

Global 136 – Global Economic Imbalances (Spring 2024)

Class: TR: 9:30-10:45 am, 1444 Phelps

Office hours: Tue, 11-12 (2001 SSMS); Wed, 5:15-6:15 pm, [on Zoom](#); Thurs, 8:15-9:15, 2011/2111 SSMS.

Motivation: Global 136 studies the economic connections between households, companies and governments in different parts of the world. The connections involve production, consumption, investment, trade, employment, taxation, and finance. By explaining how these connections are structured, analyzing economic decisions taken by those in positions of authority, and reflecting on how these decisions affect different actors, the course will help you to better understand the mechanisms at play as power shifts in an evolving global economic order.¹

We will begin by define terms and examining a series of logical identities (equations that can never be wrong) that structure the global economy. For example: a country running a bigger trade deficit must balance this through overseas earnings or by selling assets to the rest of the world; and this can only happen if domestic actors in the home country together sell enough assets or take on enough debt. Thus, international production and trading relations are structurally inseparable from adjustments in the distribution of wealth inside countries. We refer to countries' tendencies to run trade or financial surpluses and deficits as "Global Economic Imbalances" (see the last page of this syllabus for a brief historical description). The rest of the course then seeks to understand: why different actors occupy different structural positions within the global economy and within national economies; why imbalances can lead to crises, how these crises are managed, and who is helped and hurt; what economic policies might fix emergent problems; and what the policies actually selected reveal about politics.

To do this, we will cover the basics of macroeconomic management in the short-run, drawing on theory, simple models and lots of newspaper articles to make sense of fiscal, monetary and exchange rate policies, as well as of broad ideological divides with respect to the role of the state. We will then turn to inequality and its relationship to growth and structural transformation. The last four weeks of the term focus on structural transformation, examining the pros and cons of pursuing economic development through commodity agriculture, manufacturing, services, and the technology sector.

By the time this is done, you should have a better understanding of (some of) the economic structures that underpin world politics

Materials: The course reader (.pdf) and the slides for the quarter (.pptx) are available on Canvas. Printed and bound copies of each are available from the Associated Students' copy shop. I do not permit electronics in class, so you will have to purchase a paper copy or print your own. I also require you to read the Financial Times. See the Canvas website for subscription information. I will also occasionally post additional readings on Canvas.

¹ This is obviously a giant undertaking, and no one course will do it all. Global 136 will focus on "real economy" (i.e. non-financial) economic structures. It is designed to pair with Global 132 (Prof. Cerpa Vielma), which treats the political-economy of global finance and money.

Requirements: Videos and Quizzes (10%); Questions about Readings (10%); Pre-Req Exam (10%) Homework (30%), Course Participation (10%), Group Project (30%).

- Online activities: Videos and Quizzes. Complete these on Canvas before class on the date due. Access will be automatically turned off when class begins. Quizzes will test you on material taught in the previous video. Videos and quizzes will permit us to “flip” the classroom, leaving time for deeper discussions in class.
- Questions on readings: Post 1-2 comments/questions after completing your reading. These will be by 7 pm on Mondays/Wednesdays, and will allow me to read ahead and prepare succinct responses to your questions. For full credit on this piece of the course, make 6 submissions during the quarter and convince me, by asking questions that really address the argument of the reading, that you have read the piece carefully and really thought about it analytically. You will never see your scores on this.
- Mini-Exam on Prerequisite Knowledge: In-class, 20 minutes, multiple choice, on Tuesday, 23 April. I will bring bubble sheets. Bring pencils, erasers and a clear mind. No calculators allowed.
- Homework: 5 assignments, mostly @6% each. Due in class on the date listed. Work on HW# 1-4 in groups of 2-4 students. Solo submissions are only permitted for those who cannot join a group for reasons related to personal (e.g., childcare) or work commitments. If a group member is not putting in the effort, ask them to shape up or work on their own. Turn in one assignment per group. HW#5 is to be completed individually and uploaded as an MS Word file. One late assignment is permitted, no questions asked, if you email me before it is due, list the students who will be turning it in late, and turn it in no more than one week late.
- Final Project: Work in groups of 3 students (I may OK one or two pairs to make the numbers work), each of which will pick a country.² Follow a newspaper from that country throughout the term (there is an app for that). I have provided links to several online resources that will give you most of the quantitative data you need for this project, but a large part of the job will be to identify, download and process the relevant data series (with help from a course data-assistant). The objective of the assignment is to show how the country’s political-economy relates to its position in the global economy, and what this means for politics, institutions and public policy (whether monetary, fiscal, industrial, trade, social, military or environmental). Your work on this proceeds in two phases:
 - Preparation: The Country Report Checklist lists 5 sets of questions and deadlines by which each set must be answered. Please type up and submit your answers as a group, on Canvas. I will allocate rough scores to each assignment based on effort, completeness,

² I may consent to you working alone if you have an academic reason to study a particular country that other people do not wish to study, or some personal circumstance that precludes group work - you live far away, have children, etc. However, I do not recommend it – the workload will likely be too high.

grammar, and spelling. Where information is not available, please state where you have looked for this information, so that I can assess the effort you have put in. If you turn in a particular set of questions up to one week late, you will be eligible for 80% of the score. You will not be able to turn in a set of questions more than one week late. Your work on these assignments will be worth 16% of your course grade.

- **Final Presentation:** Each group will make a 10-minute PowerPoint presentation evaluating the political-economy situation in their country, and its relation to the country's position in the global economic and political order. **This will be held instead of a final exam, on Tuesday, 11 June, 8-11 am, in 1944 Phelps. Being present for this session is a course requirement.** It will be worth 14% of your course grade. Your presentation will be graded on content, the appropriate use of charts and graphs, the professionalism of your slides and delivery, and the quality of your argument. Your paper/presentation must make an argument about the political-economy of the country that can be checked – and must provide evidence supporting that argument. It must use some of the theories and accounting identities we cover in the course, along with macroeconomic data (which you will put into charts and graphs as needed) to explain how the country is positioned in the global economy, and how this position relates to domestic and international political forces. We will prepare a sample presentation for you, so you will have a good feel for the assignment. I have hired a graduate assistant, who will hold help-sessions by appointment over Zoom (or in a computer lab – their choice) to help you with your Excel charts and PowerPoint.
- **Course participation:** Assessed on the quality and quantity of your contributions (emphasis on quality), respect for your classmates, and effort (attendance, engagement with the material – especially readings). I will keep track of each student's participation in each meeting of the class, but will never share this information with you. To make sure that you are truly engaging your readings (including the Financial Times), I will randomly select students to ask about them in each class. Be ready! **Please upload a clear picture of your face on Canvas by 11:59 pm on Sunday, 7 April.** This will be worth 1% of your course grade.

Attendance: Class will meet in person. I may be out of the country for one week, and if so, we will meet on Zoom at the usual time. Attendance is mandatory, with exceptions only for legitimate reasons. If you think you may have a legitimate reason for missing multiple class meetings, please contact me immediately to discuss.

Personal Problems: When any sort of personal difficulty prevents you from participating fully in class, please let me know immediately! The course requires constant engagement.

Prerequisites: Global 130 is a prerequisite. Most of you took it from me. I have listed the topics I expect you to know on Canvas, and provided links to videos and quizzes. If you know this material already, you can skip it, although I recommend you complete the quizzes. Come see me in OH to clear up any doubts.

Mathematics: This course draws on basic arithmetic skills, for which you will find a refresher on Canvas.

How to Study/Read for this class: Always read my course notes *before* class. Read any Baumol & Blinder sections once quickly before class, and again in detail after class to make sure you got it all. All other readings are to be done, with a view to capturing the essence of the piece, before class. To really get the most out of this course, and to see whether International Political Economy is your thing, I recommend that you read the Financial Times for 30-60 minutes daily (see link on Canvas for \$19/month digital subscriptions). Concepts in this course are sequential, so YOU MUST NOT GET BEHIND.

How to get your questions answered: The course content is tightly managed, leaving relatively little time for digressions. If you have burning questions about something that does not relate directly to the topics or readings for the day, please bring them to office hours, ask me after class. Better yet, send me a relevant newspaper article or two in advance of our meeting so that I can address it properly.

Debates: I am far less interested in class in *what* you think than in *how* you think. My goal is to make your thinking (and mine!) more flexible and responsive to evidence of all sorts. However, I will endeavor to provide multiple sides of debates in class. I will also be available in OH for free-wheeling debate, and to help you mull your normative views on the issues raised in the course.

Cheating/Academic Dishonesty

The following is departmental policy, to which I will defer in all circumstances.

- It is the policy of the Global Studies Department not to tolerate academic misconduct of any sort.
- Academic misconduct is defined by the university. It includes, but is not limited to, plagiarism, copying or putting your name on somebody else's work, and cheating on exams. Violations of course-specific policies intended to prevent academic misconduct constitute academic misconduct. Aiding an act of academic misconduct is academic misconduct. Please read [the university's policy here](#). Ignorance is not an excuse.
- Any instructor in charge of a course informed of the possibility of academic misconduct will look into the matter. If the instructor determines that there is "reasonable suspicion" of academic misconduct, they will gather what facts are available and refer the matter to the Office of Judicial Affairs. Judicial Affairs will adjudicate whether a penalty is appropriate and what it should be, not the instructor.

Storyline: Beginning with Mexico in 1982, a sequence of economic crises has hit countries around the world. The story of each crisis has somehow involved high levels of borrowing, which has been facilitated by a dramatic growth in the scale and scope of global financial intermediation. In each case, seemingly intractable economic and political problems created incentives for borrowers to take on too much debt, for investors and their intermediaries to undervalue risks, and often for governments to encourage this. Then a shock brings a reckoning, and the response may be read to inquire about the shifting balance of global economic and political power.

And shifted it has. Most obviously, the identities of the borrowers and lenders have changed. Generalizing slightly, crises resulted from excessive (foreign-currency) borrowing by developing country governments in the 1980s; by developing country banks, firms and consumers in the 1990s; by rich country banks, firms, consumers and governments by the 2000s; and again by developing country governments and (Chinese real estate companies) since the COVID pandemic. The finance fueling these loans, which had mainly come from the trade surpluses of oil producing governments and Western private interests in the in the 1970s, has increasingly come from the trade surpluses of export-oriented Asian economies starting in the 1990s, with China playing an outsized role in recent years. The US, UK and several other OECD countries have principally run the trade deficits that made this possible. But now, with slower growth in advanced economies since the 2008 Financial crisis, loans and goods are starting to flow from the global East to the South. We will refer to these trade and financial surpluses as global imbalances.

Trade and financial imbalances are two sides of the same coin. Some economies sell assets or borrow in order to run trade deficits. Others run trade surpluses and lend their savings to those running trade deficits. Running trade deficits and borrowing makes sense when this facilitates growth and repayment. Doing so when it does not facilitate growth and repayment results in either a transfer of asset ownership to creditors, or a contingent transfer of power – when a loan can't be paid, the borrowing economy faces a crisis may unless the creditors choose to avert it. We therefore study global imbalances to understand shifting global power relations.

Similarly, international economic imbalances and crises reflect more than *international* power relations. After all, debts and finance must be raised domestically before they can be exchanged internationally. By examining who raises excessive amounts of debt, and who finances it and why, we will therefore shine some light on the domestic forces and dilemmas that lead some countries to surrender power on the global stage, and others to acquire it.

Session	Date	Topic (Readings)	Due
1	2-Apr	Introductions	
2	4-Apr	Themes - International & Domestic Imbalances (Klein & Pettis, 2020, Intro & Ch. 3) - The state of economics (IMF, Finance & Development, Selections)	Online : Identities & Trade Imbalances (Hard deadline by 9 Post questions/comments on Klein & Pettis Post questions/comments on The State of Economics
3	9-Apr	Identities I Course Note on Accounting Identities The circular flow in a closed economy. (B&B, Ch. 25, pp. 537-541 only)	Online : Why GDP & Market Income are (Almost) the Same thing; the Pros & Cons of GDP; Who buys the GDP
4	11-Apr	Macroeconomic Objectives - Macro Objectives (B&B, Ch. 23) - L vs. R at full employment ("In Wisconsin, a vote for Biden..."; Washington Post) - The rise and fall of US economic growth (Gordon, Ch. 1)	Post Questions on 20th Century Economic History video Post questions on B&B, Ch. 23 Post questions on Gordon, Ch. 1
5	16-Apr	Identities II - Course Note on Accounting Identities; B&B, Ch. 25 (pp. 537-541 only) - China (Klein & Pettis, Ch. 4) - Deficits, Debt & Debt Sustainability (My Excel Sheet) - Sudden Stops (Cecchetti & Schoenholtz, 2018)	Country Facts : Part A Online : More Accounting Identities; The Circular Flow in an Open Economy Post questions of Klein & Pettis, Ch. 4 Play with my Excel sheet before class. Post questions on Cecchetti & Schoenholtz
6	18-Apr	Short-Run Macroeconomic Management - AS & AD (B&B, Ch. 22) - Neoclassical vs. Keynesian Macro (Other Worldly Philosophers) - Relative growth rates, the growth of differences, and the growth or ratios (Course Note on Compounding and Relative Growth Rates)	Online : AS & AD, A first pass; Inflation, Recession, Growth - A first pass; Inflation, recession, growth - A Deeper View Post questions on the Other Worldly Philosophers
7	23-Apr	Catch-up Day -PREREQUISITES QUIZ - Notes on Compounding and Relative Growth - Catch-up (B&B, Ch. 22, 23; sudden stops)	Country Facts : Part B Online : One final Identity
8	25-Apr	The Keynesian Cross - Catch-up (B&B, Ch. 22, 23; sudden stops) - Course note on Keynesian Economics (pp. 1-3; B&B, Ch. 25)	HW#1 : Trumponomics (due Friday, noon)
9	30-Apr	Multipliers: L vs. R - Bringing in the supply side (B&B, Ch. 26, 28) - Course note on Keynesian Economics (pp. 4-8) - Work on HW#3 - Recap through application ("After 140 Brutal days, Milei...") - Deficits, Debt & Debt Sustainability (Eichengreen, 2020)	Country Facts : Part C Post questions on Milei/Argentina Post questions on Eichengreen
10	2-May	Exchange Rates - Exchange rates explained (Colander, Ch. 32 (first 5 pages before class, rest after); Cheat sheet on X-rates and the BOP)	HW#2 : Sudden Stops
11	7-May	The BoP Constrained Growth Model - The East Asian Financial Crisis (Stiglitz, 2003, Ch. 4) - McCombie & Thirlwall, Ch. 3 (Read after class)	HW#3 : L vs. R on Multipliers Post Questions on Stiglitz (2003, Ch. 4)
12	9-May	The Impossible Trinity - Your questions on McCombie & Thirlwall - The Trilemma Explained (Aizenman, 2010)	Post Questions on McCombie & Thirlwall (2003, Ch. 4)
13	14-May	Growth and Inequality - Your questions on Aizenman - Relative vs. Absolute Inequality (Course note on Growth & Inequality) - Inequality, Growth and Purchasing Power	Country Facts : Part D Post Questions on Aizenman Online : Gini Coefficient and Lorenz Curve (Khan Academy)

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14	16-May	<u>Agriculture I</u> <u>Microeconomics of Ag (Thirteen things about...; things 1-8 only)</u> Pendergrast, Ch. 10 Mugged - Poverty in your cup (read online)	<u>HW#4:</u> Exchange Rates <u>Online:</u> Your questions on the coffee stories
15	21-May	<u>Agriculture II</u> <u>Microeconomics of Ag (Thirteen things about...; things 1-13)</u> - Farm protests in India (Krishnamurthy, Aiyar, Narayanan)	 Online: 45 minute interview with Economist Ashok Gulati <u>Online:</u> Your questions on Indian farm protests (Gulati, Krishnamurthy etc.)
16	23-May	<u>Manufacturing</u> - Why manufacturing is an engine of growth (Szirmai, 2012) - In a globalized world, the engine runs out of steam (Felipe et al. 2019, sections 1-3)	 <u>Online:</u> Your questions on Szirmai and on Felipe et al. (2019)
17	28-May	<u>Services I</u> - The Cost Disease (Baumol, Ch. 1-5)	 <u>Online:</u> Your questions on the Cost Disease
18	30-May	<u>Services II</u> - The Services Trilemma (Iversen & Wren, 1998, selection)	 <u>Online:</u> Your questions on the Services Trilemma
19	4-Jun	<u>The Tech Sector (Readings TBD)</u>	 <u>Country Facts:</u> Part E <u>HW#5:</u> Mystery Assignment
20	6-Jun	<u>Taxation / Wrap-up (Readings TBD)</u>	