COURSE OVERVIEW
Global trade and capital flows have increased dramatically. Global growth reached record levels at the start of the 21st century. Analysts wrote about a new era of globalization in which financial crises were history, the business cycle had been tamed, prices were stable, and emerging markets could continue to rapidly develop and “decouple” from problems in the United States. Then a global financial crisis erupted—starting in the U.S. housing market and spreading around the world—shattering these optimistic predictions. Recent attention has focused on the immediate priority of resolving the current crisis, but as a result policymakers may once again delay addressing longer-term challenges, thereby planting the seeds for the next crisis.

This course builds on the basic tools of macro- and international economics from courses 15.012/15.015 to provide in-depth analyses of major economic challenges facing the global economy. It is divided into two sections. The first section examines the causes, lessons, and responses to financial crises, with a focus on understanding current events in the global economy. The second section explores other major global economic challenges, including: global imbalances, sovereign wealth funds, insolvent entitlement programs, global warming, inequality and poverty, and the implications of the rise of the BRICs (Brazil, Russia, India, and China) and “frontier” economies (such as Vietnam, Kenya, Ukraine, Kuwait, Nigeria, and the UAE) for the global economy.

SCHEDULING
The course meets on Tuesdays and Thursdays in Room E51-325. There are two sections (8:30 - 10am and 10 - 11:30am). If you are not able to attend your regular section, you are welcome to sit in on the other section, but please send an email to the TAs and professor.

There will be one guest lecture on climate change on Thursday, March 5th from 11:30am to 1pm in room E51-345. This lecture replaces the regular class and is highly recommended. Lunch will be provided.

There will also be 3 optional recitations on Wednesdays and Thursdays from 12pm-1pm. These sessions will review the technical models (including material from 15.012/15.015) and the assignments for the course. There will also be a longer, optional course review to prepare for the exam on Tuesday, March 4 from 4pm to 6pm and 6pm to 8pm (with the same material repeated in each session).

Finally, there is one entirely optional informal discussion on Wednesday, March 4 from 12pm to 1pm in room E51-325 about “Policymaking in the White House.” This is a chance to hear informal stories about how decisions are actually made and ask questions about life in the White House.
REQUIREMENTS
Course 15.012 or 15.015 is a prerequisite for this class. Before each class, you are expected to read the relevant articles. Some classes have fairly long reading assignments, so please refer to the Study Questions for guidance on what to focus on in the readings. For further detail on the class discussions, you can also review the optional textbook readings from Krugman and Obstfeld's (2008) *International Economics: Theory and Policy, 8th Edition* (called K&O below) and Blustein’s (2003) *The Chastening: Inside the Crisis that Rocked the Global Financial System and Humbled the IMF*. Both books are on reserve in the library and available at the Coop. They provide an excellent resource for anyone interested in the course or international economics more generally.

The course includes two written, group assignments. These are 3-5 page analyses of a specific macroeconomic challenge facing a country and provide an opportunity to apply the lessons and models from class to a situation in a country today. Assignments are done in groups of 3-4 and can include students in either section of the class. The key requirement for the group, however, is that you must have representation from at least 2 (and preferably 3) different continents.

The course also includes a closed-book final exam. It will be given on the last day of class during the regularly scheduled course time (Thursday, March 12).

The course will use Stellar and abides by Sloan Professional Standards. This class is only open to enrolled students who are taking the course for credit and who will complete all of the course requirements (including the final exam). Listeners and audits are not allowed.

GRADING
Final Exam (closed book, in class on March 12): 40%
2 Group Assignments: 30% (15% for each assignment)
Class Participation: 30%

CONTACT INFORMATION
Professor Kristin Forbes
Office: E52-455 Office Hours: Thurs. 1:00pm to 3:00pm
Email: kjforbes@mit.edu Phone: 617-253-8996

Teaching Assistants:
Marcio Cohen: email: mcohen@sloan.mit.edu
Sachin Gupta: email: sachin.gupta@sloan.mit.edu

Professor Forbes Assistant: Matt Hartman
Phone: 617-253-9748 Email: mlhart@mit.edu

SOME SUGGESTIONS FOR ADDITIONAL READING ON CURRENT EVENTS
VOX website for summaries of longer articles and analyses: http://www.voxeu.com/
Peterson Institute: Real Time Economic Issues Watch: http://www.petersoninstitute.org/realtime/
## 1. Financial Crises: Causes, Lessons, and Solutions

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>References</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tues. Feb 3</td>
<td><strong>Course Introduction and History of Financial Crises</strong></td>
<td>World Economic Outlook Update (July 2007): <em>International Monetary Fund</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>World Economic Outlook Update (Nov. 2008): <em>International Monetary Fund</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Financial Crises: Lessons From History: <em>BBC News</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>“The Aftermath of Financial Crises”: <em>Reinhart and Rogoff</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Optional — Blustein: chps. 1-2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>How Economists Understand Crises: <em>Eichengreen appendix</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Balancing the World: <em>Goldman Sachs Global Economics Weekly</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Optional — K&amp;O: chp. 18</td>
</tr>
<tr>
<td>Tues. Feb 10</td>
<td><strong>The Asian Crisis, Moral Hazard, Speculative Bubbles, and Contagion</strong></td>
<td>Understanding Asia's Crisis: <em>Eichengreen appendix</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>How Do Currency Crises Spread Internationally?: <em>Corporate Finance Review</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Beauty of Bubbles: <em>Economist article</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Gold from the Storm: <em>Economist Briefing on East Asian Economies</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>A Crash Heard Round the World: <em>Wall Street Journal</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Optional — Blustein: chps. 3-11</td>
</tr>
<tr>
<td></td>
<td></td>
<td>K&amp;O: pgs. 625-649</td>
</tr>
<tr>
<td>Wed. Feb 11 &amp; Thurs. Feb 12</td>
<td>OPTIONAL Recitation: Review of BB-NN model and other questions</td>
<td><strong>11:45pm to 1pm</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Wed. Feb 11th meeting in Room E51-145</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Thurs. Feb 12th meeting in Room E51-335</td>
</tr>
<tr>
<td>Thurs. Feb 12</td>
<td><strong>Predicting and Avoiding Currency Crises</strong></td>
<td>Capital Controls: <em>HBS Note (#9-702-082)</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Capital Controls: Mud in the Wheels of Market Efficiency: <em>Cato Journal</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Thailand Discovers Fury of Investors Scorned: <em>Bloomberg</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>EMs in the Crosshairs: <em>Goldman Sachs Global Economics Weekly</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Currency Crises: <em>HBS Case (#9-799-088)</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Optional — Blustein: chps. 12-13</td>
</tr>
<tr>
<td></td>
<td></td>
<td>K&amp;O: pgs. 649-659</td>
</tr>
<tr>
<td>Tues. Feb 17</td>
<td>NO CLASSES—MONDAY SCHEDULE OF CLASSES HELD</td>
<td></td>
</tr>
<tr>
<td>Wed. Feb 18 &amp; Thurs. Feb 19</td>
<td>OPTIONAL Recitation: Review of IS-LM model and other questions</td>
<td><strong>11:45pm to 1pm</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Wed. Feb 18th meeting in Room E51-145</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Thurs. Feb 19th meeting in Room E51-335</td>
</tr>
</tbody>
</table>
Thurs. Feb 19  
**The Crisis of 2007- ? : Causes, Lessons, and Responses**  
Banking in the Shadows & The Sum of All Fears: *Krugman* chps. 8 & 9  
The Fed’s Fierce Battle Plan & Bernanke’s Back Door Bailouts: *Business Week*  
Putting the Air Back In: *Economist*  
Lessons from a Lost Decade: *Economist*  
Transatlantic Model Wars: *Economist*  
Optional — *K&O*: pgs. 545-551; chp. 21

Thurs. Feb 19  
**FIRST ASSIGNMENT DUE**  
In a box outside my office (E52-455), by 5pm SHARP

---

### II. LONGER-TERM GLOBAL ECONOMIC CHALLENGES

**Tues. Feb 24**  
**The U.S. Current Account Deficit, Global Imbalances and Sovereign Wealth Funds**  
Resolving the Global Imbalance: The Dollar and US Saving Rate: *Feldstein*  
Paulson says Crisis Sown by Imbalance: *Financial Times*  
What Next for the Dollar? The Role of Foreigners: *VoxEU* article  
USD: Dispelling Trade Myths: *Morgan Stanley*  
Is the World Experiencing Excess Saving or Excess Liquidity?: *Economist*  
In Defense of Sovereign Wealth Funds: *Global Economics Paper No. 167*  
Optional — National Income Accounting: *HBS Note #9-797-075*  
Balance of Payments Accounting: *HBS Note #9-705-025*  
*K&O*: chp. 12; pgs. 163-170.

**Wed. Feb 25 & Thurs. Feb 26**  
**OPTIONAL Recitation: First Assignment Returned**  
11:45pm to 1pm  
Wed. Feb 25th meeting in Room E51-145  
Thurs. Feb 26th meeting in Room E51-335

**Thurs. Feb 26**  
**The Rise of the BRICs and Frontier Economies**  
Emerging at Last: *Economist*  
The Rise of Africa’s “Frontier” Markets: *Finance and Development*  
Testimony to U.S. House Committee on Ways and Means: China  
The Outsourcing Bogeyman: *Foreign Affairs*  
Economics Focus: A Tale of Two Worlds: *Economist*  
EMs Try a Different Sort of Medicine: But Will it Work?: *Global Economics Weekly*  
Optional — *K&O*: pgs. 273-280

**Tues. Mar 3**  
**Inequality and Poverty: What Matters and What Can We Do?**  
The World’s Silver Lining: *Economist*  
Asia’s Rich and Poor: *Economist*  
Economics Focus: Cheap and Cheerful: *Economist*  
Economics Focus: Krugman’s Conundrum: *Economist*  
The Expanding Middle: The Exploding World Middle Class & Falling Global Inequality  
Aid to Africa-The $25 billion question: *Economist*  
Economics Focus: A Choosier Approach to Aid: *Economist*  
The Copenhagen Solution: *Wall Street Journal*  
The Poor Man’s Burden: *Foreign Policy*  
Optional — *K&O*: pgs. 622-625
Wed. Mar 4

OPTIONAL (for fun): Policymaking in the White House
11:45am to 1pm in Room E51-325
Informal discussion with Professor Forbes on decision making and stories from her period in the White House; bring those questions (serious and frivolous) you’ve been wanting to ask; Feel free to bring your own lunch

Thurs. Mar 5

The Economics of Climate Change
SPECIAL TIME & PLACE
11:30am - 1:00pm
Room E51-345
GUEST SPEAKER, TREVOR HOUSER, VIA VIDEOCONFERENCE
LUNCH PROVIDED
Climate Change and the Economy: Finance & Development
How Climate and Competitiveness Fit Together: from Leveling the Carbon Playing Field
Global Warming and Agriculture: Finance and Development
As China Roars, Pollution Reaches Deadly Extremes: New York Times
Optional — K&O: pgs. 280-284

Thurs. Mar 5

SECOND ASSIGNMENT DUE
In a box outside my office (E52-455), by 5pm SHARP

Tues. Mar 10

Global Challenge Chosen by Class and Course Review
Potential topics—aging populations, oil & commodity markets, food prices, new international financial architecture, international institutions, common currencies; future of Europe, others?
Reading distributed by class after topic chosen by vote

Tues. Mar 10

TA Review Sessions (optional)
One session from 4 pm to 6pm in room E51-149
Repeat session from 6pm to 8pm in room E51-325

Thurs. Mar 12

Final Exam—in class, closed book