

Applied Macro and International Economics

This course uses case studies to investigate the macroeconomic and international environment in which firms operate. The course is divided into four sections. The first develops the basic tools of macroeconomic management (monetary and fiscal policy) in the context of three historic cases. The second section evaluates different strategies of economic development, with topics ranging from technological progress and natural resources to exchange rates. Section three examines several recent crises in emerging markets, evaluating the causes of these crises as well as how to avoid them from reoccurring in the future. The final section of the course evaluates several challenges facing developed countries in the 21st century, such as European union, slow growth in Japan, the "new economy" of the US, and disputes over trade and globalization.

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 should also review the optional textbook reading, which is taken from either Dornbusch, Fisher and Startz's (2001) *Macroeconomics, 8th Edition* (called DF&S below), or Krugman and Obstfeld's (2003) *International Economics: Theory and Policy, 6th Edition* (called K&O below). Both 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 optional recitations on most Wednesday's from 12-1 (in room E51-149). These sessions will often preview the models to be used in class and are strongly recommended if you do not have a strong economics background.

Since this is a case-based class, 30% of your grade will be based on class participation. Another 30% will be based on two short group assignments, and the remaining 40% will be based on the final exam. The group assignments will involve reading an assigned article and writing a 5-page critique of the international/macroeconomic challenge facing a specific country. Due dates are April 15 and May 2. The final exam will be closed book and occur in class on May 12.

Contact Information:

Professor:	Kristin Forbes	Assistant:	Brandi Henson
Office:	E52-455	Office:	E52-450
Phone:	617-253-8996	Phone:	617-253-9748
E-mail:	kjforbes@mit.edu	E-mail:	blhenson@mit.edu
Web Page:	http://web.mit.edu/kjforbes/www/		
Office Hours:	Wed. 11:30am-3:00pm and by appointment		

Teaching Assistants

Adam Muller
adam.muller@sloan.mit.edu

Giulia Poli
giulia.poli@sloan.mit.edu

I. THE BASIC TOOLS OF ECONOMIC MANAGEMENT

- Mon. March 31 **The German Hyperinflation, Monetary Policy and the Velocity Theory**
HBR Article (#9-6108): "A Country is not a Company"
HBS Compilation: The German Hyperinflation
Article: "The Hyperinflation in Serbia"
Optional: HBS Note (#9-797-094): Note on Money and Monetary Policy
DF&S: Chps. 15 & 16; K&O: Chp 14
- Wed. April 2 **The Great Depression, Fiscal Policy and 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
Article: "Where Have All the Keynesians Gone?"
Optional: HBS Note (#9-797-076): Fiscal Policy: Managing Agg. Demand
DF&S: Chps. 5 & 18
- Wed. April 2 **Recitation: Preview of Solow Growth Accounting**
- Fri. April 4 **The Reagan Plan, National Income and Balance of Payments Accounting**
HBS Case (#381-173): The Reagan Plan
HBS Note (#N9-798-095): Reagan Plan Update
Article: "Supply Side Isn't Voodoo Anymore"
Article: "Should Ukraine Cut Tax Rates to Raise Tax Revenue"
Optional: DF&S: Chp. 2; K&O: Chp. 12
Article: "Fitting the Theory to the Facts: Robert Barro's Equivalence Theorem"

II. DEVELOPMENT STRATEGIES

- Mon. April 7 **Singapore, Productivity Growth, and Solow Growth Accounting**
HBS Case (#9-793-096): Singapore
HBS Note (#9-794-051): Accounting for Productivity Growth
Article: "Singapore Swing: Krugman Was Right..."
Article: "Singapore Sticks to State Planning in Restructuring Strategy"
Optional: Article: "Where Economics Stops Short"
DF&S: Chps. 3 & 4
- Wed. April 9 **Zambia, Natural Resource Dependence and Import-Substitution Policies**
HBS Case (#9-792-089): Reconstruction of Zambia
Article: "A Raw Deal for Commodities"
Article: "Zambian Copper: Tragically Undermined"
Optional: HBS Note(#3-83-073): Kennedy and the Balance of Payments
K&O: Chps. 10 & 182
- Wed. April 9 **Recitation: Preview of IS-LM Model**

- Fri. April 11 **Argentina, Currency Boards, the IS-LM model**
 HBS Case (#9-700-061): Menem and the Populist Tradition in Argentina
 HBS Case (#9-702-094): Argentina: Data Supplement
 Article: "The ABC's of a Currency Board"
Optional: Article: "Argentina's Collapse: A Decline Without Parallel"
DF&S: Chps. 10-12; K&O: Chp. 17
- Mon. April 14 **Chile, Floating Exchange Rates, the Inconsistent Trinity**
 HBS Case (#9-798-092): Chile: The Latin American Tiger?
 HBS Note (#9-384-171): Note on Exchange Rate Determination
 Article: "Fix or Float"
Optional: Article: "Business in Difficult Places"
K&O: Chps. 13 & 19
- Tues. April 15 **First Assignment Due by 5:00pm. (In a box outside my office: E52-455)**
- Wed. April 16 **China, Transition, and Corruption**
 HBS Case (#9-798-066): China: Facing the 21st Century
 HBS Note (#9-797-080): Transition to a Market Economy: The Components...
 HBS Note (#9-701-128): Corruption in International Business (A)
Optional: Article: "Through a Glass, Darkly"
Article: "Something Rotten in the State of China..."
- Wed. April 16 **Recitation: Preview of BB-NN Model**

III. EMERGING MARKET CRISES

- Fri. April 18 **The Mexican Peso Crisis and BB-NN Model**
 HBS Case (#9-702-093): Mexico: The Tequila Crisis 1994-1995
 Chapter: "How Economists Understand Crises"
Optional: DF&S: Chp. 19
- Mon. April 21 Patriot's Day Holiday
- Wed. April 23 **The Asian Crisis, Moral Hazard, Speculative Bubbles, and Contagion**
 Chapter: "Understanding Asia's Crisis"
 Article: "How Do Currency Crises Spread Internationally?"
Optional: Articles: "The Weakest Link: A Survey of Asian Finance"
K&O: Chps. 21 & 22
- Wed. April 23 **Recitation: Review 1st paper, Exercises**
- Fri. April 25 **Predicting and Avoiding Currency Crises, Capital Controls**
 HBS Case (#9-799-088): Currency Crises
 HBS Note (#9-702-082): Capital Controls
 HBS Note (#9-798-090): Responding to 21st Century Financial Crises
Optional: Article: "A Capital Idea? Reconsidering a Financial Quick Fix"
HBS Case (#9-796-116): International Institutions

IV. CHALLENGES FACING DEVELOPED COUNTRIES IN THE 21ST CENTURY

- Mon. April 28 **European Union, Optimal Currency Areas, and Pension Reform**
HBS Case (#9-799-131): European Monetary Union
Article: "Tyranny of the Tiny"
Article: "Birds of a Feather"
Article: "French Pensions: Work Now, Enjoy Later"
Optional: Article: "Social Security Reform Rocks the World," K&O: Chp. 20
- Wed. April 30 **France, Unemployment versus Inequality, the Philips Curve**
HBS Case (#9-795-064): Unemployment in France: "Priority Number One"
Article: "Economics Focus: Labours Lost"
Article: "Economics Focus: The White Heat of Technology"
Optional: Article: "A Civil Self-Service," DF&S: Chps. 6 & 7
- Wed. April 30 **Recitation: Informal session with TA's**
- Fri. May 2 **Japan, Deflation, and Liquidity Traps**
Articles: "What Ails Japan?"
Article: "The Ghost of Reforms Past?"
Optional: DF&S: Chp. 8
- Fri. May 2 **Second Assignment Due by 5:00pm. (In a box outside my office: E52-455.)**
- Mon. May 5 **The U.S., the "New Economy", and Current Account Deficits**
HBS Case (9-701-113): The U.S. in 2001-MacroPolicy in the New Economy
Article: "Comparing Symptoms"
Article: "Out of Sight, Out of Mind"
Chapter: "Is the U.S. Current Account Deficit Sustainable?"
Optional: Article: "Is Monetary Policy Less Effective These Days," DF&S: Chp. 14
- Wed. May 7 **Globalization and Trade**
HBS Case (9-701-048): "Perspectives on Globalization"
Article: "The IMF Strikes Back"
HBS Note: "The Economic Gains from Trade: Theories of Strategic Trade"
Optional: K&O: Chps. 9 & 11, Article: "America's Two-Front Economic Conflict"
HBS Note: Economic Gains from Trade: Comparative Advantage

V. REVIEW AND EXAM

- Wed. May 7 **Recitation: Review session and 2nd papers returned**
- Fri. May 9 **Review Session**
- Mon. May 12 **Final Exam**—in class, closed book
- Wed. May 14 **No Class**