Global Economy (B01.2303)  
Prof. Laura Veldkamp  
Syllabus

Office: KMC 7-77  
Email: lveldkam@stern.nyu.edu  
Office Hours: M,T 9-10pm

Teaching Assistant: Gary Cao  
Email: gc793@stern.nyu.edu  
Office Hours: By appointment

Teaching Assistant: Giuseppe Ugolotti Verdoni  
Email: guv201@stern.nyu.edu  
Office Hours: By appointment

Course Description

This course is about the economic performance of countries. Why are some countries rich, and others poor? Why do poor countries sometimes catch up, and rich countries sometimes fall behind? Why do all countries experience variation in their growth rates? Why do countries occasionally experience financial panics or crises? These questions form the core of the field of macroeconomics. As we work our way through them, we will consider the impact on performance of saving and investment, productivity, capital and labor markets, legal and political institutions, monetary and fiscal policies, and international flows of goods and capital.

Our emphasis on the “global environment” will allow you to do your own country analysis: Is country X likely to do well? Is it a good investment opportunity? A promising location for production? A promising destination for your product? By the end of this course, you will be able to:

(i) Comment intelligently on current global economic events and trends.

(ii) Assess and critique the opinions of market analysts and journalists. Is their analysis based on sound theory? Is it supported by the data?

(iii) Forecast future economic events and evaluate the prospects for profitable investment in countries around the globe.
Prerequisites

You are expected to be comfortable with basic economics, logarithms, and calculus.

Help

There may be times when you need help. Office hours are minimal because there are few common times that are convenient with everyone’s work schedules. Feel free to set up an appointment or stop by my office (KMC 7-77). I am happy to answer questions anytime. Also, make use of our outstanding TAs: Gary and Giuseppe. Both are friendly, knowledgable and good at explaining economics. I think you’ll find them a valuable resource.

Course Materials

Notes, slides, and deliverables (see below) will be posted on the course management system. The course material consists of:

- Textbooks. We will use two:
  Both are available in the bookstore – or buy them online, whichever you prefer. Any edition of the textbook is fine. If you don’t have the most up-to-date version, just look on blackboard for the correct chapter numbers for each topic.

- Articles. For some topics, we will discuss current news items. Articles are in your course pack. They are also posted on blackboard. They are required reading and are fair game on quizzes and exams. Extra articles of interest are also posted on blackboard, but are not required.

- Notes. For some sessions, I have prepared notes that explain technical material in more detail. They are posted on blackboard.

- Slides. I will distribute the slides in a course pack on the first day of class. If you miss the distribution, I will put extras in a box outside my office. I will also post the files on blackboard.
Deliverables and Grades

The various “deliverables” in the course are designed to develop different skills:

- Class participation. It’s important to integrate what you learn and be able to express it effectively. Your participation grade will be based on the quality (not quantity) of your contributions to class sessions.

- Written assignments. Apply the tools learned in class to analyze data in business-relevant situations. You may work in groups, but you are not required to. If you work in a group, turn in one copy of the assignment for the whole group. See the class calendar for due dates.

- Group presentations. The idea is to apply economic principles to a real problem and hone your communication skills.

- Quizzes. Quizzes are on-line on blackboard. They will take place almost every week, with the exception of the first week and exam weeks. Dates are noted on the calendar below. The intent of the quizzes is to encourage each student to do the assigned reading and review previous course material before class. This will avoid the problem of poorly prepared students wasting in-class time for well-prepared students. If you are out of town or have a technical problem, you cannot make the quiz up. However, you get 2 free passes: I will drop the lowest 2 quiz grades at the end of the class.

- Exams. There will be two exams. Their content will be similar to the quizzes and review questions on blackboard. Practice exams will also be posted. The midterm date is noted on the syllabus. The final exam is on the last scheduled class date. Please plan to be here on these days.

Your grade for the course will be based on your performance on all of these deliverables, weighted as follows:

<table>
<thead>
<tr>
<th>Deliverable</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class Participation</td>
<td>10%</td>
</tr>
<tr>
<td>Written Assignments</td>
<td>10%</td>
</tr>
<tr>
<td>Group Presentation</td>
<td>10%</td>
</tr>
<tr>
<td>Quizzes</td>
<td>10%</td>
</tr>
<tr>
<td>Midterm Exam</td>
<td>25%</td>
</tr>
<tr>
<td>Final Exam</td>
<td>35%</td>
</tr>
</tbody>
</table>

Final grades will follow the School’s guideline for core courses: no more than 35% of the class will receive an A or A-. This guideline was instituted to address student concerns that different sections of a course might be graded by different standards.
Honor Code

We in the Stern community believe that honesty and integrity are necessary for a rewarding educational experience. These qualities form the basis for the strong trust among members of the community (students, faculty, and administrators) that is essential for educational excellence. The Honor Code requires that each student act with integrity in all academic activities and to hold his or her peers to the same standard.

In this course, you may discuss assignments with anyone — in fact, we encourage it — but any written assignments or presentations should be the work of your group. Quizzes should be done by yourself. On exams, you may bring in and consult one piece of paper with anything on it you like (standard paper size, both sides), but your answers should be entirely your own work.

We also hold ourselves to a high standard of professional behavior. Accordingly, lateness, using cell phones, holding private conversations, and indeed any behavior that disrupts me or your colleagues will be considered inappropriate. Repeated violations of this standard may affect your participation grade.
Global Economy (B01.2303):
Outline and Calendar

A. Measuring Economic Performance

Session 1 (September 24 or 25).
Introduction and overview. Why are some countries rich, and others poor? Are the poor catching up? Why does economic performance vary so much over time?
Measuring output. Value added, output of firms and countries, growth rates and logarithms.
Read before class: Easterly (ch 1), handout #2 on measurement.
Recommended Reading: Miles and Scott (ch 2).

B. Growth: Long-Run Economic Performance

Session 2 (October 1 or 2).
A model of growth. Solow’s model, production functions (inputs and outputs), saving and investment, diminishing marginal returns.
Read before class: Easterly (ch.s 2, 3).
Recommended Reading: Miles and Scott (ch 4, skip 4.7).

Session 3 (October 8 or 9).
Sources of growth: Technology and institutions. Using technology to promote growth. Development traps. What are the keys to sustained growth? Do markets for technology work?
Read before class: Easterly (ch 8, 9), handout #3 on growth rates.
Recommended Reading: Miles and Scott (ch 5.3-5.5).
Group Presentations: 1. Taiwan and Mauritius: Choosing a road to growth.
2. India vs. China: Which will grow faster?
Take on-line before class: Quiz #1 - Covers Easterly reading (ch.s 1-3,8-9), handout #3, and material from classes 1 and 2.
C. Trade

Session 4 (October 15 or 16).
Recommended Reading: Miles and Scott (ch 8.1-8.2, 8.8).
Group Presentations: The 2007 Chinese tariff increase: A good idea? (1-2 groups)
Due at the start of class: Assignment 1: Growth Forecast.
Take on-line before class: Quiz #2 - Covers Rodrik article and class 3.

Session 5 (October 22 or 23).
Trade deficits and foreign debt. Debt sustainability.
Recommended Reading: Handout #4 on debt. Miles and Scott (ch 19.4)
Group Presentations: 1. World Trade Organization
2. Is the US trade deficit a threat to the economy? (2 groups).
Take on-line before class: Quiz #3 - Covers material in class 4.

Session 6 (October 29 or 30).
Summary and review. We’ll review in the first half. Come with questions.
Do before class: Practice midterm examination.
Midterm examination. Same format as the practice exam. You may consult one page of notes (a standard-size piece of paper with anything on it you like) and a calculator.

D. Business Cycles: Short-Term Economic Performance

Session 7 (November 5 or 6).
Recommended reading: Miles and Scott (ch 14.1-14.4, 14.6-14.8, 16.3-16.4).

Session 8 (November 12 or 13).
Money and prices. Banks and the money supply, liquidity traps, Japan’s banking woes, velocity, expectations-driven inflation, hyperinflation, disinflation.
Read before class: Krugman’s ‘babysitting’ article
Recommended reading: Miles and Scott (ch 11.1-11.9, 15.6-15.10).
Group Presentation: Israel’s hyperinflation: Lessons for successful reform.
Take on-line before class: Quiz #4 - Covers Krugman article and class 7.
E. Exchange Rates and International Capital Flows

Session 9 (November 26 or 27).
Exchange rates. How are currencies traded? Real exchange rates, purchasing power parity. What fundamentals determine exchange rates?
Recommended reading: Miles and Scott (ch 19.1-19.3, 20.8).
Group Presentation: Is the subprime mortgage debacle similar to the Japanese banking crisis?
Due at the start of class: Assignment 2: Business cycle forecasting.
Take on-line before class: Quiz #5 - Covers class 8.

Session 10 (December 3 or 4).
Fixed exchange rate regimes. How do the effects of fiscal and monetary policy change when exchange rates are fixed or flexible? Optimal monetary unions. Speculative currency attacks.
Recommended reading: Miles and Scott (ch 20.3-20.7, 21.1-21.5).
Group Presentation: 1. Should China appreciate the Yuan? (2 groups)
2. Which country is ripe for a speculative attack?
Take on-line before class: Quiz #6 - Covers class 9.

Session 11 (December 10 or 11).
Financial and economic crises. Debt default. How are exchange rate crises, debt crises, and growth disasters related to each other? Argentina’s economic implosion.
Read before class: Argentina article (in coursepack), Easterly (ch 7).
Recommended reading: Miles and Scott (ch 10.6-10.8, 21.7-21.9).
Group Presentation: Social security and the U.S. debt (1-2 groups).
Take on-line before class: Quiz #7 - Covers class 10, Argentina article and Easterly ch.7.

Session 12 (December 17 or 18).
Final examination. Same format as the practice exam, similar to quizzes. You may consult one page of notes (a standard-size piece of paper with anything on it you like) and a calculator.