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? Will inflation in the United States increase? Would it be fun to be Janet Yellen? Why do the values of the exchange rates between the major currencies change so much? Does it make sense to invest in Japanese government bonds? Should China allow its currency to float more freely? What will be the outcome of Brexit for Britain?

The course provides a survey of such 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.
Required Readings

A textbook contains much of the required reading:

*Global Economy*, Version 2.x, NYU Stern Department of Economics, 2016. [abbreviated GE in the listings of required readings]

Students do not need to buy this book. A copy will be distributed at the first class meeting to each registered student. You can also download an electronic copy from Stern’s Global Economy and Business Center website:

http://www.stern.nyu.edu/sites/default/files/assets/documents/The_Global_Economy_Amazon_Digital%20%282%29.pdf

In addition, several chapters from Thomas Pugel, *International Economics*, sixteenth edition (McGraw-Hill Irwin, 2016) [abbreviated P in the listings of required readings] are assigned. Students do not need to buy this Pugel book. A copy of the relevant chapters will be distributed early in the semester to each registered student.

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, often extending what is in the required reading. I suggest that after the class session you review the assigned reading to deepen your understanding.

It is highly recommended to keep up with current developments in the global economy, 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*).
Problem Sets and Slides

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 *practice 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.
- I will post examples of exam questions along with suggested answers, on the NYU Classes course web site.
- Questions and problems in the textbooks are another source of practice items. When all of a chapter is assigned as required, then all questions and problems for this chapter are relevant. When part of a chapter is assigned, the course outline indicates relevant questions and problems.

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 sample exam questions, and/or the text 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 6 18%
Exam #2, session 11 18%
Final Examination 33%
Forecasts (two assignments) 14%
Practice interviews 8%
Contributions to class discussion 9%

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 for the topics Introduction, Economic Growth: Accounting and Modeling, and Economic Growth: Intangibles and Issues. Exam #2 covers the material for the topics International Trade, Basic Analysis of Policies Limiting Imports, and Policy Issues about International Trade (assuming that you have mastered the concepts and analysis for the topics covered on Exam #1). The Final Exam covers the remaining material for the course (assuming that you have mastered the concepts and analysis for the topics covered on Exams #1 and #2). The Final Exam will be given during the official final exam period for the semester.

For each of Exam #1 and Exam #2, each participant is permitted to bring one sheet 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 two 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 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
Forecasts

Students will form into groups of three or four students each.

Each group will select a country (from a set of specified countries) and will complete two forecasting assignments for the country. One assignment focuses on long-run growth, and the second assignment focuses on forecasting GDP using business-cycle indicators. The deliverable from each group for each assignment is a written report no more than five pages in length.

Practice Interviews

Practice interview questions ask each class member to use what they have learned to answer a real interview question based on the material we have just discussed. This is a written exercise. Each interview question is distributed and answered in class. The answers are graded to encourage each student to review course material and keep up with the class, but only with a check plus/check/check minus grading system. There will be about six interview questions during the semester. We will discuss the question after the answers are collected, so you cannot make up interview questions for illness, travel or family emergencies. However, I do understand that emergencies happen. So, each student gets 2 free passes: I will drop the lowest 2 interview grades at the end of the course.

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

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.

Furthermore, you are responsible for complying with Stern’s Code of Conduct. The Code requires each student to act with integrity in all academic activities. No cheating or plagiarism of published work, work posted on the web, or work done by other students will be tolerated. Any suspected case can be referred to the School’s Judiciary 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 or other electronic devices should be audible during class sessions. If you want to use a laptop during class sessions, please take a seat in one of the back two rows.
NYU Classes Course Web Site and Recordings

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

Class sessions are scheduled to be recorded—realize that this is on a “best efforts” basis because occasionally there are errors or glitches that leave a session unrecorded. Recordings are for educational purposes—links will be posted to the NYU Classes site for the course.

Contacting Professor Pugel

My office hours are Tuesdays noon-1:00 PM and Thursdays 4:45-5:45 PM. You can also contact me to arrange a mutually agreeable time to meet.

My e-mail is tpugel@stern.nyu.edu. I usually respond quickly to e-mail messages, so this is an excellent way to contact me.

My telephone is 212-998-0424. My fax is 212-995-4218.

Teaching Assistant
INTRODUCTION (1/31)

Overview of the course
National economic performance and international linkages
Gross domestic product
Nominal GDP and real GDP
GDP levels and GDP growth rates around the world

Required reading: GE, Chs. 1 and 2.

ECONOMIC GROWTH: ACCOUNTING AND MODELING (2/2, 2/7, 2/9)

Supply-side analysis of GDP and GDP growth: Production function
Total factor productivity and labor productivity
Using natural logarithms to compute growth rates
Growth accounting and sources of long-term growth
Solow model of economic growth
Capital accumulation, growth dynamics, and the steady state

Required reading: GE Chs. 3, 4, and 5.

ECONOMIC GROWTH: INTANGIBLE AND ISSUES (2/14, 2/16)

Convergence or divergence in per capita income levels
Poverty trap and middle-income trap
TFP growth
Technological progress
Human capital increases
Impacts of government policies on growth
The role of institutions and similar influences

Required reading: GE Chs. 6 and 8.

GE, p. 93 (section 7.4) and pp. 94-96 (section 7.6).

Exam #1 (February 21)
INTERNATIONAL TRADE (2/23)

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

Required reading: TBD

BASIC ANALYSIS OF POLICIES LIMITING IMPORTS (2/28, 3/2, part 3/7)

Tariff and import quota: Small country
Tariff and import quota: Large country
Other nontariff barriers to trade (NTBs)
Principles and activities of the World Trade Organization (WTO)

Required reading: P, Chs. 8 and 9.

POLICY ISSUES ABOUT INTERNATIONAL TRADE (part 3/7, 3/9)

Arguments for and against protection
  Specificity rule
  Sector output and production subsidies
  Infant industry
  National defense
Preferential trade agreements: Free trade area, customs union, common market, economic union
Trade creation and trade diversion

Required reading: P, Ch. 10.

P, pp. 252-267. [Relevant Questions and Problems on p. 273-274 are 1, 2, 3, 4, 5, 6, 7, 8.]

Exam #2 (March 21)

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

Required reading: GE, Chs. 18-19.

BUSINESS CYCLES (part 4/4, 4/6, 4/11, 4/13)

Recessions, potential real GDP, output gaps, and unemployment
Aggregate demand: C + I + G + (X – M)
Basic Keynesian model
Aggregate supply in the short run and the long run
Short run equilibrium
Fiscal policy and monetary policy
AD shocks and AS shocks
Adjustment to long-run equilibrium
Stabilization policy

Required reading: GE, pp. 88-89 (section 7.1) and pp. 93-94 (section 7.4).

GE, Chs, 10, 11, 13, and 14.

INFLATION (4/18)

Measuring inflation
Effects of inflation: Redistributions and economic costs
Expectations-augmented Phillips Curve

Required reading: TBD
MONETARY POLICY (4/20, 4/25, part 4/27)

Structures, roles, and policies of central banks
Ultimate goals, instruments, and operating (or intermediate) targets
Demand for money and the money supply
Traditional (conventional) monetary policy: Open market operations, the monetary base, bank reserves, fed fund rate
Transmission mechanism: Interest-rate channel, exchange-rate channel, credit channel, money channel
Taylor rule
Global financial and economic crisis
Liquidity trap (zero lower bound)
Unconventional monetary policy: Quantitative easing, forward guidance

Required reading: GE, pp. 151-154 (Introduction to Ch. 12 and sections 12.1 and 12.2) and pp. 156-159 (sections 12.4 and 12.5).

GE, Ch. 15.

FISCAL POLICY (part 4/27, part 5/2)

Outlays, revenues, and the government budget balance
Automatic stabilizers
Structural and cyclical budget balances
Government debt

Required reading: TBD

GOVERNMENT POLICIES TOWARD THE FOREIGN EXCHANGE MARKET (part 5/2, 5/4)

Floating exchange rates, fixed exchange rates, and so forth
Capital and other exchange controls
Defending a fixed exchange rate
Foreign exchange market intervention, sterilization
Currency and financial crises
Role of the International Monetary Fund (IMF)
National choices of exchange rate policies
Currency board, dollarization, and monetary union (the euro)

Required reading: GE, Chs. 20 and 21.

Final Exam (date and time TBA)