

CURRENT GLOBAL MACROECONOMIC CHALLENGES

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Economics 1500

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COURSE DESCRIPTION

This class analyzes current economic challenges around the globe. Topics include monetary and fiscal policies, as well as policies toward international trade, capital flows, exchange rates, and long-run growth. Country and regional cases cover the US and China. Prerequisite: EC 1210. Also recommended: EC 1550 and 1850.

GOALS

The goal of this class is to review and synthesize the microeconomic and macroeconomic principles developed in other classes and use them to analyze the major economic problems facing industrial and emerging economies. To do so, the class will review theories of long-run economic growth, business cycles, and basic principles in finance. Based on these theories, the class will examine current performance and future economic prospects in the United States and China. In terms of long-run economic growth, the class will analyze how monetary and fiscal policies, as well as institutional arrangements, influence investment, technological change, and growth. In terms of business cycles, the class will examine how central banks and governments influence production, inflation, unemployment and asset markets during economic upswings and downswings. In terms of finance, the class will evaluate the causes and consequences of banking, currency, and twin economic crises.

OBJECTIVES

On completion of this course, students should be able to:

Have an improved understanding of the theoretical underpinning of long-run growth, short-term business cycles, and economic crises.

Link world economic problems to economic theory.

Evaluate the main macroeconomic problems, by region, in the world economy.

Describe the major economic risks going forward.

Identify the likely consequences of changes in monetary and fiscal policies on the macroeconomic environment.

Assess risks to global growth emanating from phenomena covered in class, such as a banking crisis in a major economy, a dollar fall, a steep rise in technological progress, or a change in the pension system.

ASSESSMENT

20% of the grade: Problem sets. Due dates will be announced in advance.

80% of the grade: Exams. There will be three exams. The exams are individual, will be done in class, with closed books, and on these dates: **Wednesday, Oct. 1, Wednesday Nov. 5, and Friday, December 5.**

Class participation. I expect class participation from students throughout the semester. An outstanding participant will routinely voice good comments, and always be on time for class. A good participant will occasionally express insightful comments, and be on time for class. I expect you all to be good or exceptional participants.

REQUIRED READINGS

1. Required: The Chinese Economy: Transitions and Growth. By Barry Naughton. The MIT Press 2007.
2. Recommended: Macroeconomics. 7th Edition. By N. Gregory Mankiw. Please note that it is not necessary that you buy the latest edition of this textbook. You may use an earlier edition or get the book from the library.
3. Recommended: Krugman and Obstfeld, International Economics, 8th edition. Please note that it is not necessary that you buy the latest edition of this textbook. You may use an earlier edition or get the book from the library.
4. Special Readings posted in MyCourses

STUDYING FOR THIS CLASS

A few words of advice. First, the key to developing the skills necessary to achieve the class goal is to link basic economic principles from different subspecialties and apply them to the complex realities of the world economy. This requires study, reflection, and dedication. Don't fall behind. Catching up will not provide enough "thinking" time.

Second, the link between the recommended readings and class is not always close. The readings are background material. I expect you to read the assigned material beforehand and be prepared for class discussion. The class plan below lists the titles of the lectures and main questions examined. You will learn by reading the material assigned, doing the problems sets, and participating in class discussion.

Academic Conduct Statement

Your conduct in this course is governed by the [Brown Academic Conduct Code](http://www.brown.edu/Administration/Dean_of_the_College/academic_code/code.html), http://www.brown.edu/Administration/Dean_of_the_College/academic_code/code.html.

Class Plan

I. The United States: Growth, Business Cycle, & Macroeconomic Policies

Lecture: Growth Trends in the US:

Readings: Mankiw: Chapter 3 (National income) and chapter 7 (Economic growth I)

Homework: HW1: The production function and the Solow model

Lectures: Productivity and The New Economy

Readings: Notes on Technology

Feldstein on Productivity growth

Friedman: Losing our Edge

Innovation everywhere. The Economist, 10/7/07

Homework: HW2: Productivity and the new economy

Lecture: The Federal Reserve

Readings: “The Federal Reserve System: Purposes & Functions”, Overview (

<http://www.federalreserve.gov/pf/pf.htm>)

Homework: HW3: The Federal Reserve

Lecture: Monetary Policy in the US

Readings: Mankiw on Monetary policy during the 1990s

NBER Business cycles

Friedman on the Greenspan era

The Economist: Dropping a brick, 5/29/08

The Economist: On the ropes, 7/10/08

Homework: HW4: Money

Lecture: Class discussion on: US Monetary Policy: Change at the Helm

Readings: Bernanke: Crash course on central banking

Bernanke: Downside danger

Bernanke-Friedman link

Bernanke on inflation targeting

Bernanke-Mishkin on inflation targeting

Bernanke on asset market bubbles

Mishkin on monetary policy

Homework: No HW

Lecture: Financial markets

Readings: Chairman Bernanke’s Testimony to Congress, July 15, 2008.

Reinhart & Rogoff: Is the US 2007 subprime financial crisis so different?

NBER WP 13761. Feb. 2008

Cecchetti, Stephen: Crisis and responses. NBER WP14134, June 2008

R. Levine’s Notes on Liquidity Crises and the Fed

IMF: Fed ending

IMF: Fannie Mae & Freddie Mac

Joe Nocera “A mission goes off course”, in the NY Times, 8/23/08

The Economist: The Game is Up, 8/16/07

The Economist: Bankers’ Mistrust, 8/16/07

The Economist: Another pounding, 7/12/07

The Economist: Jackson Hole, 8/22/08

Homework: HW5: Financial markets

Lectures: Fiscal Policy

Social Security

Readings: Mankiw Chapter 15

IMF: Boxes 4 and 5

The Economist: In the Long Run We Are All Broke

Homework: HW6: Fiscal policy

II. China: Reform and Growth, and Macroeconomics

Lectures on reforms: Bit of history

China's economic reform

Readings: Naughton's book on China: Introduction, and Chapters 3 and 4

IMF: Growth and Reforms, World Economic Outlook, 1997

Qian Yingyi, and J. Wu: China's Transition to Market Economy-How Far across the River?, in Nicholas C. Hope, Dennis Tao Yang, and Mu Yang Li, editors, *How Far Across the River: Chinese Policy Reform at the Millennium*, Stanford University Press, 2003, pp. 31-63. May 2000.

Sachs, Jeffrey and W.T. Woo. Reform in China and Russia

Homework: HW7: Reforms

Lectures on growth: Sources of growth

Governance

Readings: Sachs, Jeffrey & Woo: Reform in China and Russia, Economic Policy, April 1994.

Krugman, P. Asia's Miracle.

Allen, Franklin, J.Qian and M.Qian: Will China's financial system stimulate or impede the growth of its economy? Asia Program Special Report, No.129, July 2005.

World Bank: "Doing Business in 2006".

Naughton's book on China: Chapters 6, 16, 19

Homework: HW8: Growth & Institutions

Lectures on exchange rates: Fixed exchange rates

The yuan peg

The real exchange rate

Readings: Krugman & Obstfeld, Chapters 15, 17 and 22.

Homework: HW9: The exchange rate

Lectures on macroeconomics: The macro-future

The financial sector

Recap on crises

Readings: Prasad, Eswar: Next Steps for China, Finance and Development magazine, IMF, Vol 43, No. 3, September 2005.

Dunaway, Steven and E. Prasad: Rebalancing Economic Growth in China, International Herald Tribune, January 11, 2006.

Prasad, E. and R. Rajan: China's Growth Paradigm. IMF Policy Discussion Paper 06/3. March 2006.

Barth, James and G. Caprio: China's Changing Financial System: Can It Catch Up with, or Even Drive Growth? Networks Financial Institute Policy Brief No. 2007-PB-05. March 2007.

Lane, Philip and S. Schmukler: The International Financial Integration of China and India. World Bank Policy Research Working Paper No. 4132, February 2007

Homework: HW10: Macroeconomics and Finance

If you are interested in learning more on China's growth and macroeconomics, browse the following websites:

- [The Asian Development Bank](http://www.adb.org/) (<http://www.adb.org/>).

- The Economist Intelligence Unit [Country Briefings: China](http://www.economist.com/countries/China/) -(The Economist, London, UK) (<http://www.economist.com/countries/China/>).
- **OECD Economic Survey: China**, 2005
- **Webpages of professors** Nicholas Lardy, Barry Naughton and Dani Rodrick

III. Global imbalances

Lecture: Global Imbalances:

Readings: Bernanke on the Global Saving Glut.

Rajan, R. and A.Subramaniam: Exchange rate flexibility is in Asia's Interest, Financial Times, September 26, 2004.