



The Global Economy (Spring 2011)

Simon W. Bowmaker

Introduction

The *Global Economy* course systematically explores the international economic and financial environment within which business and financial institutions operate. It provides the concepts, relationships, and frameworks that we can use to better understand the performance of national economies and the interplay among national economies and financial markets. By the end of this course you will be able to:

- Comment intelligently on global economic events and trends.
- Analyze the macro-attractiveness of a country as a location for production, a market for products, or a destination for financial investment.
- Assess and critique the opinions offered by market analysts, journalists, and others about international economic and financial issues.

You will also expand your knowledge about the performance, history, institutions, and policies of various countries.

We will examine a broad range of questions about the global economy. Why are some countries rich and others poor? How can poor countries get rich? Should a country strive to be self-sufficient in most of the products that are consumed and used in the country? Are free trade areas almost as good as free trade? Do policies against dumping shield an importing country from unfair foreign trade practices? Why do the values of the exchange rates between the major currencies change so much? Would it be fun to be Ben Bernanke right now?

The course provides a survey of these big-picture global issues. It also serves as a solid base for further study of global business. Stern offers a selection of elective courses that go more deeply into topics that we may only touch on in *Global Economy*.

Simon Bowmaker's Background

I am from north-east England (born 1971 in Sunderland) and joined New York University Stern School of Business as a Visiting Assistant Professor of Economics in September 2007, and was appointed as a Clinical Associate Professor of Economics in September 2009. In addition to *The Global Economy*, I am teaching *Sports Economics* on the School's M.B.A. program and *Microeconomics, Sports Economics, Psychology and Economics, and Economics of Sex, Drugs and Rock 'n' Roll* on the undergraduate program.

My research interests include the economics of the family, drug policy, sport, and crime. These topics are featured in a book I compiled and edited, *Economics Uncut: A Complete Guide to Life, Death and Misadventure*. His forthcoming book, published by Edward Elgar Publishing in October 2010 is entitled, *The Heart of Teaching Economics: Lessons from Leading Minds*. I am currently working on a book entitled, *The Art and Practice of Economics Research: Lessons from Leading Minds*, which is a collection of interviews with leading economists from the US and Europe about their approaches to research.

Before joining NYU Stern, I taught for several years at the University of Edinburgh in Scotland and held Visiting Lectureships at several U.S. universities, including Florida State University, State University of New York at Buffalo, University of Colorado at Denver and Georgia Tech. I also taught economics at Queensland University of Technology in Australia. Prior to pursuing an academic career, I worked as U.K. Economist on the trading floor of HSBC Markets in London, and held economist positions at the British Government Economic Service and at Cambridge Econometrics, an economic forecasting and consultancy firm.

I received my MA in Economics (First Class Honours) from the University of Aberdeen, my MPhil in Economics from the University of Cambridge, and my PhD in Economics is from the University of St Andrews.

Recommended Readings

The textbook that contains most of the recommended reading:

David Miles and Andrew Scott, *Macroeconomics and the Global Business Environment*, Second Edition. John Wiley & Sons, 2005. [abbreviated MS in the listings of required readings]

In addition, several chapters from Thomas Pugel, *International Economics*, thirteenth edition (McGraw-Hill Irwin, 2007) [abbreviated P in the listings of required readings] are assigned. Students do not need to buy this Pugel book. A bound copy of the relevant chapters will be distributed to each registered student at the second class meeting.

I strongly suggest that you read (perhaps quickly) the assigned reading before the class discussion of the topic. In the class discussion I will usually cover the concepts and issues that

are most challenging, *reinforcing* and *extending* what is in the required reading. I suggest that after the class session you review the assigned reading to solidify your understanding. It is highly recommended to keep up with current developments in the global 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., *Economist*). You are encouraged to bring up current events for discussion in class, as time permits.

Problem Sets and Slides Used in Class

It is important that you develop the ability to *use and apply* the concepts and tools developed in the course. The best way to do this is to *practise actively outside of the class sessions*.

- Several problem sets will be distributed, with suggested answers attached. The problem sets are for your use in your efforts to master the material; answers need not be turned in.
- Questions and problems in the textbooks are another source of practice items. The course outline indicates relevant questions and problems.
- I will post examples of exam questions along with suggested answers, on the Blackboard web site.

One way to get active with this material is to work with a few other people in the class (as a study group) to discuss the problem sets, the text questions, and/or the sample exam questions.

Hard copies of the slides used in the class sessions will be distributed at the beginning of the discussion of each topic.

Course Requirements and Evaluation

Evaluation is based on the following items, with weights noted:

Exam #1, session 4	17%
Exam #2, session 6	22%
Final examination, session 12	37%
In-class group presentation (various sessions)	14%
Contributions to class discussion	10%

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

Exams

Exam #1 covers the material in the topics Introduction, Domestic Production and Growth Accounting, and Drivers of Economic Growth (the topics assigned for Sessions 1 and 2). Exam

#2 covers the material in the topics International Trade, Basic Analysis of Policies Limiting Imports, and Policy Issues about International Trade (the topics assigned for Sessions 3, 4, and 5), assuming that you have mastered the concepts and analysis presented in the topics covered on Exam #1. The final exam covers the entire course, with emphasis on the material presented after Exam #2.

For Exam #1, each participant is permitted to bring one sheet of paper (8½ by 11 inches) with notes on both sides, to refer to during the quiz. For Exam #2, each participant is permitted to bring two sheets of paper (8½ by 11 inches) with notes on both sides, to refer to during the exam. For the Final Exam, each participant is permitted to bring three sheets of paper (8½ by 11 inches) with notes on both sides, to refer to during the exam.

For each exam, you may also use a calculator. But, you may not use any device that is capable of wireless transmission.

Otherwise, the exams are closed-book.

You may find the exams difficult. My goal in creating an exam is to provide you with a substantial *challenge*. I want to see how far you can go with the material. The best answers to quiz or exam questions often are based on the abilities:

- to apply concepts and tools
- to use judgment
- to develop new insights about problems that you have not seen before the exam
- to make connections to find the most relevant concepts and tools to use in your answers
- to answer the question that is asked, not some other question

In-Class Group Presentation

By the third class session, each student in the class will be a member of a group of 5-6 students. Each group will prepare and make a presentation to the class from one of the topics in a list that will be distributed during the second class session. You should view your presentation as an opportunity to show off your creativity, to hone your research and presentation skills, and to attack a real issue.

Presentations will last no longer than 14 minutes. In addition, you will have 2-3 minutes for answering a few questions from the class. Evaluation will be based on three criteria:

- Informativeness
- Analysis and interpretation
- Style

Class Participation

Class participation will be evaluated on the basis of contributions to class discussions. In the evaluation, quality is more important than quantity. In addition, the evaluation of class

participation could be affected adversely by lack of attendance or creating negative classroom externalities.

Responsibilities

We are all adults.

- As the teacher I have the *responsibility* to organize and present the material and to facilitate your learning.
- As a student you have *responsibility* for your own learning.
- You are responsible for complying with Stern's Honor Code. The Honor Code requires each student to act with integrity in all academic activities and to hold his or her peers to the same standard. No lying, cheating, or plagiarism of published work, work posted on the web, or work done by other students will be tolerated. Any suspected case will be referred to the School's student discipline committee.
- Actions that have negative effects on others will not be tolerated in the classroom. If you must arrive late or leave early, you must do so as quietly as possible. No cell phones should be audible during class sessions.

Blackboard Web Site

I will maintain a web site for the course using Blackboard. The web site will include announcements and downloadable files with nearly all the class handouts, as well as the sample quiz and exam questions and suggested answers.

Contacting Simon Bowmaker

You can contact me to arrange a mutually agreeable time to meet in my office (Room 8-58 in the Economics Department of Stern at the KMC).

My telephone is 212-998-0478. My fax is 212-995-4221. My e-mail is sbowmake@stern.nyu.edu. I usually respond quickly to e-mail messages, so this is an excellent way to contact me.

Teaching Assistant

Sarah Beaumont will be the teaching fellow for this section of the course. She can be contacted by e-mail (sarah.beaumont@stern.nyu.edu) with questions or to arrange a mutually agreeable time to meet.

Session 1, February 5

INTRODUCTION

Overview of the course
National economic performance and international linkages

<u>Recommended reading</u>	<u>Relevant questions and problems</u>
MS, Ch. 1.	all

DOMESTIC PRODUCTION AND GROWTH ACCOUNTING

Gross domestic product
Nominal GDP and real GDP
Actual GDP and potential GDP
GDP levels and GDP growth rates around the world
Supply-side analysis of GDP and GDP growth

<u>Recommended reading</u>	<u>Relevant questions and problems</u>
MS, Ch. 2-3	all

Session 2, February 12

DOMESTIC PRODUCTION AND GROWTH ACCOUNTING (cont.)

Using natural logarithms to compute growth rates
Total factor productivity and labor productivity
Growth accounting and sources of long-term growth

DRIVERS OF ECONOMIC GROWTH

Solow model of economic growth
Capital accumulation, growth dynamics, and the steady state
Convergence or divergence in per capita income levels
Poverty trap
TFP growth
Technological progress
Human capital increases
Impacts of government policies on growth
The role of institutions and similar influences

<u>Recommended reading</u>	<u>Relevant questions and problems</u>
MS, Chs. 4-6.	all

Session 3, February 26

INTERNATIONAL TRADE

International trade: Optimizing the location of production

Why trade: Comparative advantage (productivity differences, Heckscher-Ohlin)

Why trade: Scale economies

Why trade: Product variety

National gains (or losses) from trade

Winners and losers from freer trade

Trade and economic growth

Recommended reading

MS, pp. 167-186 (sections 8.1-8.6)

MS, pp. 194-212 (sections 9.1-9.3)

Relevant questions and problems

Conceptual Questions 1, 2, 3, 6, 8, 9,
and 10 on p.191

Analytical Questions 1 and 3 on p.192

Conceptual Questions 1, 2, 3, 4, 5, 6, and 7
on p. 223

BASIC ANALYSIS OF POLICIES LIMITING IMPORTS

Tariff: Small country

Tariff: Large country

Import quota

Other non-tariff barriers to imports

Recommended reading

P, Ch. 8

P, pp. 147-168

Relevant questions and problems

all

Questions 1, 2, 3, 4, 5, 7, 8, 9, 11
on pp. 176-178

Session 4, March 5

EXAM #1 (first 35 minutes)

POLICY ISSUES ABOUT INTERNATIONAL TRADE

Arguments for and against protection

Sector output and production subsidies

Infant industry

National defense

Principles and activities of the WTO

Recommended reading

P, pp. 168-171
P, Ch. 10

Relevant questions and problems

Question 6 on pp. 176-177
all

Session 5, March 12

POLICY ISSUES ABOUT INTERNATIONAL TRADE (continued)

Dumping and anti-dumping duties
Export subsidies and countervailing duties
Strategic trade policy
Preferential trade agreements: Free trade area, customs union, common market, economic union
Trade creation and trade diversion

Recommended reading

P, Ch. 11
P, pp. 239-254

Relevant questions and problems

all
Questions 1, 2, 3, 4, 5, 6, 7, and 9
on pp. 261-262

Session 6, March 26

EXAM #2 (first 45 minutes)

INTERNATIONAL FINANCE

Balance of payments: Current account, non-official capital and financial account, official reserves account, net errors and omissions
International investment position: Net foreign assets
Foreign exchange markets
Exchange rates and inflation rates: Purchasing power parity
Exchange rate measures: Nominal, real, bilateral, effective
International price competitiveness and net exports

Recommended reading

MS, Ch. 19.

Relevant questions and problems

all

Session 7, April 2

INTERNATIONAL FINANCE (continued)

Exchange rates: Spot and forward

Exchange rate volatility and risk

International financial investments: Comparing rates of return, understanding risks

Exchange rates and interest rates: Covered and uncovered interest parities

Recommended reading

MS, Ch. 20.

Relevant questions and problems

all

Session 8, April 9

BUSINESS CYCLES

Recessions, output gaps, and unemployment

Aggregate demand (or planned expenditure): $C + I + G + (X - M)$

Basic Keynesian model: Multipliers

The IS Curve

Aggregate supply in the short run

Short run equilibrium: AD and AS

AD shocks and AS shocks

Recommended reading

MS, pp. 137-139 (section 7.1)

MS, pp. 290-299, and 311-312

(sections 12.1-12.3 and 12.7)

MS, Ch. 14

Relevant questions and problems

Conceptual Question 1 on p. 163

Conceptual Questions 1, 2 on p. 317

Analytical Questions 3, 6 on p. 319

all

Two group presentations after the break

Session 9, April 16

INFLATION

Measuring inflation

Effects of inflation: Redistributions and economic costs

Expectations-augmented Phillips Curve

Recommended reading

MS, pp. 257-270 (sections 11.1-11.3)
MS, pp. 415-419 (section 16.3)

Relevant questions and problems

Analytical Questions 1, 2 on p. 289
Analytical Question 2 on p. 432

MONETARY POLICY

Structures, roles, and policies of a central bank: The Fed, the ECB, the Bank of Japan
Ultimate targets, intermediate targets, and instruments
Demand for money and the money supply
LM curve
IS-LM analysis
Taylor rule
Inflation targeting

Recommended reading

MS, pp. 270-287 (sections 11.4-11.9)

MS, pp. 377-394 (sections 15.1-15.8)

Relevant questions and problems

Conceptual Questions 3, 4, 5, 6
on pp. 288-289
Analytical Questions 3, 4, 5 on p. 289
Analytical Questions 1, 2 on p. 406

Two group presentations after the break

Session 10, April 23

MONETARY POLICY (continued)

Open market operations and the monetary base
Central bank lending to regular banks (discount window, marginal lending facility etc.)
Transmission mechanisms
Bank reserves, bank liquidity, bank lending, and short-term interest rates
Yield curve
Pressures on the exchange rate
Independence, transparency, and accountability

Recommended reading

MS, pp. 394-405 (sections 15.8-15.12)

Relevant questions and problems

Conceptual Questions 1, 2, 3, 4, 5, and 6 on
p. 406
Analytical Questions 3, 4, and 5
on pp. 406-407

MACROECONOMIC SHOCKS AND STABILIZATION POLICY

Aggregate supply in the long run
Adjustment to long run equilibrium
Fiscal policy and monetary policy
Stabilization policy: Discretion or policy rules

Recommended reading

MS, pp. 408-415, 419-430 (sections 16.1-16.2 and 16.4-16.7)

Relevant questions and problems

Conceptual Questions 3, 5 on p. 431
Analytical Questions 1, 3, 4, on pp. 431-432

Two group presentations after the break

Session 11, April 30

GOVERNMENT POLICIES TOWARD THE FOREIGN EXCHANGE MARKET

Floating exchange rates, fixed exchange rates, and so forth
Capital controls and other exchange controls
Defending a fixed exchange rate
Currency and financial crises
National choices of exchange rate policies
Currency board, dollarization, and monetary union (the euro)

Recommended reading

MS, pp. 214-217 (sub-section on the IMF)
MS, Ch. 21

Relevant questions and problems

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all

Two group presentations after the break

Session 12, May 7

FINAL EXAM