

Global 136 – Global Economic Imbalances (Spring 2017)

Class: Tuesday, Thursday 2-3:15 (1109 Girvetz).

Office hours: Tuesdays, 3:30-4:30 and Thursdays, 1-1:50 (Coral Tree Cafe).

Objective: Provide an overview of global financial and trade imbalances, the forces driving them, the reasons they result in frequent crises, and what governments can do / have done about this. This opens up a discussion of national politics and policy, and of their effects on the global distribution of financial and economic power. To build foundations for this discussion, we will cover some basic open-economy macroeconomics, much of it with the aid of on-line videos.

Storyline: A sequence of financial and balance-of-payments crises, picking up with Mexico in 1982, has hit countries around the world. The root causes have in each case involved excessive borrowing, which was made possible by a dramatic growth in the scale and scope of global financial intermediation. Perhaps tautologically, this tendency to excess has been ascribed to political causes. Regulatory lapses, implicit loan guarantees and other policy failures that created incentives for borrowers to take on too much debt and for investors and their intermediaries to undervalue risks.

While these broad mechanisms have not changed too much over time, this constancy belies a much larger shift in the balance of global economic and political power: the identities of the borrowers and lenders have changed. Generalizing slightly, crises resulted from excessive borrowing by developing country governments in the 1980s; by developing country banks, firms and consumers in the 1990s; and by rich country banks, firms, consumers and governments by the 2000s. 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. The US, UK and several other OECD countries have run growing trade deficits that make this possible. We will refer to these trade and financial surpluses as global imbalances.

This course is premised on the notion that loans are not simply business arrangements. Governments, firms and consumers borrowing excessively make a contingent transfer of power and resources to their creditors. The contingent nature of this transfer is important - it is in moments of crisis, when a debt cannot be repaid, that the extent, nature and implications of the power transfer become apparent. We therefore study global imbalances to understand shifting global power relations¹, and we study financial crises to understand how this power is likely to be wielded and the transition negotiated.

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 can 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.

¹A quick word of caution: Not all debt is excessive. Taking on a reasonable amount of debt involves a low probability of default, and therefore has fewer political implications. My intent here is not to imply that if country A finances the borrowing of country B, then A is strong and B is weak. Such inferences are only possible when B borrows “too much”, and so courts a serious risk of insolvency. Unfortunately, how much borrowing is “too much” is a matter of judgment, and a consensus on this only emerges ex-post.

This approach will therefore lead us to consider a variety of important domestic political forces in major economies.

Materials: There will be a course reader available through the Associated Students' copy shop. As I do not permit electronics in class, you will have to purchase a paper copy. Also, I will require you to read the Financial Times. See website for subscription information. The Economist magazine is an excellent additional resource. I will also occasionally post readings on Gauchospace.

Requirements: Quizzes (25%), Homework (24%), Course Participation (20%), Oral Final Exam (26%).

- **Quizzes:** Complete before class on the date due. Access will be automatically turned off when class begins. Quizzes will either test you on material taught in the previous video, or will incentivize you to do your reading. Videos and quizzes will permit us to “flip” the classroom, leaving time for deeper discussions in class.
- **Homework:** 4 assignments @ 8% each. Due in class on the date listed. Work on this in groups of 1-4 students, and turn in group assignments. One late assignment permitted, no questions asked. Just be sure to email me before the class session on which it is due, listing the students in the group that will be turning it in late. The option of solo submissions is included for those who cannot get to a group for reasons related to personal (e.g. child-rearing) or work commitments. I strongly encourage you to turn in homework in groups. This will help you to engage the material no matter what your role in the group. However, that if you have a group member that is not studying, you should ask them to shape up or work on their own.
- **Final Exam:** I will hold a 10-12 minute oral exam with each of you at the end of the quarter (schedule TBD). In it, I will ask you to demonstrate your knowledge of the core concepts we have studied. No two exams will be the same. There is a large amount of material. The only way to do well on it is to deeply and carefully engage the material throughout the quarter.
- **Course participation** is assessed on the quality and quantity of your contributions (emphasis on quality), respect for your classmates, and effort (including attendance, and my impressions of your engagement with the material – particularly the readings). I will be keeping 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! In order that I can learn your names quickly, please upload a clear picture of your face (not a distant shot, or a picture of your dog or your sunglasses) on the Gauchospace site by 11:59 pm on Sunday, 9 April. As an incentive, this will be worth 1% of your course grade.

Personal Problems: If you are facing any sort of personal difficulty that would prevent you from participating fully in class, please let me know immediately! As you can see, the course requires constant engagement.

Mathematics: This course will require you to utilize arithmetic, including addition, subtraction and basic calculations using fractions, decimals and percentages. You will also be required to read graphs, work with the

equation for a straight line, and be able to find the intersection of two straight lines. I will not cover this material in class.

How to Study/Read for this class: Always read my course notes *before* class. Read the B&B 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. Read the Financial Times for 30-60 minutes daily. Concepts in this course are sequential, so YOU MUST NOT GET BEHIND.

Pedagogical Approach: 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 it to office hours, ask me after class, or write to me and send me a relevant newspaper article or two so that I can address it properly. I believe strongly that, when a student is new to a subject, *what* they or their instructor think is far less important pedagogically than *how* they think. My focus in this class is therefore on how we can make our own thinking more flexible and responsive to evidence of all sorts. I will manage time in class accordingly. However, I will endeavor to provide multiple sides of debates in class, and will be available for free-wheeling debate, and to help you mull your normative views on the issues raised in the course outside class.

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.

Global 136, Spring 2017

Week	Date	Concepts	Format	Readings - before class, unless indicated	Assignments due:
INTRODUCTIONS					
ONE	4-Apr	Themes and Administration	In Class	After class - The cat in the hat comes back,	
	6-Apr	Introduction to Macroeconomics	In Class	B&B Ch. 5	
		Identities & trade imbalances	Video		Quiz 1
		AD & AS - a first pass	Video		Quiz 2
		Drunken master	Video		
		An AS-AD sketch of how fiscal and monetary policy work	In Class		
TWO	11-Apr	The Goals of Macroeconomic Policy	In Class	B&B, Ch.6	
		Inflation, recession, growth (part 1)	Video		Quiz 3
		Inflation, recession, growth (part 2)	Video		Quiz 4
		History of economic thought (Recap)	Discussion	The other worldly philosophers	
	13-Apr	Income Accounting Identities			
		Output \equiv Income	In class, KA	B&B 87-91, 162-168	
		Components of aggregate demand	Video	B&B 147-151	Quiz 5
		More accounting identities	Video	Course note on accounting identities	Quiz 6
THREE	18-Apr	Deficits and Debt, in theory and practice	In Class		
		Debt, Equity and Leverage	Video		
		One final identity	Video	Course note on accounting identities	Quiz 7
		Deficits & Debts; Stimulus and Austerity - explained	In Class	Course note on accounting identities	
		Deficits & Debts; Stimulus and Austerity - in practice	In Class	Kindleberger (30-41), Roubini (2012), BBC (2015)	
THE BALANCE OF PAYMENTS AND EXCHANGE RATES					
	20-Apr	The Balance of Payments and REERs			
		The Balance of Payments	In Class	Colander (752-6)	
		REERs, Exports and Imports	In Class	About.com, Catao	
		How nominal exchange rates are set	Video	Colander (756-9)	Quiz 18
FOUR	25-Apr	Currency Management: direct intervention and indirect intervention	In Class	Colander, the rest of Chapter 32	
	27-Apr	The Impossible Trinity	In Class	Aizenman (2010)	
SOME HISTORY					
FIVE	2-May	Industrialization: ISI and EOI	In Class	Rajan, Ch. 2; Studwell (2013, 71-108).	HW#1: The BoP and Exchange rates
	4-May	The 1982 Debt Crisis and the Washington Consensus	In Class	Williamson (1990); Rodrik (2006)	
SIX	9-May	The 1997 Asian Financial Crisis	In Class	Stiglitz (2003), Chapter 4; Rogoff - The IMF Strikes Back; Rajan, Ch. 3.	
	11-May	The US Problem	In Class	Rajan, Ch. 1 and Ch. 4	
SEVEN	16-May	The 2008 Financial Crisis	In Class	Rajan, Ch. 5, 6; Johnson & Kwak, Ch. 1	
		Failure to manage risk	Video	Quants	
		Circular insurance leading to illiquidity	Video	Arturo Bris explains the financial crisis	
MACROECONOMIC MANAGEMENT: LEFT VS. RIGHT					
	18-May	A Workhorse Macro Model (1)			
		The domestic circular flow	Video	B&B 147-151 (recap)	Quiz 8
		Sum of an infinite geometric series	Read before class	B&B 182-3	Quiz 9
		The Keynesian Cross & Multiplier Effect	In class	Note on Keynesian Econ, part A1; B&B 151-155, Ch. 9 (skip 174-176, 185)	
EIGHT	23-May	A Workhorse Macro Model (2)			
		Calculating Keynesian Equilibrium	Video		Quiz 10

Week	Date	Concepts	Format	Readings - before class, unless indicated	Assignments due:
		Changes in demand-side equilibrium (the multiplier effect)	Video		Quiz 11
		Deriving the AD curve	Video		Quiz 12
	25-May	A Workhorse Macro Model (3)			
		The tradeoff between unemployment and inflation	Video		Quiz 13
		Endogenous and Exogenous variables	Video		Quiz 14
NINE	30-May	A Workhorse Macro Model (4)			HW #2: Keynesian Cross
		A more fully specified Keynesian model	In Class	Note on Keynesian Econ, parts A2-end; B&B Ch. 9 (complete), Ch. 11	
		Endogenizing Consumption	Video		Quiz 15
		Endogenizing Investment	Video		Quiz 16
		Bringing back international trade and finance	Video		Quiz 17
		Fiscal Stimulus: Controversies	Discussion	Krugman (2015, online), Stiglitz (Freefall, Ch. 3); Barro (<i>Voodoo Multipliers</i>), Laffer (2004), Mendoza et al. (2009)	

STRUCTURAL SOURCES OF INEQUALITY (ADDITIONAL TO POLITICAL)

	1-Jun	The cost disease	Discussion	Baumol et al. (2012), pages 3-76	
TEN	6-Jun	Explaining inequality in North	Discussion	Iversen and Wren (1998, selection); Autor et al. (2016)	HW#3: Politics and Assumptions (Part 1)
		The services trilemma	Discussion	Iversen and Wren (1998, selection)	
		The China Effect	Discussion	Autor et al. (2016)	
	8-Jun	Conclusion: The World Today			HW # 4: Politics and assumptions (Part 2)
		What have we learned?	Discussion	Robert Wade (2009)	
		The path ahead: China's investment woes, Brexit and beyond, The pendulum swings in Latin America			