Economics of Global Business (EGB)
Spring 2016 / Econ-UB 11 - Section 001

DRAFT – INFO/DATES BASED ON PRIOR SEMESTER
SUBJECT TO CHANGE

NYU Stern School of Business
Classroom: Paulson (UC-50)
Class Time: T/TH 2-3:15PM
Office Hours: tbd

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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 basic workings of the macro-economy and the roles of international trade and finance. 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.

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 the impact of the business cycle. We also explore the role of money, inflation and banking in particular.

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?
- What causes 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. We also examine 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 help foster development?) as well as a practical issue (as developing markets are likely to be a key source of future profits).

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, EGB 360 is a prerequisite for several IB elective courses, including International Business Management, International Financial Management, and International Marketing Management.

**COURSE MATERIALS**

Both textbooks are available in hard copy or as e-books.


Other readings will also be posted on NYU Classes.

**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 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: 30-35% A grades, 60-50% B grades, 5-10% 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 Exam: 30%
- Second Exam: 30%
- Final Exam: 40%
- Memo(s) *(unlikely to be assigned, but possible)*: Ungraded

The coverage and dates for the Exams are:

- First Exam: Covers Part One, WEDNESDAY, **October 7th**
- Second Exam: Covers Part Two, WEDNESDAY, **November 4th**
- Final Exam: Covers Part Three, FRIDAY, **December 18th (8AM to 9:50PM)**

**PARTICIPATION/ATTENDANCE**

In general, there is no required attendance. Students should come to class prepared to discuss assigned topics and current issues of the day. (In terms of your own value, there are 28 class meetings. Taking away exams and the introduction, that leaves 25 class meetings. So every absence is 4% of the course!) If a guest speaker comes to speak to the class (not planned, but possible), attendance is required that day and failure to attend may lead to a grade penalty. Some short memos (1 page) may be assigned during the
semester at the discretion of the professor (again, not planned, but possible). Memos (again, only if assigned) are required and marked “acceptable” or “requiring rewrite,” but are not graded.

**ACADEMIC INTEGRITY, LAPTOPS AND RECORDINGS**

Students are bound by the Stern Undergraduate Code of Conduct. Laptops, smartphones, tablets and other electronic devices are generally not to be used in class. Students may only use laptops in class with the written permission of the instructor. This is because 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. Students should never be texting in class. Violations of the above are subject to a grade penalty or other punishment at the discretion of the professor. Any act of cheating may lead to an immediate failure of the course and referral to the Dean’s office.

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

*Please note that schedule and reading assignments are subject to change.*

- **Class 1 / Sep 2**
  - **Introduction – A Global World / HANDOUT OF SYLLABUS / OVERVIEW**
  - Required Reading: Ch. 3 from Pugel.

- **Class 2 / Sep 9**
  - **The Rationale for Trade – Comparative Advantage**
  - Required Reading: Ch. 4 from Pugel.

- **Class 3 / Sep 14**
  - **The Effects of Trade – Winners and Losers**
  - Required Reading: Ch. 5 from Pugel.

- **Class 4 / Sep 16**
  - **Alternative Theories of Trade**
  - Required Reading: Ch. 6 from Pugel.

- **Class 5 / Sep 21**
  - **Trade Policy: Tariffs**
  - Required Reading: Ch. 8 from Pugel.

- **Class 6 / Sep 23**
  - **Trade Policy: Non-Tariff Barriers**
  - Required Reading: Ch. 9 from Pugel.

- **Class 7 / Sep 28**
  - **Arguments For and Against Protectionism**
  - Required Reading: Ch. 10 from Pugel.

- **Class 8 / Sep 30**
  - **Dumping and Export Subsidies**
  - Required Reading: Ch. 11 from Pugel.

**NOTE: FIRST EXAM IS HELD DURING CLASS 10**
## PART TWO: ISSUES IN THE MODERN MACROECONOMY

| Class 9 / Oct 5 | Introduction and National Income Accounts  
Required Reading: Ch. 6 and 7 from Krugman/Wells.  
| Class 10 / Oct 7 | FIRST EXAM (Classes 1-8 only / Pugel Text and Other Trade Readings) |
| Class 11 / Oct 13 | National Income Accounts (Continued), Start of Long Run Growth  
Required Reading: Ch. 8 from Krugman/Wells |
| Class 12 / Oct 14 | Long-Run Economic Growth  
Required Reading: Ch. 9 from Krugman/Wells.  
| Class 13 / Oct 19 | Long-Run Growth (Continued), Savings, Investment and the Financial System  
Required Reading: Ch. 10 from Krugman/Wells.  
| Class 14 / Oct 21 | The Economy in the Short Run/Fluctuations  
Required Reading: Ch. 11 from Krugman/Wells. |
| Class 15 / Oct 26 | Aggregate Demand and Aggregate Supply / Fiscal Policy and Deficits  
Required Reading: Ch. 12 and 13 from Krugman/Wells. |
| Class 16 / Oct 28 | Money and Banking I  
Required Reading: Ch. 14 from Krugman/Wells.  
| Class 17 / Nov 2 | Money and Banking II  
Required Reading: Ch. 15 from Krugman/Wells. |
| Class 18 / Nov 4 | SECOND EXAM (COVERS all lectures based on Classes 10-17) |
PART THREE: EXCHANGE RATES, CRISES, DEVELOPMENT AND GLOBALIZATION

Class 19 / Nov 9  
Balance of Payments  
Required Reading: Ch. 16 from Pugel.  

Class 20 / Nov 11  
The Foreign Exchange Market  
Required Reading: Ch. 17, 18 from Pugel.  

Class 21 / Nov 16  
The Determination of Exchange Rates and Purchasing Power Parity  
Required Reading: Ch. 19 from Pugel.

Class 22 / Nov 18  
Exchange Rate Policy Options I  
Required Reading: Ch. 20 from Pugel.

Class 23 / Nov 23  
Exchange Rate Policy Options II  
Required Reading: Part of Ch. 25 from Pugel. pp. 650-660 starting with “National Choices” to end of chapter and “What Role for Gold?”, pp. 640-2

Class 24 / Nov 30  
Financial Crises  
Required Reading: Ch. 21 from Pugel.

Class 25 / Dec 1  
Financial Crises II and The Challenges of Development  
Required Reading: Ch. 14 from Pugel.  
“The Great Fall of China,” The Economist, August 29, 2015

Class 26 / Dec 7  
Globalization - FDI, Multinational Corporations and Immigration  
Required reading: Ch. 15 from Pugel.

Class 27 / Dec 9  
Globalization – The Environment  
Required Reading: Ch. 13 from Pugel.

Class 28 / Dec 14  
Globalization – A New, Flat World?  
Nouriel Roubini, “Where will all the Workers go?” Project Syndicate, Dec 31, 2014

December 18th (Friday) FINAL EXAM / 8AM Good Luck 😊