Applied Macro and International Economics

This course uses case studies to investigate the macroeconomic and international environment in which firms operate. The course is divided into five sections. The first section develops the basic tools of macroeconomic management (monetary and fiscal policy) in the context of three historic cases. The second section evaluates different strategies of economic development, with topics ranging from technological progress and natural resources to social security. The third section discusses the difficulties inherent in the transition from communism to capitalism and compares the paths chosen by Russia and China. Section four examines several crises in emerging markets in the 1990's, evaluating the causes of these crises as well as how to avoid them from reoccurring in the future. The final section of the course evaluates several challenges facing developed countries in the 1990's, such as European union, slow growth in Japan, the "new economy" of the United States, and disputes over trade and globalization.

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 either Dornbusch, Fisher and Startz's (1998) *Macroeconomics, 7th Edition* (called DF&S below), or Krugman and Obstfeld's (2000) *International Economics: Theory and Policy, 5th Edition* (called K&O below). Both 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.

Since this is a case-based class, 30% of your grade will be based on class participation. Another 30% will be based on two short group assignments, and the remaining 40% will be based on the final exam. The group assignments will involve reading an assigned article and writing a 3-5 page critique of the international/macroeconomic challenge facing a specific country. Due dates are February 26th and March 12th. The final exam will be open book and occur in class on March 19th.

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I. THE BASIC TOOLS OF ECONOMIC MANAGEMENT

Wed. Feb 7  
HBR Article (#96108): "A Country is not a Company"  
HBS Case (Moss): Compilation: The German Hyperinflation  
Article: "The Hyperinflation in Serbia"  
Optional: HBS Note (#9797094): Note on Money and Monetary Policy  
DF&S: Chps. 15-16 & 19

Fri. Feb 9  
HBS Case (#9391258): The Great Depression: Causes and Impact (Abridged)  
HBS Note (#9382065): A Keynesian Cure for the Depression  
Optional: HBS Note (#9797076): Fiscal Policy: Managing Agg. Demand  
DF&S: Chps. 5, 1 & 18

Mon. Feb 12  
HBS Case (#381173): The Reagan Plan  
HBS Note (#N9 798-095): Reagan Plan Update  
Article: "Supply Side Isn't Voodoo Anymore"  
Article: "Should Ukraine Cut Tax Rates to Raise Tax Revenue"  
Article: "Fitting the Theory to the Facts: Robert Barro's Equivalence Theorem"  
Optional: DF&S: Chp. 2; K&O: Chp. 12

II. DEVELOPMENT STRATEGIES

Wed. Feb 14  
HBS Case (#9793096): Singapore  
HBS Note (#9794051): Accounting for Productivity Growth  
Article: "Singapore Swing: Krugman Was Right…"  
Optional: Article: "Where Economics Stops Short"  
DF&S: Chps. 3 & 4

Fri. Feb 16  
HBS Case (#9792089): Reconstruction of Zambia  
Article: "A Raw Deal for Commodities"  
Article: "The Gold Bug Variations"  
Optional: Article: "Venezuela on a Gusher"  
HBS Note (#383073): Kennedy and the Balance of Payments  
K&O: Chps. 18 & 22

Tue. Feb 20  
HBS Case (#9798092): Chile: The Latin American Tiger?  
HBS Note (#9384171): Note on Exchange Rate Determination  
Article: "Business in Difficult Places"  
Optional: HBS Case (#9799011): Social Security Reform  
Article: "Social Security Reform Rocks the World"  
DF&S: Chp. 20; K&O: Chps. 10 & 19
### III. THE TRANSITION FROM COMMUNISM TO CAPITALISM

**Wed. Feb 21**
- HBS Case (#9795089): Russia--1994
- HBS Note (#9799091): Bribery and Corruption
- Article: "Worthless Rubles Have Their Uses…"
  - *Optional: Article: "The Cash Won't Work"

**Fri. Feb 23**
- HBS Case (#9798066): China: Facing the 21st Century
- HBS Note(#9797080): Transition to a Market Economy: The Components…
- Article: "China's State-Owned Enterprises"
  - *Optional: Article: "Through a Glass, Darkly"
  - Article: "China: Ready for the Fourth Generation"
  - Article: "A Capital Idea? Reconsidering a Financial Quick Fix"

**Mon. Feb 26**
- First Assignment Due

### IV. EMERGING MARKET CRISES OF THE 1990'S

**Mon. Feb 26**
- HBS Case (#9296056): The 1994-95 Mexican Peso Crisis
- Article: "Revolution Ends: Change Begins"
- Article: "PRIde Before the Fall"
  - *Optional: HBS Case (#9796123): World to Mexico--Get a Grip
  - DF&S: Chp. 21; K&O: Chp. 17

**Wed. Feb 28**
- Chapter: "Understanding Asia's Crisis"
- Article: "Fix or Float"
- Article: "The ABC's of a Currency Board"
- Article: "No More Peso"
  - *Optional: Chapter: "How Economists Understand Crises"
  - K&O: Chp. 21

**Fri. Mar 2**
- HBS Case (#9799088): Currency Crises
- Article: "Brazil's Tough Banking Rules Eased the Real Crisis"
  - *Optional: DF&S: Chp. 12; K&O: Chp. 16
V. CHALLENGES FACING DEVELOPED COUNTRIES IN THE 1990'S

Mon. Mar 5     HBS Case (#9799131): European Monetary Union
                Article: "The Euro's First Test"
                Article: "Birds of a Feather"
                Article: "Intervention: Divine or Comic?"
                Optional: Article: "Level-Headed"
                Article: "Who's Afraid of the Euro"
                K&O: Chp. 20

Wed. Mar 7     HBS Case (#9795064): Unemployment in France: "Priority Number One"
                Article: "Busted for Working Hard"
                Article: "Working Man's Burden"
                Article: "How Shocking"
                Optional: Article: "A Civil Self-Service"
                DF&S: Chps. 6 & 7

Fri. Mar 9     HBS Case (#9798083): Japan: Free, Fair and Global?
                Article: "What's Your Problem?"
                Article: "Japan Restructures, Grudgingly"
                Optional: Article: "Bank of Japan Lifts Rates"

Mon. Mar 12    Second Assignment Due

Mon. Mar 12     Article: "Out of Sight, Out of Mind"
                Article: "Untangling E-economics"
                Article: "Bubble.com"
                Chapter: "Is America's Trade Deficit Sustainable?"
                Optional: Article: "Banks in Trouble"
                Chapter: "Causes of the US Trade and Current Account Deficit"

Wed. Mar 14    Article: "Globalization: Valid Concerns?"
                Article: "Enemies of the WTO: Bogus arguments against the WTO"
                HBS Note: "The Economic Gains from Trade: Theories of Strategic Trade"
                Article: "East Asian Regionalism"
                Optional: Article: "Politics of Scale"
                HBS Note: Economic Gains from Trade: Comparative Advantage
                K&O: Chp. 11 & 2

VI. REVIEW AND EXAM

Fri. Mar 16    Review Session
Mon. Mar 19    Final Exam--in class