

# ***15.014: Global Economic Challenges***

## ***Syllabus: VERY PRELIMINARY***

***Professor Kristin Forbes – Spring 2009***

Global trade and capital flows have increased dramatically and global growth reached record levels at the start of the 21<sup>st</sup> century. Analysts wrote about a new era of globalization in which financial crises were history, prices were stable, and even smaller “frontier” economies in Africa, South East Asia and the Middle East could rapidly develop. Then a global financial crisis erupted—starting in the U.S. housing market and spreading around the world—shattering these optimistic predictions. As attention has focused on resolving the current crisis, concerns are building that longer-term challenges may be brushed aside—yet again—thereby planting the seeds for the next crises.

This course builds on the basic tools of macro- and international economics from courses 15.012 or 15.015 to provide in-depth analyses of major economic challenges facing the global economy. It is divided into two major sections. The first section provides an in-depth analysis of the causes, lessons, and responses to financial crises. The second section explores other major global economic challenges, including: global imbalances, sovereign wealth funds, insolvent entitlement programs, global warming, oil and commodity markets, and the implications of increased competition and investment from the BRICs ( Brazil , Russia , India and China ) and “frontier” economies” (such as Vietnam, Kenya, Ukraine, Kuwait, Nigeria, and the UAE).

Before each class, you are expected to read the relevant case and/or articles. For further detail on the class discussions, you can also review the optional textbook reading, from Mankiw’s (2008) *Macroeconomics, 7<sup>th</sup> edition* (called M below), Krugman and Obstfeld’s (2008) *International Economics: Theory and Policy, 8<sup>th</sup> Edition* (called K&O below) and Blustein’s (2003) *The Chastening: Inside the Crisis that Rocked the Global Financial System and Humbled the IMF*. All books are on reserve in the library and available at the Coop. They provide an excellent resource for anyone interested in the course, or macro/international economics more generally.

There will also be 3 optional recitations on Wednesdays and Thursdays from 12pm-1pm. These sessions will review the technical models from 15.012/15.015 and the group assignments for the course. The course will use Stellar and abides by Sloan Professional Standards. Course 15.012 or 15.015 is a PREREQUISITE for this class.

***Grading:***

Final Exam (closed book, in class on March 12):	40%
2 Group Assignments/Problems <sup>1</sup> :	30% (15% for each assignment)
Class Participation:	30%

### ***Contact Information for Professor Kristin Forbes, Office Hours on Thursdays, 1pm to 3pm***

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<sup>1</sup> 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.

## I. FINANCIAL CRISES: LESSONS, WARNINGS AND SOLUTIONS

- Tues. Feb 3            **Course Introduction and History of Financial Crises**  
Reading TBA
- Thurs. Feb 5           **The Mexican Peso Crisis and BB-NN Model**  
HBS Case (#9-702-093): Mexico: The Tequila Crisis 1994-1995  
Eichengreen Appendix: How Economists Understand Crises  
Economist Article: The Peso Crisis, Ten Years On
- Tues. Feb 10           **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*
- Thurs. Feb 12           **Predicting and Avoiding Currency Crises**  
HBS Note (#9-702-082): Capital Controls  
*Cato Journal* Article: Capital Controls: Mud in the Wheels of Market Efficiency  
Bloomberg Article: Thailand Discovers Fury of Investors Scorned  
HBS Case (#9-799-088): Currency Crises (*skim history & focus on exercise*)
- Tues. Feb 17           **NO CLASSES—MONDAY SCHEDULE OF CLASSES HELD**
- Thurs. Feb 19           **The Crisis of 2007-8: Causes, Lessons and Responses**  
Reading TBA

## II. GLOBAL ECONOMIC CHALLENGES

- Tues. Feb 24           **The U.S. Current Account Deficit, Global Imbalances and Sovereign Wealth Funds**  
HBS Case (#9-706-002): The U.S. Current Account Deficit in 2005 (*skim historical section*)  
Morgan Stanley Note: USD: Dispelling Trade Myths  
Economist Article: Is the World Experiencing Excess Saving or Excess Liquidity?  
Economist Article: The Petrodollar Peg  
*Optional—CBO Brief: Recent Shifts in Financing the U.S. Current Account Deficit*  
*M: Chp. 5*
- Thurs. Feb 26           **Japan, Aging Societies, and Entitlement Reform**  
Economist Articles: The Sun Also Rises  
FT Article: The Sun is Still Rising  
Economist Article: Forever Young  
Economist Article: In the Long Run We Are All Broke  
*Optional— Economist Article: State Pensions in Europe*

- Tues. Mar 3            **The Rise of the BRICs and Frontier Economies**  
Foreign Affairs Article: The Outsourcing Bogeyman  
Economist Article: Thinking for Themselves  
Testimony to U.S. House Committee on Ways and Means: China  
Martin Wolf Lecture: Will Globalization Survive?
- Wed. Mar 4            **The Economics of Global Warming**  
\*\*\*OPTIONAL GUEST LECTURE \*\*\*\*  
12PM TO 1PM, LUNCH PROVIDED
- Thurs. Mar 5           **Oil, Commodity and Food Markets**  
Reading TBA
- Tues. Mar 10           **TOPIC TBA—SELECTED BY CLASS**  
Possible options: Inequality, oil markets, international financial institutions (IMF, World Bank), others?
- Thurs. Mar 12           **Final Exam—in class, closed book**

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