? Business leaders maintain their firms' positions by applying their analytical reasoning skills to daily as well as strategic challenges. They are able to question conventional wisdoms other executives take for granted or apply common sense analysis to otherwise intractable problems. Even if students may not use all of the specific tools learned in this or other classes they take as part of their Stern education, the critical thinking skills imparted can last a lifetime. Students are expected to have done the readings prior to class. Before or after lectures, students can test themselves based on the problems at the end of the chapters or those used in the class. In some cases, class discussions will follow readings closely. In others, they will not. While solving these problems is a good test of your preparedness, please note that understanding the fundamental concepts is more important. Again, exams will contain a mixture of problem sets as well as essays and short answer questions discussing larger theoretical issues introduced in class. There will be short reviews and/or review sheets in class prior to each exam. I don't believe in surprises and try to communicate in advance what are the exact expectations for students on the exams.

There will be periodic handouts in class of interesting articles dealing with issues relevant to the course. It is also recommended that you keep up with current developments in the international business environment, both for class purposes and for your own benefit. You can do this by reading the relevant articles in a good newspaper (e.g., *Financial Times*, *Wall Street Journal*, *New York Times*) or weekly magazine (e.g., the *Economist*). You are encouraged to bring up current events for discussion in class.

## **COURSEWORK AND GRADING**

The course is designed to be challenging and stimulating without assuming a prior background in the field. Distribution of grades will be roughly as follows: 35% A grades, 60-50% B grades, 5-15% C grades or below. The actual distribution of grades varies somewhat by class, but this should serve as a good guide. Please note that ALL sections of EGB have a similar distribution to be fair to all students.

The course grade will be based on the following items:

First Quiz	30%
Second Quiz	30%
Final Exam	40%

The coverage and dates for the quizzes are:

First Quiz: Covers Part One, **MONDAY, October 6<sup>th</sup>**

Second Quiz: Covers Part Two, **WEDNESDAY, November 5<sup>th</sup>**

Final Exam: Covers Part Three, **FRIDAY, December 19, 10am-11:50am** [Note this date; room to be announced in class.]

## **TEACHING FELLOW**

The teaching fellow for the course is Mr Rakib Azad. His e-mail address is: [rakib.azad@stern.nyu.edu](mailto:rakib.azad@stern.nyu.edu). His office hours are: Wednesdays from 6 - 7 pm in Room 7-158A, KMC.

## **ACADEMIC INTEGRITY, LAPTOPS AND RECORDINGS**

Students are bound by the Stern Undergraduate Code of Conduct.

Students may only use laptops in class with the written permission of the instructor. I strongly prefer that you do not use your laptops in class as we receive many complaints every year from other students that find such laptop use disruptive. In particular, you should not be surfing the web, doing work for other courses or checking your email. Students also must receive the written permission of the instructor to use recording devices in class.

### **PART ONE: INTERNATIONAL TRADE IN GOODS AND SERVICES**

Class 1 / Sept 3rd

#### **Introduction – A Global World /OVERVIEW**

*Required Reading:* Ch. 1 from TP. pp. 1-12, Ch 3 from TP. pp. 31-46

*Reference:* Ch. 2 from TP (Supply-demand basics, interpreting trade graphs)

Class 2 / Sept 8th

#### **The Rationale for Trade – Comparative Advantage**

*Required Reading:* Ch 4 from TP. pp. 47-64.

Class 3 / Sept 10th

#### **The Effects of Trade – Winners and Losers**

*Required Reading:* Ch 5 from TP. pp. 65-86.

Class 4 / Sept 15th

#### **New Theories of Trade**

*Required Reading:* Ch 6 from TP. pp. 87-108.

Class 5 / Sept 17th

#### **Trade Policy: Tariffs**

*Required Reading:* Ch 8 from TP. pp. 129-146.

Class 6 / Sept 22nd

#### **Trade Policy: Non-Tariff Barriers**

*Required Reading:* Ch 9 from TP. pp. 147-178.

Class 7 / Sept 24th

#### **Arguments For and Against Protectionism**

*Required Reading:* Ch 10 from TP. pp. 179-208.

Class 8 / Sept 29th

#### **Dumping and Export Subsidies**

*Required Reading:* Ch 11 from TP. pp. 209-238.

Paul Krugman, "Competitiveness: A Dangerous Obsession," *Foreign Affairs*, March/April 1994, pp. 28-44.

## **PART TWO: ISSUES IN THE MODERN MACROECONOMY**

Class 9 / Oct 1st      **Introduction and National Income Accounts**  
*Required Reading:* Ch 4 and 5 from HL. pp. 89-136.

Class 10 / Oct 6th  
**FIRST QUIZ (Does NOT include Class 9)**

Class 11 / Oct 8th  
**National Income Accounts (Continued), Prices and Inflation**  
*Required Reading:* Ch 5 and 6 from HL. pp. 136-162.

Class 12 / Oct 15th  
**The Economy in the Long Run**  
*Required Reading:* Ch 7 from HL. pp. 163-194.

Class 13 / Oct 20th  
**Economic Growth**  
*Required Reading:* Ch 8 from HL. pp. 195-229.

Class 14 / Oct 22nd  
**The Economy in the Short Run**  
*Required Reading:* Ch 9 and 10 from HL. pp. 230-282.

Class 15 / Oct 27th  
**Money and Banking**  
*Required Reading:* Ch 11 and 12 from HL. pp. 283-340.

Class 16 / Oct 29th  
**Money and Banking II**  
*Required Reading:* Ch 13 from HL. pp. 341-372.

Class 17 / Nov 3rd  
**Aggregate Demand and Supply**  
*Required Reading:* Ch 13 from HL. pp. 341-372.

Class 18 / Nov 5th  
**SECOND QUIZ**

## **PART THREE: EXCHANGE RATES, CRISES, DEVELOPMENT AND GLOBALIZATION**

Class 19 / Nov 10th  
**Foreign Exchange and Investment**  
*Required Reading:* Ch. 16 from TP. pp. 357-374.

Class 20 / Nov 12th  
**The Foreign Exchange Market**  
*Required Reading:* Ch 17 from TP. pp. 375-390.

Class 21 / Nov 17th

**Foreign Exchange and Investment I (Futures, Options and Swaps)**

*Required Reading:* Ch 18 from TP. pp. 391-416.

Class 22 / Nov 19th

**The Determination of Exchange Rates and Purchasing Power Parity**

*Required Reading:* Ch 19 from TP. pp. 417-448.

Class 23 / Nov 24th

**Exchange Rate Policy Options I**

*Required Reading:* Ch 20 from TP. pp. 449-483.

Class 24 / Nov 26th

**Exchange Rate Policy Options II**

*Required Reading:* Ch 25 from TP. pp. 605-632 (also Manage the Float, pp. 597-9).  
Benn Steil, "The End of National Currency," *Foreign Affairs*, May/June 2007, pp. 83-96.

Class 25 / Dec 1st

**Financial Crises**

*Required Reading:* Ch 21 from TP. pp. 485-516 (also Euro-Crisis, pp. 566-8).

Class 26 / Dec 3rd

**Financial Crises II and The Challenges of Development**

*Required Reading:* Ch 14 from TP. pp. 295-318.  
Paul Krugman, *Foreign Affairs*, "The Myth of Asia's Miracle,"  
November/December 1994

Class 27 / Dec 8th

**Globalization - FDI, Multinational Corporations and Immigration**

*Required reading:* Ch 15 from TP, pp. 319-353.

Class 28 / Dec 10th

**Globalization – A New, Flat World?**

*Required Reading:* Ch 13 from TP. pp. 263-294.  
Thomas Friedman, "It's a Flat World, After All," *The New York Times Magazine*,  
April 3, 2005, p. 33.  
Dani Rodrik, "Sense and Nonsense in the Globalization Debate," *Foreign  
Policy*, Summer 1997.

**Semester Wrap-Up**

**FINAL EXAM, Friday, December 19 (10am to 11.50am)**

**Good Luck ☺**