

The US in the World Economy

Economics 970

Brandon Adams, Teaching Fellow

badams@gmail.com

650-521-6062

Time:

Section 1	MW 1-2.30	TBA
Section 2	MW 2.30-4	TBA

Math Level: 2

Course Description:

This is a course that combines international macroeconomics, economic geography, and current events. You will leave this course with a detailed understanding of global macroeconomics --- not just the theory, but also the relevant historical and institutional detail.

This course will be extremely challenging because of the breadth of material covered. My approach is very different from that of a traditional economics class in that in addition to developing an understanding of relevant theoretical frameworks, I will also expect you to develop a detailed understanding of the world economy as it currently exists today (with, as the course title implies, a primary interest in the role of the US). For example, in a typical economics course, you would not be expected to know things like the current national savings rate in China, or the percentage of US GDP spent on health care, or the individual income tax revenue as a percentage of US GDP, but in this course you would.

After completing this course, you will read journalistic accounts of developments in the world economy with a new critical eye. It's likely that the depth of your perspective will surpass that of the journalists writing the articles. Hopefully this course will inspire you to continue studying the international economy in every aspect.

Since this is Ec970, you will of course be expected to write. It is hoped that contact with some of the best commentators in the field will improve your own ability to write intelligently about international economics. Your writing in this class is supposed to be firmly grounded in theory and data. In this field, data is easy to find; but, as always, hand-waving around an issue is easier than finding the data to back up your assertions. One of the purposes of this class (and Ec970) in general is to teach you to overcome that laziness.

Course Requirements:

Class Participation: 35% of grade. Attendance is mandatory.

Short Papers. 25% of grade. Two short papers. (7-10 pages, double-spaced).

Paper 1 (7-9 pages, 10%): Historically, economists have believed that it was natural for capital to flow from developed, mature economies (where savings were high and expected future returns low) to developing economies (where savings were low and expected returns high). At present, China and the US enjoy a strange symbiotic relationship that is quite different than that predicted by theory; China sends huge capital flows to the US, and the US uses these capital flows for consumption rather than investment. Your task in this paper is to analyze the economics of this strange symbiosis. You are to focus on one of three areas: 1) Sustainability. How should one think about the sustainability of the current situation? 2) Historical Parallels. Look through economic history, starting as early as the Roman Empire. What does lessons does economic history provide regarding the US-China relationship? 3) The politics of managed exchange rates. To some extent, the current situation can be traced to the US role as economic hegemon, dating from the Bretton Woods conference in 1944. The world moved from mostly fixed to mostly managed exchange rates in 1971. Explain the current US-China situation from the perspective of the politics of a managed exchange rate regime.

Paper 2 (7-10 pages, 15%): In this paper, I would like you to summarize very briefly (1-1.5 pages) the theory of comparative advantage. In a frictionless economy, the theory of comparative advantage should be the leading theory in predicting trade patterns. In the real world, a number of frictions get in the way. For this paper, I would like you to pick a major world industry (for example, the auto industry) and do a country-by-country competitive analysis. Then compare the results from your competitiveness analysis with the actual world production patterns. Try to explain the differences, if they exist, with reference to some of the frictions that cloud the explanatory power of comparative advantage (some of these might include historical considerations, government guidance, or national security concerns).

Empirical Paper. 15% of grade. This paper will require you to conduct statistical tests on a phenomena of interest and report the results. There will be three options for this paper:

1. One of the mysteries of international economics is that wealth levels above a small level have very power to explain human happiness (at least according to the ways economists have sought to measure happiness). Provide a brief summary of this literature. Then do your own analysis in an attempt to find the factors that explain differences in human happiness (within countries and across counties).
2. The assignment for this paper has a simple question without a simple answer: what is the relationship between growth in the money supply and inflation? We will discuss various aspects to this question in class. Some think that private credit creation now swamps
3. Ben Bernanke recently said, "Over the past decade a combination of diverse forces has created a significant increase in the global supply of savings – a global savings glut – which helps to explain both the

increase in the US current account deficit and the relatively low level of long-term real interest rates in the world today.” Can one empirically distinguish this savings glut hypothesis from other potential explanations for the large US current account deficit?

Final Paper. 25%. 12-16 pages, double-spaced. You will be given several different options for your final paper. It can be expected that all of the options will involve some data work.

Note: I’ll consider requests to combine the final and empirical papers (24-30 pages, 40% of grade), but it is a high-risk strategy, in part because it will mean that 40% of your grade comes from one paper, and in part because my expectations for these combination papers will be very high.

Assignment Schedule:

SECTION A/B:

	Date Discussed in Class	Due Date
Short Paper #1	Feb 23	March 9
Short Paper #2	March 9	March 18
Empirical Paper	March 18	April 20
Final Paper	April 6	May 8

Course Policies:

Attendance. Attendance is mandatory at all regular class meetings. Exceptions for personal or family emergencies will be granted on a case-by-case basis.

Tardiness. No assignment will be accepted beyond the announced deadline. As with attendance, exceptions of personal or family emergencies will be made on a case-by-case basis.

Office hours. I will be available for office hours for 30 minutes after every class. If additional time is needed, please email me at badams@gmail.com

Required Text:

There are no required texts for this course.

Recommended Texts:

Fixing Global Finance. Martin Wolf, 2008

The Coming Generational Storm. Kotlikoff, Burns. 2008

International Economics. Appleyard, Field, Cobb. 2007.

I prefer this text to International Economics: Theory and Policy (Krugman, Obstfeld), but either one would be OK.

Readings:

There will not be a coursepack for this course. I will send out an electronic version of the syllabus that will contain web links to most of the papers covered. Every week, I will send out an email that will have links to all of the papers covered. Students will be expected to print out these papers. They will never be asked to photocopy articles from a journal or book. Sometimes I will provide photocopies of the readings to be covered a couple of classes in advance. Throughout the semester, I will give out detailed lists of supplementary readings that the student can keep for future reference.

Course Schedule:

1. Overview of US Government Statistics. Wed, Feb 4

Noriel Roubini and David Backus, Lectures in Macroeconomics.
Chapter 1: Monitoring Macroeconomic Performance
<http://pages.stern.nyu.edu/~nroubini/NOTES/CHAP1.HTM>

2. Exchange Rate Determination. Mon, Feb 9

Krugman, Paul. *Recent Thinking About Exchange Rates*
<http://www.rba.gov.au/PublicationsandResearch/Conferences/1993/Krugman.pdf>

The Determination of Exchange Rates (Textbook pages)
http://media.wiley.com/product_data/excerpt/90/04717376/0471737690-2.pdf

Rogoff, Kenneth and Vania Stavrakeva, “The Continuing Puzzle of Short-Horizon Exchange Rate Forecasting,” manuscript, Harvard University, July 30, 2008. Also available as NBER working paper 14071, June 2008. [Abstract](#)

Textbook Ch. 13,14,15,16 (Krugman)

3. The Logic of International Trade. Wed, Feb 11

Textbook 2,3,4,5 (Krugman)

Online Textbook (Ricardo- Comparative Advantage)
<http://internationalecon.com/Trade/Tch40/Tch40.php>

Online Textbook (Heckscher-Ohlin model / factor model)

<http://internationalecon.com/Trade/Tch60/Tch60.php> or
http://www.cer.ethz.ch/resec/people/tsteger/Class_7.pdf

The Logic of Trade by Daniel Griswold
http://www.cato.org/pub_display.php?pub_id=3216

Monday, Feb 16. President's Day. This class has to be made up. It will likely be held late on Tues, Feb 21 (6.30-8pm).

4. Regimes of International Trade

[International Regimes](#) 1

[International Regimes](#) 2 by Eric Brahm (2005)

[How Does the Trade Regime Affect International Trade?](#) Goldstein, Rivers, Tomz

5. The Post-Bretton Woods System Wed, Feb 18

Dynamics of a Floating Exchange Rate Regime

Author(s): Elhanan Helpman and Assaf Razin

Source: *The Journal of Political Economy*, Vol. 90, No. 4 (Aug., 1982), pp. 728-754

Published by: [The University of Chicago Press](#)

Stable URL: <http://www.jstor.org/stable/1831350>

[The end of the Bretton Woods System \(1972-81\)](#) imf.org

Paper #1 Discussed in Class

6. China and India in the World Economy Mon, Feb 23

[China, India and the World Economy](#) by T.N. Srinivasan (2006)

A New World Economy: The balance of power will shift to the East as China and India Evolve
([BusinessWeek](#)) (2005)

[China, India, and the Future of the World Economy: Fierce Competition or Shared Growth?](#)

Dimaranan et al. (2007)

[Some Thoughts on India and China](#) (2007) Dellenbarger

7. The U.S. Twin Deficits Wed, Feb 25

[Understanding the Twin Deficits: New Approaches, New Results](#) (2005)

[The Unsustainability of the U.S. Twin Deficits](#) (2005) Nouriel Roubini

8. Economic Implications of World Demographic Trends Mon, March 2

[Global Demographic Change: Dimensions and Economic Significance](#) (2004) Bloom and Canning

[On the Long-Run Relationship Between Population and Economic Growth: Some time Series Evidence for Developing Countries](#) (1999) Darrat and Al-Yousif

[China's demographic destiny and its economic implications: population changes will impact China's long-term economic growth and global competitiveness](#) (2005) Waldman

9. The United States Entitlement Crisis (SS, Medicare, Medicaid, state/local pensions) Wed, March 4

[Call this a crisis? Just Wait](#) (2008) Walker

[We Can't Tax Our Way out of the Entitlement Crisis](#) (2008) Hubbard WSJ

[THERE IS NO GENERAL "ENTITLEMENT CRISIS" In Coming Decades, Medicare, Medicaid, and Social Security Will Grow Rapidly, But Other Entitlements Will Shrink As a Share of the Economy](#) (2007) Kogan and Aron-Dine

Paper #1 Due
Paper #2 Discussed in Class

10. Fiat Currency: A Historical View Mon, March 9

[Fiat Money Systems](#) (2004) Green

[Fiat Money History in the US](#)

11. The IMF and World Bank Wed, March 11

Textbook.
Encyclopedia / Wikipedia
Imf.org and worldbank.org

12. Seigniorage. Implications as US Dollar declines as dominant currency. Mon, March 16

[Seigniorage](#)

[Seigniorage NBER Working Paper](#) (2007) Buiter

[One Dominant Currency](#) (2008) Avinash Persaud

13. The Stability of Gold. An examination of gold-back currency regimes Wed, March 18

[A retrospective on the classical gold standard, 1821-1931: A review essay](#) (1987) Van Huyck

[Gold and Economic Freedom](#) (1967) Alan Greenspan

[Gold Standard](#) (2008) Bordo

**Paper #2 Due
Empirical Paper Discussed in Class**

MARCH 21 – MARCH 29 Spring Break

14. Monetarism in the modern economy. Difficulties measuring and controlling money supply and measuring the velocity of money. . Mon, March 30

[Monetarist Economic Policy](#)

[How Milton Friedman Changed Economics, Policy and Markets](#) (2006) Ip and Whitehouse

[Breaking Monetary Policy into Pieces](#) (2004) Hussman

15. Credit Creation. Bernanke regime of Inflation Rate Targeting Wed, April 1

[Credit-creation mechanism appears to be broken](#) (2008) Embry

[Wilhelm Lautenbach's Concept of Productive Credit Creation](#) (2003) Cramer

[A perspective on Inflation Targeting](#) 2003. Bernanke

[The Economic Outlook](#) (2008) Bernanke

Final Paper Discussed in Class

16. Asset Bubbles and their macroeconomic implications Mon, April 6

[Asset Price Bubbles](#) (2007) FRBSF Economic Letter

Asset Bubbles and Their Consequences (2008) O'Driscoll Jr.
Dot-com on Wikipedia

17. Discussion; The credit crises of 07-08-09 Wed, April 8

Finding Best Articles on Topic. Discussion; The Credit Crisis 07-08-09

18. Overview of World Economic Geography. Discussion of global income and wealth inequality. Mon, April 13

Wikipedia.com

[Global Income Inequality: What it is and why it matters?](#) (2006) Milanovic

[Income Inequalities in the Age of Financial Globalization](#) (2008) Chapter 1

Empirical Paper Due

19. Discussion: The Greenspan Era Wed, April 15

[Lessons Learned from the Greenspan Era](#) (2005) Taylor

[The Greenspan Era](#) (1991) WSJ

20. Discussion of Technical Aspects of Fed intervention in credit markets. Discussion of technical aspects of money and banking generally. Mon, April 20

[The Federal: The role of Reserve Banks](#) (1984) Balles

[Investment and government intervention in credit markets when there is asymmetric information](#)
(1991) Innes

21. Discussion: Vicious Cycles, the risk of systematic collapse, the TARP program. Case for and against bailouts. Wed, April 22

[Too Dumb to Fail](#) (2008) Surowiecki

[A Crisis Bailout Primer](#) (2008) Rajadhyaksha

[Too big to fail?](#) (2008) Goodman

[Emergency Economic Stabilization Act of 2008](#) (2008) Nothwehr (TARP Plan)

22. Discussion of political system and economic system. Why inflation is politically appealing. Mon, April 27

[Why Inflation is Good](#) (2008) Ventimiglia

[How Government Manipulates Money and Produces Inflation](#) (2000) Younkins

23. Last Day of Class. Wed, April 29

Discussion of final papers

Teacher Evaluations

Some light reading....

FINAL PAPERS ARE DUE FRIDAY, MAY 8th, 11pm. No extensions.