COURSE OVERVIEW: The 21st century started with record global growth and rapid reduction in global poverty. Confident analysts wrote of the “Great Moderation” and predicted the end of sharp recessions due partly to better economic policy. Then a global financial crisis erupted—starting in the U.S. housing market and quickly spreading around the world. Policymakers took unprecedented actions to avoid a repeat of the Great Depression. The global economy stabilized, but the recovery in growth and unemployment has been slow in many countries. New challenges have arisen as central banks evaluate how and when to end unprecedented forms of monetary easing and many emerging markets face sharply slower growth. The euro zone continues to debate how to restructure its banking system, support growth, and avoid another crisis phase. Policymakers are so preoccupied with sustaining the recovery and handling immediate issues that many longer-term challenges have not only been ignored, but aggravated, potentially planting the seeds for the next crisis.

This course provides in-depth analyses of major economic challenges facing the world. It focuses on the global economic forces that will shape the business environment in the next decade and for which every organization should prepare. The goal of the course is to not only discuss the major global economic risks and opportunities, but also for students to develop the tools to understand and interpret events so that they can adapt to the surprises that will inevitably arise in the future.

The course is divided into four sections. The first section examines the causes of crises and how to predict them in the future. This section also develops the models and tools that will be used throughout the course. The second section focuses in more detail on the most recent crises in the United States and Europe. It also analyzes various policy options for avoiding and handling crises in the future, including new proposals currently being debated. The third section of the course explores other major global economic challenges, including topics such as: debt and unsustainable fiscal policies, exchange rates and currency wars, normalizing interest rates and monetary policy, inequality, poverty, and the rise of the BRICs and “frontier” economies”. The class will have the opportunity to vote on an additional topic and/or current event at the end of this section, including topics such as: aging populations, immigration, commodity markets, unemployment, sovereign wealth funds, natural disasters, etc. The final section of the course reviews the major lessons and discusses the outlook, challenges, and opportunities in the global economy.

SCHEDULE: The course meets on Tuesdays and Thursdays in Room E62-276. There are two sections (8:30am - 10am and 10am - 11:30am). Please attend the section for which you are registered—but if there is an emergency and you need to switch sections, please notify the TA in advance. There will also be optional recitations about once a month on Wednesdays and Thursdays from 11:45am-1pm. These sessions will preview the technical models and assignments that will then be covered only quickly during class time.

REQUIREMENTS: The lectures assume at least a cursory knowledge of international macroeconomics—either from 15.012, 15.015, or in college or your work experience. There is no formal prerequisite for the course, but if you do not have any background in this area, plan extra time to learn basic terminology and attend the recitations. To build some background in basic macroeconomic concepts and terms, you might also want to read *The Little Book of Economics: How the Economy Works in the Real World* by Greg Ip.
The major requirement for the course is the background reading before each class. In addition to the reading packet, there is one required book—*Boomerang: Travels in the New Third World* (Preface and Chapters 1-3) by Michael Lewis. It is recommended that you read this and a set of reference articles (listed at the start of the syllabus) before the first class. The background articles provide information on the key terms and data points that will regularly be used in the class. All articles (except the book) are available as an electronic or printed packet. **Some classes have fairly long reading assignments, so please refer to the Study Questions for guidance on what to focus.**

For further detail on the class topics, you can also read several optional books:

- Neil Irwin (2013). *The Alchemists: Three Central Bankers and a World on Fire*

These optional 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 four written assignments—one short individual paper and three group papers. These group assignments are 3-5 page analyses of a macroeconomic challenge facing a country and provide an opportunity to apply the lessons and models from class to a country today. Group assignments are done in groups of 3-4 and can include students in either section but must have representation from at least 2 (and preferably 3) continents. There is also a closed-book final exam on the Thursday, May 8 (one week before the last class) during the regularly scheduled course time.

The course uses Stellar. The class website includes an active discussion site—with links to current articles, recent events and optional readings. Students are encouraged to participate in the discussion.

**This class is only open to enrolled students who take the course for credit and commit to complete all of the course requirements (including the final).** Due to space constraints, listeners and audits are unfortunately not allowed. To be fair to students who are on the wait list for the course, if you complete the 1st assignment and take a spot in the class, it is expected that you will complete the course for credit. The course abides by Sloan Professional Standards.

**GRADING**

- Final Exam (closed book, in class on May 13): 40%
- 3 Group Assignments: 30% (10% for each assignment)
- 1 Individual Assignment: 10%
- Class Participation: 20%

**CONTACT INFORMATION**

*Professor Kristin Forbes*

Office: E62-416  
Email: kjforbes@mit.edu  
Web Page: http://web.mit.edu/kjforbes/ww

*Assistant:* Jessica Anderson: jland@mit.edu, phone: 617-253-6679

*Teaching Assistants:* Cameron Hosmer: chosmer@mit.edu and Melek Pelen: mpelen@mit.edu

**SOME SUGGESTIONS FOR ADDITIONAL READING ON CURRENT EVENTS**

*The Economist* Magazine: [http://www.economist.com/](http://www.economist.com/); a copy is also available on VERA


VOX website for summaries of longer articles and analyses: [http://www.voxeu.com/](http://www.voxeu.com/)


# I. FINANCIAL CRISES: CAUSES, MODELS, AND PREDICTION

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Readings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>This Time is Worse, <em>Economist</em> (01/11/14)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Optional: “The Aftermath of Financial Crises”: Reinhart and Rogoff</td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>The Alchemists</em> by Irwin, Chp 8</td>
</tr>
<tr>
<td>Wed. Feb 5 &amp; Thurs. Feb 6</td>
<td>OPTIONAL Recitation: Review of BB-NN model</td>
<td>11:45 to 1pm, Room E52-276</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The BB-NN (Salter-Swan) Model, <em>Handout for class</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Current Account Deficits: Is There a Problem?, <em>Finance &amp; Development</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Optional: <em>Fault Lines</em>, by Rajan, chp 3</td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>F&amp;T</em>, pgs 157-192, 345-350</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Capital Accounts: Liberalize or Not?: <em>Finance and Development</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Review “Never Saw it Coming” (reading by Greenspan from 1st class)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Optional: <em>The Little Book of Economics</em>, by Ip, chp. 15</td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>F&amp;T</em>, pg 376-396</td>
</tr>
<tr>
<td>Thurs. Feb 13</td>
<td>Contagion and The Role of Banks: Asia, Argentina, Iceland, and Ireland</td>
<td>Review <em>Boomerang</em>, Chapters 1 and 3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>A Parable of Two Debtors, <em>Economist</em> (04/14/11)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Optional: <em>Banks: At the Heart of the Matter</em>, <em>Finance &amp; Development</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>F&amp;T</em>, pgs. 351-373</td>
</tr>
<tr>
<td>Wed. Feb 19</td>
<td>GROUP ASSIGNMENT #1 DUE by 5pm</td>
<td>Hard copy in box in suite E62-431 (right off elevators). See Jessica Anderson with questions.</td>
</tr>
<tr>
<td>Thurs. Feb 20</td>
<td>Predicting Crises</td>
<td>Evaluating Country Vulnerability to Currency Crises, <em>Handout for Class</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Anticipating the Next Crisis, <em>Finance and Development</em> (09/09)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reserves and Other Early Warning Indicators Work in Crisis After all, <em>Frankel</em> (2010)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Currency Crises, <em>HBS Case</em> (#9-799-088)</td>
</tr>
<tr>
<td>Date</td>
<td>Event Description</td>
<td></td>
</tr>
<tr>
<td>------------</td>
<td>-------------------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
</tbody>
</table>
| **Mon. Feb 24** **NOTE SPECIAL TIME & PLACE** | Guest Speaker: Athanasios Orphanides, former Governor of Central Bank of Cyprus  
Cyprus and the Euro Crisis  
11:30am to 1:00pm; pizza lunch provided; Room E51-345  |
Banking in the Shadows & The Sum of All Fears, Krugman chps. 8 & 9  
The Origins of the Financial Crisis: Crash Course, Economist 09/13  
Review “Never Saw it Coming” (reading by Greenspan from 1st class)  
**Optional:** What is Shadow Banking?: Finance & Development, 06/13  
Over the Cliff: From Subprime to GFC, Mishkin (Winter, ’11)-pgs 49-58  
The Alchemists by Irwin, chps. 9-10  
Fault Lines, by Rajan, chps. 1.6-7  
F&T: pgs. 487-506, 157-192,  |
| **Wed. Feb 26 & Thurs. Feb 27** | **OPTIONAL Recitation:** Review of IS-LM Model & 1st Assignment Returned  
11:45 to 1pm, Room E62-276  |
| **Thurs. Feb 27** | **NO CLASS**—(Reward for extra session on Monday)  |
Monetary Policy: Stabilizing Prices and Output, Finance & Development  
Fiscal Policy: Taking and Giving Away, Finance & Development  
The IS-LM and AS-AD Models, Class Handout  
Lessons of the 1930s—There Could be Trouble Ahead: Economist (12/10/11)  
Stimulus v Austerity: Sovereign Doubts, Economist (09/13)  
**Optional:** Over the Cliff: From Subprime to GFC, Mishkin (Winter, ‘11)-pgs 58-68  
The Alchemists by Irwin, chps. 11-12, 14  
Fault Lines, by Rajan, chps. 4-5  
F&T, pgs. 266-278  |
| **Thurs. Mar 6** | The Current Crisis in Europe  
Review Boomerang, Chapter 2  
Can the Eurozone Survive?, HBS Case (#9-713-034)  
Teenage Sulks, Economist (11/13)  
Euro Zone Rode the Shock Waves in 2013: WSJ, 12/29/13  
**Optional:** Cross of Euros, Rourke & Taylor, (Summer 2013)  
The Alchemists by Irwin, chp. 13, 16, 17, 19  
F&T, pgs 399-435  |
| **Tues. Mar 11** | Preventing Crises, Part I: Exchange Rates, Reserves, and Capital Controls  
Exchange Rate Regimes, HBS Case (#9-704-038)  
What Drives Reserve Accumulation (and at What Cost)?, Yeyati (09/10)  
Capital Controls: HBS Case (#9-702-082)  
Tide Barriers: Capital Controls Would Work Better…., Economist (10/06/12)  
**Optional:** Updated Estimates of Fundamental Equilibrium Exchange Rates (Nov 2013)  
F&T, pgs. 25-38, 63-76, 99-105, 141-149, 303-342  |
| **Wed. Mar 12** | **GROUP ASSIGNMENT #2 DUE by 5pm**  
Hard copy in box in suite E62-431 (right off elevators). See Jessica Anderson with questions.  |
<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Reading and Resources</th>
</tr>
</thead>
</table>
| Thurs. Mar 13 | Preventing Crises, Part II: Macroprudential Regulations, Central Banks & New Proposals | Macropudential Policy: Protecting the Whole, *Finance & Development* (03/12)  
Monetary Policy After the Crash: Controlling Interest, *Economist* (09/13)  
Bankruptcy Regime for Nations Urged, *Financial Times* (01/13)  
Coco for Europe, *Eichengreen* (10/11)  
Optional: Growth-Indexed Bonds, *A Primer, Council of Economic Advisers*  
Charles P. Kindleberger (1991)  
The Little Book of Economics, *Ip* (chps. 9-11) |
|           | **III. LONGER-TERM GLOBAL ECONOMIC CHALLENGES**                       |                                                                                        |
| Tues. April 1 | International Institutions, Political Institutions, and Policymaking in the White House | Political Risk an Increasing Threat for EM Investors, *Financial Times*, 12/19/13  
Which Came First—Democracy or Growth?, *The Regional Economist*  
More Education does not Necessarily……, *Economist* (06/23/11)  
Optional: The IMF and the World Bank: How Do They Differ?, *Driscoll* |
| Wed. April 2 & Thurs. April 3 | OPTIONAL Recitation: Review of Open-Economy IS-LM Model & 2nd Assignment Returned, 11:45 to 1pm, Room E62-262 on April 3 and Room E62-276 on April 3 |                                                                                        |
| Thurs. April 3 | The BRICs and Frontier Economies: Is the Best Over—or Yet to Come? | Economics Focus-Why the Tail Wags the Dog, *Economist* (08/06/11)  
Optional: The Alchemists by Irwin, chp. 20 |
| Monday. April 7 | INDIVIDUAL ASSIGNMENT #1 DUE by 5pm | Hard copy in box in suite E62-431 (right off elevators). See Jessica Anderson with questions. |
| Tues. April 8 | Deficits and Debt: Sustainability and Solutions |  
How Government Debt Accumulates, *HBS Case* (#9-711-087)  
Risks to Growth from Build-ups in Public Debt, *Goldman Sachs* (March 2012)  
Financial Repression: *Finance and Development* (06/11)  
| Thurs. April 10 | Currency Wars and the Open Economy IS-LM Model |  
The IS-LM Model for Small, Open Economies, *Class Handout*  
The Weak Shall Inherit the Earth, *Economist* (10/06/12)  
Defining Moments in So-Called Currency War, *WSJ* (06/22/13)  
Currency War Scorecard, *The International Economy* (Spring 2013)  
Combating Widespread Currency Manipulation, *Gagnon* (July 2012)  
The Little Book of Economics, *Ip*, chp. 7  
F&T, pgs. 279-296, 374-375 |
| Tues. April 15 | **SPECIAL TIME 11:30am to 1pm** Guest Speaker: Sir Paul Tucker | Former Deputy Governor of Bank of England and expert on Financial Stability  
(no class during regular morning session); Room E51-345 |
| Thurs. April 17 | Poverty and the Developing World  
Towards the End of Poverty, *Economist* (06/01/13)  
The Best Story in Development, *Economist* (05/19/12)  
Poverty: Growth or Safety Net?, *Economist* (09/21/13)  
The Geography of Poverty, *Economist* (10/01/12)  
Measuring How and Why Aid Works—or Doesn’t, *WSJ* (04/30/11) |
| Fri. April 18 | GROUP ASSIGNMENT #3 DUE by 5pm  
Hard copy in box in suite E62-431 (right off elevators). See Jessica Anderson with questions. |
| Thurs. April 24 | Inequality  
For Richer, For Poorer…., *Economist*, pgs. 3-6, 12-24 (01/13/12)  
The Numbers Inside a Hot-Button Issue, *WSJ* (08/06/12)  
The Instability of Inequality, *Roubini Blog* (10/13/11)  
The Great Inequality Debate, Reynolds (09/10)  
*Optional:* It’s the Market….; Kaplan and Rauh  
Income Inequality, Equality of Opportunity, and Mobility, Corak  
Defending the One Percent, Mankiw  
*Fault Lines*, by Rajan, chps 1 & 9  
The Little Book of Economics, by Ip, chp. 4 |
| Tues. April 29 | Class Chooses Topic: Aging populations, immigration, unemployment, global imbalances, foreign investment, sovereign wealth funds, oil and commodity markets, natural disasters, or anything else timely…*Readings posted online* |
| Wed. April 30 and Thurs. May 1 | OPTIONAL Recitation: 3rd Assignment Returned and Practice Exam Questions  
11:45 to 1pm, Room E62-276 |

### IV. GLOBAL ECONOMIC OUTLOOK, COURSE REVIEW, AND EXAM

| Thurs. May 1 | Outlook for the Global Economy  
The West’s Turn: *Economist*, The World in 2014  
Global Trends 2030: Alternative Worlds, CIA/National Intelligence Council (Dec 2012)  
*Optional:* Financial Globalization: Retreat or Reset?: MGI (03/13), Exec Summary Update to the World Economic Outlook, (Jan 2014), IMF |
| Monday May 5 | MODEL REVIEW & EXAM PREP TAUGHT BY TAS  
*Optional but recommended:* Room E62-233  
4 pm to 5:30 pm in and same material from 6pm to 7:30pm |
| Tues. May 6 | Course Highlights and Review |
| Wed. May 7 | TA OFFICE HOURS: 4pm to 7pm  
Room E51-315. Come by with any last-minute questions. |
| Thurs. May 8 | FINAL EXAM—in class, closed book  
Sample exam from past years will be posted on website |
| Tues. May 13 | Optional Class—current events, White House stories, anything you wanted to ask? |
| Thurs. May 15 | NO CLASS |
| DATE TBD | Guest Speaker: Investing in the Global Economy |