

Nations, Politics and Markets

Course Objectives

This course is intended to deepen understanding of the major contemporary issues in the world economy for students who are interested in a career in international business or public affairs. Many economics courses focus on economic theory or statistical methods with some applications to the real world. This course is the opposite: a minimum of formal theory with the focus on key analytical concepts, institutions, alternative schools of thought, historical developments, and current issues. The emphasis is on the “big picture” of global economic developments and the evolution of economic thought over the last one hundred years.

The course is built around the interplay between events, economic theories and policies. The topics include: financial market booms and busts; business cycles; monetary and fiscal policies; inequality; the social welfare state; technological change and economic growth; and international trade and financial arrangements. The time period covers: the Roaring Twenties; the Great Depression; the post war Golden Age (1945-1973); the stagflation of the 1970s; the Thatcher-Reagan-Greenspan-Bush era of market liberalization (1980-2007); and the financial crisis and Great Recession of 2007-2010 and the Brexit-Trump rejection of globalization. The course also explores different schools of thought: Keynesian, Austrian, New Classical, and Structuralist. The course will chronicle and compare economic policy and performance of the United States, Europe, Japan, and emerging markets (Asia, Latin America, Africa).

Prerequisite: Introductory Economics.

Readings

The following books will be assigned 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 Mihm, *Crisis Economics*, Penguin 2010.

Other readings will be available in the course packet or posted on Canvas. Reading dates/assignment dates approximate. **All readings are required except those readings designated by # are recommended but not required.**

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.

Grading

Two in-class exams	30% each
Essay	20%
Class Attendance/Participation	20%

Office Hours: Tuesday and Thursday 9:30-10:15 AM in SHDH 3006.

Email: sgolub@wharton.upenn.edu and sgolub1@swarthmore.edu.

TAs: Gita Chraibi and Zain Zubi.

Part I: Overview of Main Issues

1. *Technological Change, Institutions and Long-Term Economic Growth* (January 11, 16)

Review chapters from any standard 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*, 1989.

Daron Acemoglu and James Robinson, “Ten Reasons Countries Fall Apart,” *Foreign Policy* 2012.

#Dani Rodrik, “The Past, Present, and Future of Economic Growth,” Challenge, December 2014.

#William Baumol, “Entrepreneurial Enterprises, Large Established Firms and Other Components of the Free-Market Growth Machine,” *Small Business Economics*, 2004.

2. *Monetary and Fiscal Policy* (January 18, 23)

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

Roubini and Mihm, Chs. 6 and 7.

Willem Buiter, “Why Fiscal Sustainability Matters,” *VoxEU*, January 2014.

Jason Furman, “The New View of Fiscal Policy and its Application” *VoxEU*, Nov 2016.

Carlos Vegh, “Fiscal Policy in Emerging Markets: Procyclicality and Graduation,” *NBER Reporter* 2015. <http://www.nber.org/reporter/2015number4/vegh.html>

Jane Ihrig, Ellen Meade and Gretchen Weinbach, “Rewriting Monetary Policy 101: What’s the Fed’s Preferred Post-Crisis Approach to Raising Interest Rates,” *Journal of Economic Perspectives*, Fall 2015.

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

3. *International Trade* (January 25, 30)

Review chapter from introductory economics course on international trade.

Douglas Irwin, Chs. 1, 2, of *Free Trade Under Fire*, 4th edition, 2015.

Dani Rodrik, “Straight Talk on Trade,” *Project Syndicate*, November 2016.

Joseph Stiglitz, “On the Wrong Side of Globalization,” *New York Times*, March 15, 2014.

Clyde Prestowitz, “Free Trade is Dead,” *Washington Monthly*, July-August 2016

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

4. International Monetary Relations and Exchange Rate Regimes (Feb 1, Feb. 6)

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

Roubini, Chapter 10.

Maurice Obstfeld and Alan Taylor, "International Monetary Relations: Taking Finance Seriously," *Journal of Economic Perspectives*, Summer 2017.

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. Financial Markets and Financial Crises (Feb 8)

Roubini and Mihm, Chs. 1, 2.

Thomas Friedman, *The Lexus and the Olive Tree*, Ch. 7 "The Electronic Herd" 2000.

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

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

Part II: Historical Developments and Economic Theories

6. Globalization Eras (February 13)

Richard Baldwin and Philippe Martin, "Two Waves of Globalization: Superficial Similarities Fundamental Differences," *NBER Working Paper* No. 6904, February 1999. 4.

Michael Bordo, "The Second Era of Globalization is not yet Over: a Historical Perspective," *NBER Working Paper* 23786, September 2017.

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

7. The 1920s (February 15)

Frieden, Chs. 6, 7.

Galbraith, Chs. 3-5.

#Galbraith Chs. 1-2.

8. *The Great Depression: Causes and Responses* (February 20)

Frieden, Chs. 8, 9, 10.

Galbraith, Chs. 6-7.

#Galbraith Chs. 8-10.

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

9. *Keynes and Keynesian Economics* (February 22)

"The Battle of the Letters: Keynes vs Hayek, 1932, Skidelsky vs Besley 2010,"

<http://www.cobdencentre.org/2010/07/the-battle-of-the-letters/>.

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

Peter Temin and David Vines, "Why Keynes is Important Today," *VoxEU*, November 14, 2014.

#J. M. Keynes, *The General Theory*, Ch. 12.

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

10. *The Post-War Golden Age 1950-1970* (February 27)

Frieden, Chs. 11, 12.

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).

#Douglas Irwin, *Free Trade Under Fire*, Ch. 7, pages 239-259.

#Barry Eichengreen, "Institutions and Economic Growth in Post-War-Europe, September 1999.

<http://www.econ.berkeley.edu/~eichengr/research/vanark.pdf>

First In class exam March 1

11. Stagflation of the 1970s (March 13)

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 (March 15)

Milton Friedman, *Capitalism and Freedom* Chs. 1, 5 "Economic and Political Freedom" and "Fiscal Policy," 1962.

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

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

#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.

#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.

#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

13. Globalization, Liberalization and Inequality 1980-2006 (March 20)

Frieden, Ch. 17.

Branko Milanovic, "Global Inequality in Numbers: In History and Now," *Global Policy*, May 2013.

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

#Irwin, *Free Trade Under Fire*, Ch. 7, pp. 259-294.

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

14. *The Financial Crisis and Its Aftermath* (March 22)

Roubini and Mihm, Chs. 3-5.

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/>

Stephen Golub, Ayse Kaya and Michael Reay, "The Federal Reserve in the Run-Up to the Financial Crisis" *VoxEU*, September 8, 2014. <http://www.voxeu.org/article/federal-reserve-run-global-crisis>

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

#Roubini and Mihm, Chs. 8-9.

15. *The End of the PostWar Liberal International Order?* (March 27)

Martin Wolf, "The March to World Disorder," *Financial Times*, January 6, 2017.

Mark Blyth, "Global Trumpism," *Foreign Affairs* 2016.

Dani Rodrik, "The Economics of the Populist Backlash," *VoxEU*, July 3, 2017.

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

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

Paper Due March 30, 4 PM

Part III: Regional Focus

16. *European Growth, Integration, and Crisis* (March 29, April 3)

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, 2002

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

Andrei Schleifer and Daniel Treisman, "Normal Countries: The East 25 Years After Communism," *Foreign Affairs*, November/December 2014.

17. *Japan: The System that Soured* (April 5)

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

Richard Katz, "Voodoo Abenomics" *Foreign Affairs*, July/August 2014.

18. *East Asia: Miracle and Crisis* (April 10)

Frieden, Ch. 18.

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

Ira Magaziner and Mark Patinkin, "Fast Heat: How Korea Won the Microwave War," *Harvard Business Review* 1989.

19. *The Rise of China and India* (April 12)

Christopher McNally, "Sino-Capitalism: China's Emergence and the International Political Economy," *World Politics*, October 2012.

Swaminathan Aiyar, "Twenty Five Years of Indian Economic Reform: A Story of Private-Sector Success, Government Failure and Institutional Weakness," Cato Institute *Policy Analysis* October 2016.

20. *Latin America: Resolving Instability and Inequality?* (April 17)

Frieden, Ch. 13.

Jose Ocampo, "Uncertain Times" *Finance and Development*, September 2015.

Nora Lusting, "Most Unequal on Earth" *Finance and Development*, September 2015.

Daniel Kaufmann, "Corruption Matters" *Finance and Development*, September 2015.

21. Africa: Glimmers of Progress? (April 19)

Frieden, Ch. 19.

Steven Radelet, "Africa's Rise Interrupted?" *Finance and Development*, June 2016.

Antoinette Sayeh, "Straight Talk: Time for a Policy Reset," *Finance and Development*, June 2016.

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

22. The Middle East: Stagnation to Turmoil (April 19)

Jihad Azour, "A Time For Action," *Finance and Development*, December 2017.

#Adeel Malik, "A Requiem for the Arab Development Model" *Journal of International Affairs*, 2014.

Second In class exam April 24