



Course 15.014

Global Economic Challenges

Syllabus

Spring 2009
Professor Kristin Forbes

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
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Teaching Assistants:

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SOME SUGGESTIONS FOR ADDITIONAL READING ON CURRENT EVENTS

The Economist Magazine: <http://www.economist.com/>
Roubini's Global Economics Monitor: <http://www.rgemonitor.com/>
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/>
Council on Foreign Relations: Geoeconomic Studies: <http://www.cfr.org/thinktank/greenberg/>
Greg Mankiw's Blog: <http://gregmankiw.blogspot.com/>
Brad DeLong's Blog: <http://delong.typepad.com/>

I. FINANCIAL CRISES: CAUSES, LESSONS, AND SOLUTIONS

- Tues. Feb 3 **Course Introduction and History of Financial Crises**
World Economic Outlook Update (July 2007): *International Monetary Fund*
World Economic Outlook Update (Nov. 2008): *International Monetary Fund*
Financial Crises: Lessons From History: *BBC News*
“The Aftermath of Financial Crises”: *Reinhart and Rogoff*
 Optional — Blustein: chps. 1-2
- Thurs. Feb 5 **The Mexican Peso Crisis and BB-NN Model**
Mexico: The Tequila Crisis 1994-1995: *HBS Case (#9-702-093)*
How Economists Understand Crises: *Eichengreen appendix*
Balancing the World: *Goldman Sachs Global Economics Weekly*
 Optional — K&O: chp. 18
- Tues. Feb 10 **The Asian Crisis, Moral Hazard, Speculative Bubbles, and Contagion**
Understanding Asia's Crisis: *Eichengreen appendix*
How Do Currency Crises Spread Internationally?: *Corporate Finance Review*
The Beauty of Bubbles: *Economist article*
Gold from the Storm: *Economist Briefing on East Asian Economies*
A Crash Heard Round the World: *Wall Street Journal*
 Optional — Blustein: chps. 3-11
 K&O: pgs. 625-649
- Wed. Feb 11 &
Thurs. Feb 12 **OPTIONAL Recitation: Review of BB-NN model and other questions**
11:45pm to 1pm
Wed. Feb 11th meeting in Room E51-145
Thurs. Feb 12th meeting in Room E51-335
- Thurs. Feb 12 **Predicting and Avoiding Currency Crises**
Capital Controls: *HBS Note (#9-702-082)*
Capital Controls: Mud in the Wheels of Market Efficiency: *Cato Journal*
Thailand Discovers Fury of Investors Scorned: *Bloomberg*
EMs in the Crosshairs: *Goldman Sachs Global Economics Weekly*
Currency Crises: *HBS Case (#9-799-088)*
 Optional — Blustein: chps. 12-13
 K&O: pgs. 649-659
- Tues. Feb 17 **NO CLASSES—MONDAY SCHEDULE OF CLASSES HELD**
- Wed. Feb 18 &
Thurs. Feb 19 **OPTIONAL Recitation: Review of IS-LM model and other questions**
11:45pm to 1pm
Wed. Feb 18th meeting in Room E51-145
Thurs. Feb 19th meeting in Room E51-335

- 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 GUEST SPEAKER, TREVOR HOUSER, VIA VIDEOCONFERENCE
& PLACE LUNCH PROVIDED
11:30am - 1:00pm Climate Change and the Economy: *Finance & Development*
Room E51-345 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**