

Nations, Politics and Markets

Course Objectives

The goal of this course is to understand the current situation in light of the past and assess the performance of the global economy over last one hundred years, focusing on the interplay between events, economic theories and government policies. Little formal theory is used; the focus instead is on underlying ideas and historical developments.

Prerequisite: Introductory Economics.

Readings

The following books will be assigned in their entirety and should be purchased.

Jeffrey Frieden, *Global Capitalism: Its Fall and Rise in the Twentieth Century*, Norton 2006.

John Kenneth Galbraith, *The Great Crash 1929*, Houghton-Mifflin, 1954, reprinted 2009.

Nouriel Roubini and Stephen Milm, *Crisis Economics*, Penguin 2010.

Other readings listed below will be available in the course packet. Reading dates/assignment dates approximate.

You are also expected to keep up with current events by reading the *Financial Times*, *Wall Street Journal*, *NY Times*, or other major news sources.

Requirements (dates subject to changes)

Midterm in-class exam: October 18

Two short papers (600 words each) due October 4 and November 27.

Final Exam, to be scheduled.

Grading

Midterm	20%
First essay	15%
Second essay	15%
Class Participation	10%
Final exam	40%

Office Hours: Tuesday and Thursday 10-10:30 AM.

TA: Peter Blair

Part I: Overview of Main Issues

1. *Technological Change, Institutions and Long-Term Economic Growth* (September 6)

Review chapters from introductory economics text on long-term growth.

Joseph Schumpeter, *Capitalism, Socialism and Democracy*, Ch. 7, "The Process of Creative Destruction," 1942.

Thomas Friedman, "DOS Capital 6.0" Ch. 8 of *The Lexus and the Olive Tree*, 2000.

Douglas North, "Institutions and Economic Growth: A Historical Introduction," *World Development* 17, 1989.

William Baumol, "Entrepreneurial Enterprises, Large Established Firms and Other Components of the Free-Market Growth Machine," *Small Business Economics*, 2004.
<http://www.springerlink.com/content/m2702885328288xl/>

2. *Monetary and Fiscal Policy* (September 11)

Review chapters from introductory economics text on monetary and fiscal policy.

William Galvin, "More Money: Understanding Recent Changes in the Monetary Base," Federal Reserve Bank of St. Louis Review, March/April 2009.

Willem Buiter and Ebrahim Rahbari, "Greece and the Fiscal Crisis in the Eurozone," CEPR Policy Insight No. 51, October 2010.

3. *International Trade* (September 13)

Review chapter from introductory economics course on comparative advantage and trade policy.

Douglas Irwin, Chs. 1, 2, of *Free Trade Under Fire*, 3rd edition, 2009.

Frieden, Chs. 1-5 (historical background for sections 3 and 4).

4. *International Monetary Relations and Exchange Rate Regimes* (September 18, 20)

Review chapters from introductory economics textbook on the balance of payments and exchange rates.

Jeffrey Frankel, "No Single Currency Regime is Right For All Countries or At All Times," *Princeton Essays in International Finance* No. 215, December 1998. (section 5 optional).

Frieden, Chs. 1-5.

5. *Globalization Eras* (September 25)

Michael Bordo, "Globalization in Historical Perspective," *Business Economics* (January 2002). <http://people.ucsc.edu/~hutch/Econ143/bordo.pdf>

Richard Baldwin and Philippe Martin, “Two Waves of Globalization: Superficial Similarities Fundamental Differences,” *NBER Working Paper* No. 6904, February 1999.
<http://www.nber.org/papers/w6904>.

Charles Kindleberger, *The World in Depression*, Chapter 14, “An Explanation of the 1929 Depression,” revised edition 1986.

6. *Financial Markets and Financial Crises* (September 27, October 2)

Roubini and Milm, Chs. 1, 2.

Charles Kindleberger, *Manias Panics and Crashes*, Chapter 2, “Anatomy of a Typical Financial Crisis”, 1978.

Thomas Friedman, *The Lexus and the Olive Tree*, Chs. 7 “The Electronic Herd” and 9 “Globalution,” 2000.

James Tobin, “On the Efficiency of the Financial System,” reprinted in Tobin, *Policies for Prosperity*, 1987.

First paper due October 4

Part II: Historical Developments and Economic Theories

7. *The 1920s* (October 4)

Frieden, Chs. 6, 7.

Galbraith, Chs. 1-5.

8. *The Great Depression: Causes and Responses* (October 4, 9)

Galbraith, Chs. 6-10.

Frieden, Chs. 8, 9, 10

Christina Romer, “The Nation in Depression,” *Journal of Economic Perspectives* 7(2), Spring 1993.

9. *Keynes and Keynesian Economics* (October 11)

“The Battle of the Letters: Keynes vs Hayek, 1932, Skidelsky vs Besley 2010,”
<http://www.cobdencentre.org/2010/07/the-battle-of-the-letters/>.

Keynes, *The General Theory*, Ch. 12.

James Tobin, “Keynesian Policies in Theory and Practice,” reprinted in Tobin, *Policies for Prosperity*, 1987.

Robert Solow, "On Theories of Unemployment," *American Economic Review* 70(1), March 1980.

10. *The Post-War Golden Age 1950-1970* (October 16, 18)

Frieden, Chs. 11, 12.

Douglas Irwin, *Free Trade Under Fire*, Ch. 7, pages 219-239.

Barry Eichengreen, "Institutions and Economic Growth in Post-War-Europe, September 1999. <http://www.econ.berkeley.edu/~eichengr/research/vanark.pdf>

John Gerard Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," Volume 36(2), *International Organization* (Spring, 1982). Focus on sections 1-3 (pp. 385-404).

In class exam October 25

11. *Stagflation of the 1970s* (October 30)

Frieden, Chs. 15, 16.

Brad Delong, "America's Only Peacetime Inflation: The 1970s," in Christina Romer and David Romer, eds., *Reducing Inflation: Motivation and Strategy* (University of Chicago Press), 1995. http://www.j-bradford-delong.net/pdf_files/Peacetime_Inflation.pdf.

12. *Return of Free-Market Economics* (October 30, November 1)

Milton Friedman, *Capitalism and Freedom* Chs. 3, 5 "The Control of Money" and "Fiscal Policy," 1962.

Milton Friedman, "The Role of Monetary Policy," *American Economic Review*, 1968.

Mancur Olson, "The Varieties of Eurosclerosis: The Rise and Decline of Nations since 1982," in *Economic Growth in Europe Since 1945*, edited by Nicholas Crafts and Gianni Toniolo, 1995.

James Buchanan, "Policies Without Romance: A Sketch of Positive Public Choice Theory and its Normative Implications," reprinted in Buchanan and Tollison, *The Theory of Public Choice II*, 1984.

Anne Krueger, "Government Failures in Development," *Journal of Economic Perspectives* 4(3), Summer 1990.

13. *Globalization, Liberalization and Inequality 1980-2006* (November 1, November 6)

Irwin, *Free Trade Under Fire*, 3rd ed., Ch. 7, pp.239-269.

Frieden, Ch. 17.

Thomas Friedman, *Lexis and Olive Tree*, Ch. 4.

Frank Levy and Peter Temin, "Inequality and Institutions in 20th Century America," MIT Department of Economics Working Paper No. 07-17, 2007.

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=984330

Claudia Goldin and Lawrence Katz, "The Future of Inequality," *The Milken Institute Review*, Third Quarter 2009.

http://www.economics.harvard.edu/faculty/goldin/files/GoldinKatz_Milken.pdf

14. *The Financial Crisis and Great Recession 2007-?* (November 6, 8)

Roubini and Milm, Chs. 3-10.

Paul Krugman, "The Slump Goes On: Why?" *NY Review of Books*, September 30, 2010.

<http://www.nybooks.com/articles/archives/2010/sep/30/slump-goes-why/>

John Taylor, "Getting Back on Track: Macroeconomic Lessons from the Financial Crisis," Federal Reserve Bank of Saint Louis *Review*, May-June 2010.

<http://research.stlouisfed.org/publications/review/10/05/Taylor.pdf>

15. *New Directions in Economics* (November 8, 13)

Paul Krugman, "How did Economics Get it So Wrong?" *NY Times Magazine*, September 2, 2009 http://www.nytimes.com/2009/09/06/magazine/06Economic-t.html?_r=1

Paul Krugman, "Building a Green Economy," *NY Times Magazine* April 7, 2010, <http://www.nytimes.com/2010/04/11/magazine/11Economy-t.html>

Mulligan, Casey B. (2009) "Is Macroeconomics Off Track?," *The Economists' Voice*: Vol. 6: Iss. 10, Article 6. <http://www.bepress.com/ev/vol6/iss10/art6/>

Jeffrey Sachs, "Rethinking Macroeconomics," *Capitalism and Society*, 2009.

George Akerlof and Robert Shiller, *Animal Spirits*, Prefaces and Chapter 11, 2009.

Richard Layard, *Happiness: Has Social Science A Clue?* Lionel Robbin Lectures, 2003, Chs 2 and 3. <http://cep.lse.ac.uk/events/lectures/layard/RL040303.pdf>

Part III: Regional Focus

16. *Western European Growth, Integration, and Crisis* (November 15, 20)

Robert Gilpin, "National Systems of Political Economy," Ch.7 of *Global Political Economy*, (2001) pp. 148-195.

Raghuram Rajan and Luigi Zingales, "The Decline and Fall of Relationship Capitalism", Ch. 11 of *Saving Capitalism from the Capitalists*, pp. 247-271.

Martin Feldstein, "The Case Against EMU," *The Economist*, June 13, 1992. DeGrawe et al, "Reply to Feldstein" *The Economist*, July 4, 1992.

Barry Eichengreen, "The Euro's Existential Crisis," *The Milken Review*, October 2010.
www.relooney.info/0_New_7688.pdf

Second paper due November 27

17. *Japan: The System that Soured* (November 27)

Richard Katz, *Japan: The System that Soured*, 1998, Chs. 1, 13.

Richard Katz, "The Japan Fallacy: Today's U.S. Financial Crisis Is Not Like Tokyo's Lost Decade" *Foreign Affairs* March/April 2009.

18. *Communism: Collapse and Transition* (November 27)

Frieden, Ch. 14

19. *East Asia: Miracle and Crisis* (November 29)

Frieden, Ch. 18.

Robert Wade, "After the Crisis: Industrial Policy and the Developmental State in Low-Income Countries, *Global Policy* 1(2), 2010.

<http://onlinelibrary.wiley.com/doi/10.1111/j.1758-5899.2010.00036.x/pdf>

20. *The Rise of China and India* (November 29, December 4)

Barry Bosworth and Susan M. Collins, "Accounting for Growth: Comparing China and India." *Journal of Economic Perspectives* 22(1), 2008.

Niall Ferguson and Moritz Schularick, "The End of Chimerica," *International Finance* 14(1), 2011.

21. *Latin America: Instability and Inequality* (December 4)

Frieden, Ch. 13.

22. *Africa: Glimmers of Progress?* (December 6)

Frieden, Ch. 19.

Steven Radelet, *Emerging Africa*, Ch. 1, 2010.

23. *The Middle East: Stagnation to Revolution* (December 6)

Marcus Noland and Howard Pack, “Islam, Globalization, and Economic Performance in the Middle East,” Petersen Institute for International Economics Policy Brief 04-4, June 2004. <http://www.piie.com/publications/pb/pb04-4.pdf>

Marcus Noland and Howard Pack, “Arab Revolutions of Rising Expectations,” Real Time Issues Watch, February 1, 2011. <http://www.piie.com/realtime/?p=1998>.