

MGMT 406
THE GLOBAL ECONOMY
Fall 1999

The purpose of this course is to provide the analytical framework required for understanding the way changing macroeconomic conditions in the **world economy** affect the environment faced by modern decision makers and business leaders. Issues related to economic growth, inflation, interest rates behavior, exchange rates determination, global competitiveness, unemployment and the trade account will be explored. At the end of the course it is expected that students will be able to critically assess how possible developments in the world economy -- such as the change in the monetary policy stance by the Bundensbank, for example -- will affect the business environment relevant to their specific industry.

This course has two important characteristics: First, its emphasis is decisively and unmistakably international. The vast majority of examples and case studies will deal with the international economy. The approach taken here recognizes, from the very beginning, that teaching macroeconomics from a closed economy perspective does not make **any** sense. Second, this course is eminently practical; concepts and models will only be discussed to the extent that they have direct bearing in the understanding of real life situations. An important consequence of this practical perspective is that students will be required to undertake a number of empirical projects throughout the course.

I expect that **all** students will actively participate in class discussions. I will call on students, and 30 percent of the grade will depend on class participation. Class discussion will deal with: a) Current topics covered in the media (**Financial Times**); b) cases assigned ahead of time; c) assignments; d) course material. The rest of the final grade will be made up of two exams (midterm and final), worth 20 percent each, and written assignments (30 percent). The mid term will be of the "no fault" type. If you do better in the final, the midterm's grade will be erased. In this case the final will be worth 40 percent. There will be two types of written assignments: (a) shorter exercises that have to be done individually; (b) longer projects that may be done in groups. Groups will have to be formed

during the first week and will stick together throughout the quarter. We will make an effort to form "diverse" groups. Specific instructions on how to form the groups will be given during the first meeting.

I have assigned one book for this class. As you will soon find out, the lectures usually **will not** follow the textbook closely. This is absolutely and completely **deliberate**. In fact, one of the strong aspects of this course is that readings are designed to be a complement to the lectures, and not a substitute. In order to maximize the return on class discussions I will expect that students will read the assigned material ahead of time. Occasionally I may assign additional readings (articles and papers). These will be distributed with plenty of time.

There will be a midterm; date to be determined.

Required readings:

There is one text book:

N. Gregory Mankiw, **Macroeconomics**, Fourth Edition, Worth 1999 **(M)**

Students are also responsible for reading the **Financial Times**. We will discuss many of the articles in the FT. If you decide not to subscribe to it, make sure that you read it in the library or that you borrow it from some one.

OUTLINE

In what follows I provide a detailed outline of the topics that we will cover in this course. By each topic I have indicated the session number when I expect to cover that particular topic. The timing, however, is only **tentative** since it is not unusual that we get slightly out of track. I also provide the readings assigned to each topic. Try to read ahead of time.

I.- INTRODUCTION.- (Session # 1)

1.1.- Why macroeconomics?

1.2.- Macroeconomics and forecasting.

1.3.- Closed vs. open economy perspectives.

1.4.- Macroeconomic data, basic relations and concepts.

1.5.- Long vs. short run analyses.

1.6.- Partial vs. general equilibrium analysis.

Readings: **M, chapters 1,2 and 3.**

II.- Economic Growth.- (Sessions # 2, 3 and 4)

2.1.- The international evidence.

2.2.- Sources of Growth.

2.3.- Capital Accumulation and Growth.

2.4.- Technological Progress and Growth.

2.5.- National Economic Policies and Economic Growth.

- Trade policy.
- Educational policy.

Readings: **M, chapter 4 & 5.**

III.- Inflation in the World Economy.- (Session # 5,6 and 7)

3.1.- The Quantity Theory of Money and Inflation.-

3.2.- A Detailed Analysis of the Process of Money Creation.-

3.3.- Inflation as a Tax.-

3.4.- Purchasing Power Parity.-

3.5.- Inflation in the Open Economy.-

3.6.- Tradable and Non Tradable Goods and Modern Theories of Inflation.-

Readings: **M, chapters 7**

IV._ The Balance of Payments and Exchange Rates.-(Sessions # 8, 9 and 10)

4.1.- The Monetary Approach to the Balance of Payments.-

4.2.- Real Exchange Rates.-

4.3.- Balance of Payments Crises and Devaluations: The Emerging Economies and Former Communist Nations.-

4.4.- The role of the IMF and the World Bank.-

4.5.- Nominal Exchange Rate Determination.-

4.6.- The European Monetary System.-

Readings: **M, Ch. 8.**

V.- Interest Rate Behavior in the World Economy.- (Session # 11 and 12)

- 5.1.- Credit markets and Interest Rates.-
- 5.2.- Savings, Investment and Foreign Borrowing.-
- 5.3.- Interest Arbitrage: Covered and Uncovered.-
- 5.4.- Country Risk and the Third World Debt Crisis.-

Readings: **M, Ch. 8.**

VI.- Unemployment.- (Session # 13)

- 6.1.- Definition.-
- 6.2.- International Evidence.-
- 6.3.- Labor market Rigidities and Unemployment.-

Readings: **M, Ch. 6.**

VII.- Short Run Macroeconomic Fluctuations and Business Cycles: An Introduction.- (Session # 14 and 15)

- 7.1.- Preliminary Concepts.-
- 7.2.- International evidence.-
- 7.3.- Aggregate Demand, Aggregate Supply and Short Term Fluctuations.-

Readings: **M, Ch. 9**

IX.- Aggregate Demand, Aggregate Supply and the Short Run.-
(Sessions # 16, 17, 18, and 19)

9.1.- Investment and Goods Market Equilibrium.-

9.2.- Money Market Equilibrium.-

9.3.- External Equilibrium.-

9.4.- Aggregate Supply.-

9.4.- Putting Everything Together: The Effectiveness of Monetary and Fiscal Policies under Alternative Exchange Rate Regimes.-

Readings: **M, Chs. 10, 11, 12 and 13**