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, trade, 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 and longest—section of the course evaluates several challenges facing developed countries in the 21st century, such as the U.S. trade deficit, high unemployment in Europe, aging populations and insolvent entitlement programs, high oil prices, and the emergence of China and India as major economic powers—including concerns about outsourcing, globalization, and job losses.

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 Mankiw’s (2003) *Macroeconomics* (called M below) or Krugman and Obstfeld’s (2003) *International Economics: Theory and Policy, 6th 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 four optional recitations on Wednesdays from 12pm-1pm in Room E51-335. These sessions will review the more technical models used in class.

The final exam (closed-book) will constitute 40% of your grade and will be given in class on May 17. An additional 15% of your grade will be based on class participation and 15% will be based on your performance in a short, team class presentation. The remaining 30% will be based on two group assignments. 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. Due dates are March 10 and April 14 (by 5pm in a box outside my office).

**Contact Information for Professor Kristin Forbes – Office Hours Wed. 12:30pm to 2:30pm**

Office: E52-455  
Assistant: Peter Crone  
Phone: 617-253-8996  
Phone: 617-253-9748  
E-mail: kjforbes@mit.edu  
Email: pcrone@mit.edu  

**Teaching Assistants:** Bruno Batista (bbatista@mit.edu) and Fernando Tome (ftome@mit.edu)
I. THE BASIC TOOLS OF MACROECONOMIC MANAGEMENT

Wed. Feb 8

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
Economist Article: Zimbabwe’s Cash Crisis
Optional—Box: The Hyperinflation in Serbia

Mon. Feb 13

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 & 14; K&O Chp. 14

Wed. Feb 15

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
Business Week Article: Where Have All the Keynesians Gone?
Optional—HBS Note (#9-797-076): Fiscal Policy: Managing Aggregate Demand
M: Chp. 9

Mon. Feb 20

Holiday – President’s Day (Note: Monday’s class will be held on Tuesday)

Tues. Feb 21

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
Economist Article: The Budget Deficit: Cocktail-Bar Calculations
HBS Note (#9-797-075): National Income Accounting
HBS Note (#9-705-025): Reading the Balance of Payments
Optional—Business Week Article: Supply-Side Isn’t Voodoo Anymore
Mankiw Box: Should Ukraine Cut Tax Rates to Raise Tax Revenue
M: Chp. 2, K&O: Chp. 12

II. DEVELOPMENT STRATEGIES

Wed. Feb 22

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

Mon. Feb 27

Chile, Floating Exchange Rates, and the Open-Economy IS-LM model
HBS Case (#9-798-092): Chile: The Latin American Tiger?
Economist Article: Fix or Float
HBS Note (#9-384-171): Note on Exchange Rate Determination
Optional—Economist Article: Chile: Writing the Next Chapter...
M: Chps. 10-12; K&O: Chps. 13 & 19
### Wed. Mar 1
**Zambia, Fixed Exchange Rates, and Natural Resource Dependence**
- HBS Case (#9-792-089): Reconstruction of Zambia
- Economist Article: A Raw Deal for Commodities
- Business Week Article: Lessons From the Fastest-Growing Nation: Botswana?
  - Optional—Economist Article: Commodities: A Certain Shine
- Economist Article: Zambian Copper: Tragically Undermined
  - K&O: Chps. 10, 17 & 18

### Wed. Mar 1
**Optional Recitation: Review of IS-LM Model**

### Mon. Mar 6
**China and the Inconsistent Trinity**
- Goldman Sachs Article: China’s Ascent: Can the Middle Kingdom Meet Its Dreams?
- Economist Article: Asian Squirrels
  - Optional—Economist Article: Something Rotten in the State of China
  - K&O: Chp. 15

### Wed. Mar 8
**The International Institutions and Western Consensus: What is the “Best” Strategy for Development**
- HBS Note (#9-796-116): International Institutions
- Foreign Policy Article: The IMF Strikes Back
  - **Additional reading to be distributed in class**

### Fri. Mar 10
**First Assignment Due by 5:00pm. (In a box outside my office: E52-455)**

### Mon. Mar 13**
**Iraq and the Transition to a Market Economy**
- Evening class
- 6pm to 7:30pm
- Journal of Economic Perspectives Article: Economic Policy and Prospects in Iraq
- HBS Note(#9-797-080): Transition to a Market Economy: The Components of Reform

### Wed. Mar 15
**Aid, Trade and Debt Relief: 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
- Foreign Policy Article: The Utopian Nightmare

### III. EMERGING MARKET CRISSES

### Mon. April 3
**The Mexican Peso Crisis and BB-NN Model**
- Eichengreen Appendix: How Economists Understand Crises
- Economist Article: The Peso Crisis, Ten Years On

### Wed. April 5
**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 5  Optional Recitation: Review of BB-NN Model & First AssignmentReturned

Mon. April 10 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 12 Predicting and Avoiding Currency Crises, Capital Controls
HBS Case (#9-799-088): Currency Crises
HBS Note (#9-702-082): Capital Controls
Cato Journal Article: Capital Controls: Mud in the Wheels of Market Efficiency

Fri. Apr 14 Second Assignment Due by 5:00pm. (In a box outside my office: E52-455)

Mon. Apr 17 Patriots Day Holiday

**IV. CHALLENGES FACING DEVELOPED COUNTRIES IN THE 21st CENTURY**

Wed. Apr 19 The U.S. Current Account Deficit and Global Imbalances
HBS Case (#N9-705): The U.S. Current Account Deficit in 2005
Morgan Stanley Note: USD: Dispelling Trade Myths
Economist Article: Is the World Experiencing Excess Saving or Excess Liquidity?
CBO Brief: Recent Shifts in Financing the U.S. Current Account Deficit
Optional—Series of Economist Articles: The Great Thrift Shift

Testimony to U.S. House Committee on Ways and Means: China
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

Wed. Apr 26 Outsourcing 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. Apr 26 Optional Recitation: Second Assignment Returned

Mon. May 1 European Union, Optimal Currency Areas, and European Enlargement
HBS Case (#9-799-131): European Monetary Union
Goldman Sachs Paper: Europe: Challenged by Globalization
Economist Article: Transformed
Optional—K&O: Chp. 20
Wed. May 3   France, High European Unemployment, and the Philips Curve  
HBS Case (#9-795-064): Unemployment in France: "Priority Number One"  
Economist Article: Chose Your Poison  
Economist Article: Europe’s Work in Progress  
Optional—M: Chps. 6 & 13

Mon. May 8   Japan, Aging Societies, and Entitlement Reform  
Economist Articles: The Sun Also Rises  
Economist Article: Forever Young  
Economist Article: In the Long Run We Are All Broke  
Optional— Economist Article: State Pensions in Europe  
U.S. ERP Chapter: Restoring Solvency to Social Security

Wed. May 10   Global Oil Markets, Alternative Energy Sources and Sustainability  
Economist Articles: Oil in Troubled Waters  
HBS Case (#9-702-030): World Oil Markets  
Economist Article: Recycling the Petrodollars

Wed. May 10   Optional Recitation: Review Session

V. REVIEW AND EXAM

Mon. May 15   The Global Economic Outlook and Review Session

Wed. May 17   Final Exam—in class, closed book