

# ***15.014: Applied Macro and International Economics Syllabus***

***Professor Kristin Forbes – Spring 2007***

This course uses case studies to investigate the macroeconomic and international environment in which firms operate. Most classes will focus on a key economic concept in the context of a different country. Therefore, each class will provide an opportunity to explore why different governments adopt certain economic policies, as well as how these policies affect the ability of companies to do business. The course will also provide an opportunity to learn about the major economies around the world, how they differ, and what their prospects are for the future.

The course is divided into four sections. The first develops the basic tools of macroeconomic management—monetary and fiscal policy—focusing on the U.S. economy. The second section evaluates different strategies of economic development and why some countries grow faster than others, with topics covering issues such as technological progress, natural resource dependency, exchange rate management, investment, and foreign aid. The third section discusses several recent crises in emerging markets, evaluating the causes of these crises, how to avoid them, and how to predict what countries will experience crises and contagion in the future. The final section of the course evaluates several challenges facing developed countries in the 21<sup>st</sup> century, such as the U.S. trade deficit, high unemployment in Europe, aging populations and insolvent entitlement programs, and the emergence of China and India as major economic powers—including concerns about outsourcing, globalization, and inequality.

Before each class, you are expected to read the relevant case and usually an extra article and/or note. If you would like further detail on the theory discussed in class, you can also review the optional textbook reading, which is taken from Mankiw's (2007) *Macroeconomics, 6<sup>th</sup> edition* (called M below) or Krugman and Obstfeld's (2006) *International Economics: Theory and Policy, 7<sup>th</sup> Edition* (called K&O below). Both books are on reserve in the library and available at the Coop. They provide an excellent resource for anyone interested in macro and/or international economics. There will also be several optional recitations on Wednesdays from 12pm-1pm. These sessions will review the more technical models used in class. The course will use SloanSpace.

<b>Grading:</b>	Final Exam (closed book, in class on May 16):	40%
	2 Group Assignments/Problems <sup>1</sup> :	30% (15% for each assignment)
	Class Participation:	15%
	Short Team Presentation:	10%
	Forecasting Game:	5% (+ bragging rights)

## ***Contact Information for Professor Kristin Forbes – Office Hours Wed. 1:00pm to 3:00pm***

Office:	E52-455	Assistant:	Matt Hartman
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<sup>1</sup> The group assignments will involve reading an assigned article and using the models from class to write a 6-8 page analysis of the macroeconomic challenge facing a specific country.

## I. THE BASIC TOOLS OF MACROECONOMIC MANAGEMENT

- Wed. Feb 7            **The German Hyperinflation and the Velocity Theory**  
HBR Article (#9-6108): A Country is not a Company  
HBS Case (#9-798-048): The German Hyperinflation of 1923  
NYT Article: How Bad is Inflation in Zimbabwe  
*Optional—Box: The Hyperinflation in Serbia*
- Mon. Feb 12           **Alan Greenspan, Monetary Policy, and the IS-LM Model**  
HBS Note (#9-797-094): Note on Money and Monetary Policy  
HBS Case (#9-702-072): Alan Greenspan  
Economist Article: Alan Greenspan: Monetary Myopia  
*Optional—M: Chps. 4, 10, 11 & 14; K&O Chp. 14*
- Wed. Feb 14           **The Great Depression, Fiscal Policy and the AS-AD Model**  
HBS Case(#9-391-258): The Great Depression: Causes and Impact (Abridged)  
HBS Note (#9-382-065): A Keynesian Cure for the Depression  
FT Article: Keynes versus Freidman: Both Men Can Claim Victory  
*Optional—HBS Note (#9-797-076): Fiscal Policy: Managing Aggregate Demand*  
*M: Chp. 9*
- Mon. Feb 19           **Holiday – President’s Day** (Note: Monday’s class will be held on Tuesday)
- Tues. Feb 20           **The U.S. Recession in 2001, National Income & Balance of Payments Accounting**  
Chapter from Economic Report of the President: Lessons from the Recent Business Cycle  
Bloomberg Article: The Fed Can’t Get No Respect from Supply-Siders  
FT Article: Less is More?  
HBS Note (#9-797-075): National Income Accounting  
*Optional— Mankiw Box: Should Ukraine Cut Tax Rates to Raise Tax Revenue*  
*HBS Note (#9-705-025): Reading the Balance of Payments*  
*M: Chp. 2, K&O: Chp. 12*

## II. DEVELOPMENT STRATEGIES

- Wed. Feb 21           **Singapore, Productivity Growth, and Solow Growth Accounting**  
HBS Case (#9-703-040): Singapore Inc  
HBS Note (#9-794-051): Accounting for Productivity Growth  
Wall Street Journal Article: Singapore Swing: Krugman Was Right...  
*Optional—Economist Article: Where Economics Stops Short*  
*M: Chps. 7 & 8; K&O: Chp. 22*
- Wed. Feb 21 &  
Thurs. Feb 22        **Optional Recitation: The German Tax Cuts**  
An example of the AS-AD and IS-LM models  
Room E52-175  
*12-1pm*

- Mon. Feb 26                   **Zambia and Natural Resource Dependence**  
 HBS Case (#9-792-089): Reconstruction of Zambia  
 FT Article: Zambian Copper Bonanza Leaves New Export Industries Ailing  
 Economist Article: A Raw Deal for Commodities  
 Business Week Article: Lessons From the Fastest-Growing Nation: Botswana?  
*Optional—Economist Article: Afghanistan’s Poppies—A Big Habit*  
*K&O: Chps. 10, 17 & 18*
- Wed. Feb 28**  
**11:30am to 1pm,**  
**No morning class**                   **Special Guest Lecture: Global Financial Warriors**  
 John Taylor—Former Under Secretary of the U.S. Treasury Department & Stanford  
 Room E51-345
- Fri. Mar 2                   **Forecasting Game: 1<sup>st</sup> bets due** (In a box outside my office: E52-455)
- Mon. Mar 5                   **Chile, Exchange Rates, and the Open-Economy IS-LM model**  
 HBS Case (#9-798-092): Chile: The Latin American Tiger?  
 HBS Note (#9-384-171): Note on Exchange Rate Determination  
 Economist Article: Augusto Pinochet: The Passing of A Tyrant  
*Optional—M: Chps. 10-12; K&O: Chps. 13 & 19*
- Wed. Mar 7                   **Currency Unions, Optimal Currency Areas and E.U. Expansion**  
 IIE Brief: Choosing Monetary Arrangements for the 21<sup>st</sup> Century  
 HBS Case (#9-799-131): European Monetary Union (*skim*)  
 Article: GCC: Full Steam Ahead to Monetary Union  
 Economist Article: Transformed  
*Optional—Economist Article: Euro Blues*  
*K&O: Chp. 20*
- Wed. Mar 7 &  
 Thurs. Mar 8  
 12-1pm  
 Fri. Mar 9                   **Optional Recitation: Examples of the IS-LM Model**  
 Room E52-175
- Fri. Mar 9                   **First Assignment Due by 5:00pm. (In a box outside my office: E52-455)**
- Mon. Mar 12                   **China and the Inconsistent Trinity**  
 Goldman Sachs Article: China’s Ascent: Can the Middle Kingdom Meet Its Dreams?  
 HBS Case (#9-706-021): China: To Float or Not to Float?  
 Economist Article: Asian Squirrels  
*Optional—K&O: Chps. 15 & 17*
- Wed. Mar 14                   **Aid, Trade, Debt Relief & The Washington Consensus: What Should the World Be Doing to Fight Poverty?**  
 Economist Article: Aid to Africa: The \$25 Billion Question  
 Economist Article: A Choosier Approach to Aid  
 Wall Street Journal Op-Ed: The Copenhagen Solution  
 Williamson speech: Did the Washington Consensus Fail?  
 TIE: Today’s Golden Age of Poverty Reduction  
 Foreign Policy Article: The Utopian Nightmare  
*Optional—K&O: Chp. 22*

### III. EMERGING MARKET CRISES

- Mon. April 2           **The Mexican Peso Crisis and BB-NN Model**  
HBS Case (#9-702-093): Mexico: The Tequila Crisis 1994-1995  
Eichengreen Appendix: How Economists Understand Crises  
Economist Article: The Peso Crisis, Ten Years On
- Wed. April 4           **The Asian Crisis, Moral Hazard, Speculative Bubbles, and Contagion**  
HBS Case (#9-798-089): Bahtulism, Collapse, Resurrection: Financial Crisis in Asia  
Corporate Finance Review Article: How Do Currency Crises Spread Internationally?  
Economist Article: East Asian Economies: The Lost (half) Decade  
*Optional—Eichengreen Chapter: Understanding Asia's Crisis*  
*K&O: Chp. 22*
- Wed. April 4 &  
Thurs. April 5  
*12-1pm*               **Optional Recitation: An Example of the BB-NN Model—India**  
First Assignment Returned  
Room E52-175
- Mon. April 9           **The Argentine Crisis, Currency Boards and Currency Mismatch**  
Economist Article: Argentina's Collapse: A Decline Without Parallel  
Testimony to the Senate Banking Subcommittee: Argentina's Financial Crisis [abridged]  
Economist Article: Argentina's Troubles Have Increased Doubts about Currency Boards  
Economist Article: Argentina's Debt Restructuring  
*Optional—CEA White Paper: Growth-indexed Bonds: A Primer*
- Wed. Apr 11           **Predicting and Avoiding Currency Crises, Capital Controls**  
HBS Note (#9-702-082): Capital Controls  
*Cato Journal* Article: Capital Controls: Mud in the Wheels of Market Efficiency  
Bloomberg Article: Thailand Discovers Fury of Investors Scorned  
HBS Case (#9-799-088): Currency Crises (*skim history & focus on exercise*)
- Fri. Apr 13           **Forecasting Game: Final bets due** (In a box outside my office: E52-455)
- Mon. Apr 16           **Patriots Day Holiday**

### IV. CHALLENGES FACING DEVELOPED COUNTRIES IN THE 21<sup>st</sup> CENTURY

- Wed. Apr 18           **The U.S. Current Account Deficit and Global Imbalances**  
HBS Case (#9-706-002): The U.S. Current Account Deficit in 2005 (*skim historical section*)  
Morgan Stanley Note: USD: Dispelling Trade Myths  
Economist Article: Is the World Experiencing Excess Saving or Excess Liquidity?  
Economist Article: The Petrodollar Peg  
*Optional—CBO Brief: Recent Shifts in Financing the U.S. Current Account Deficit*  
*M: Chp. 5*
- Wed. Apr 18 &  
Thurs. Apr 19  
*12-1pm*               **Optional Recitation: BB-NN examples & Q&A**  
Room E52-175

- Mon. Apr 23**  
**11:30am to 1pm**  
**No morning class**
- Iraq and the Transition to a Market Economy,**  
 Guest Speaker: Chris Foote--former CPA Baghdad, Fed Reserve Bank of Boston  
 Room E51-345. Reading available on Sloan Space.
- Wed. Apr 25
- Globalization and the Rise of China: What Does it Mean for the U.S.?**  
 Testimony to U.S. House Committee on Ways and Means: China  
 Martin Wolf Lecture: Will Globalization Survive?  
 HBS Case (#9-701-048): Perspectives on Globalization  
*Optional—Bhagwati Article: Do Multinational Corporations Hurt Poor Countries?*  
*K&O: Chps. 9 & 11*
- Fri. Apr 27
- Second Assignment Due by 5:00pm. (In a box outside my office: E52-455)**
- Mon. Apr 30
- Outsourcing, FDI, and the Rise of India: What Does it Mean for the Global Economy?**  
 Foreign Affairs Article: The Outsourcing Bogeyman  
 HBS Case (#9-703-050): India on the Move  
 Economist Article: Thinking for Themselves  
*Optional—K&O: Chp. 2*
- Wed. May 2
- France, High European Unemployment, and the Philips Curve**  
 HBS Case (#9-795-064): Unemployment in France: "Priority Number One"  
 Economist Article: Curve Ball  
 Economist Article: Intricate Workings  
 Economist Articles: The Art of the Impossible & Insider and Outsiders  
*Optional—Goldman Sachs Paper: Europe: Challenged by Globalization*  
*M: Chps. 6 & 13*
- Wed. May 2 &  
 Thurs. May 3  
 12-1pm
- Optional Recitation: Additional Country Examples & Second Assignment Returned**  
 Room E52-175
- Mon. May 7
- Japan, Aging Societies, and Entitlement Reform**  
 Economist Articles: The Sun Also Rises  
 FT Article: The Sun is Still Rising  
 Economist Article: Forever Young  
 Economist Article: In the Long Run We Are All Broke  
*Optional— Economist Article: State Pensions in Europe*
- Wed. May 9
- Topic: TBA—What's New in International Economic Events?**  
 Readings—available on Sloan Space

## **V. REVIEW AND EXAM**

- Mon. May 14
- The Global Economic Outlook, Review Session & Winners of Forecasting Game**
- Mon. May 14  
 Evening
- Optional Review Session (run by TAs)**  
 4pm to 6pm in room E51-315 OR 6pm to 8pm in room E51-085
- Wed. May 16
- Final Exam**—in class, closed book