

MGRECON 781: The World Economy 2023

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Textbook and Readings:

Andrew Abel, Ben Bernanke, and Dean Croushore, *Macroeconomics*, 11th edition, Pearson, 2023 (abbreviated as ABC).

Supplemental readings made available (online) during the course.

Objective of the Course:

The world has created tremendous wealth within the last 200 years. Sadly, most people in the world do not enjoy this wealth, as about 70 percent of the world's population lives on less than \$10 a day and 15 percent lives on less than \$2 a day. Finally, the 21st century seems to offer the promise of lifting most of the world's poor out of poverty. Lessons have been learned and policies have been implemented that may put most countries on the path to riches. These trends are giving rise to a new multi-centric economic order. Yet in this new world, outsourcing of jobs has led to a backlash of protectionist policies, growing income inequality has put pressure on governments to redistribute limited resources, and a financial crisis in any corner of the world seems able to threaten stability everywhere. Moreover, it is not clear if the emerging countries will be able to sustain high rates of growth over long periods of time. High growth rates in China and India have already begun to falter. History suggests that without more fundamental reform their newfound wealth will create incentives that will eventually halt their progress. This is the world in which we live and conduct business.

This course begins by trying to understand the engine that drives growth. There is something very difficult about sustaining growth. Only a handful of countries have sustained rates of growth since the Industrial Revolution that have propelled them to become rich, industrialized countries. Most of humanity live in countries have been stuck in a pre-industrial state. What did current advanced countries do to ignite growth and, in some sense more importantly, to sustain growth? Why do poor countries not adopt the same policies that have led to growth? To gain a broad understanding of these issues, we will begin this course with a study of a few defining moments in the history of various countries that are important to understanding the path that led them to their current economic and political situation. The purpose of this perspective is to understand what truly are the forces that shape the world today, and to get a better understanding of why emerging countries are often locked into institutions that make it difficult to sustain growth over long periods of time. Following this broad historical perspective, we will develop and study a modern framework that has been useful for thinking about the engines for growth.

The world is not only linked through the common and interdependent long-term struggle for growth and development, but also through recurring financial crises that can derail growth in any country at any time. In this course we will thus also study a number of financial crises and how these financial crises have largely shaped the evolution of the global financial system. We will study topics such as the Panic of 1907 and the subsequent creation of the Federal Reserve System, the Great Depression, Bretton Woods, the International Monetary Fund, the Latin American Debt Crisis, the U.S. Savings and Loan Crisis, Black Wednesday of 1992 and the European Exchange Rate Mechanism, the Mexican Peso Crisis of 1994, the 1997 Asian Financial Crisis, the 1998 Russian Ruble Crisis, the Financial Crisis of 2007-08, and the European Sovereign Debt Crisis. Here as well the objective is to extract general lessons that will be useful to understand the current global economic environment.

To understand the global marketplace and its evolution over time, and specifically to understand events such as those just described, this course will rely heavily on the framework of macroeconomics, international trade, international finance, and political economy. This course begins by studying underlying reasons for the vast disparity in economic development around the world and the relationship of growth and development to the quality of institutions of a country. Next this course studies international trade and its relation to jobs, productivity, wages, and wealth creation. Here too the course highlights the role of institutions that have risen to facilitate trade, such as the World Trade Organization. This course will also discuss the influence of government in the creation of wealth and the allocation of resources, which will lead to a study of timely topics such as supply-side economics, mercantilism, and debt and deficits. This course will finish by discussing the underlying causes of a financial crisis and the role of institutions in such a crisis, which will lead to a consideration of topics such as interest rates, inflation, exchange rates, monetary policy, and crisis of confidence.

Grading:

Grades for the course will be based on class participation, online assignments, in-class quizzes, a final exam (an open-note, open-book, take-home exam), and a team project. Information regarding the group project will be handed out around the middle of the term, but it will involve student presentations during the final week of the course (I assign the topics, so I like to wait in case some interesting new topic emerges). The distribution of weights will be as follows:

Class Participation	5%	(in class and online discussion)
Assignments	15%	(take home, online submission)
Quizzes	30%	(in class, open note, open book)
Final Exam	30%	(take home, open note, open book)
Team Project	20%	(in class presentation)

Class Participation: Effective participation in class discussions requires preparation before coming to class. Class participation is evaluated based on quality rather than quantity. The key criteria for excellence in class participation are: adherence to classroom norms, respect for your fellow classmates, and preparation.

Assignments: There are 10 online assignments during the term, with deadlines provided in the schedule below. Generally, there will be an assignment after each lecture. The purpose of these assignments is to give you diagnostic feedback, so that you can gauge your understanding of the material in advance of the in-class quizzes and the final exam. Each assignment is posted on Canvas and must be submitted by 11:59 pm on the day prior to the next lecture. The deadline is enforced automatically, there is no leeway for late submissions, and Canvas may not always work smoothly. Therefore, submitting close to the deadline is at your own risk. Your two lowest scores will be dropped, so if you miss a deadline, be sure to submit others on time. The overall Assignment grade will be based on the sum of your scores for your 8 highest scoring assignments (as a percent of the total). You may work with others on these assignments, but you are responsible for submitting your own answers. The format of each assignment will be multiple choice.

Quizzes: There are 3 quizzes, which are administered at the start of some classes (indicated below). Each quiz will be 45 minutes in duration. We will then take a 15-minute break and resume the class. The quizzes are open note and open book, but you may not use the internet. The format of each quiz will be multiple choice.

Final Exam: The date and time of the final exam will be announced during the term. The final exam is open note and open book, but you may not use the internet. The Final Exam will be comprehensive.

Team Project: About mid-way through the course, I will assign an article for each team to summarize and present to the class. The presentation should be no longer than 15 minutes in length. Half the teams will present on the penultimate class day and half the teams will present on the final class day. I will post more detailed instructions later in the course.

Pre-Reading:

This first couple of lectures will discuss the creation of wealth for national economies, including the creation of institutions that promote the creation of wealth. Please read chapter 1 and section 3.1 from Abel, Bernanke, and Croushore, as well as the papers listed in the Pre-Reading section, prior to attending the first class.

The PBS video series *Commanding Heights* will take some time to view (6 hours), but it is well worth it. Indeed, if you only do one thing in this pre-reading assignment (of course, everybody will do everything), please take some time to view this video. It is an excellent relatively brief (for what it attempts to achieve) economic history of the 20th century. For us it will serve as a superb background for understanding many of the issues that we will discuss in the course. Also, other options for viewing the video are YouTube, which allows you to watch it full screen (although low quality), or purchasing the DVD from PBS (which I strongly encourage you to do). Indeed, some of my students have enjoyed the DVD so much that they purchased extra copies as gifts for their friends and family.

If you are interested, and if you have time, I would also like to encourage you to read the two books listed as optional in the Pre-Reading section. Both books are on the subject of how institutions are formed and their impact on economic growth. We will use some of the material in these books in our first two lectures.

You should also review the readings/videos for Lecture 1 prior to the first class.

Lecture Schedule and Readings:

Lecture	Date	Topic	Assignment	Quiz	Project
		<i>Pre-Reading</i>			
1	Oct. 30	<i>Long-Term Growth</i>	1, due Nov. 1		
2	Nov. 2	<i>Origin of Institutions: Country Studies</i>	2, due Nov. 5		
3	Nov. 6	<i>Wage Rates Across Countries</i>	3, due Nov. 8		
4	Nov. 9	<i>Supply-Side Economics</i>	4, due Nov. 12	Quiz 1	
5	Nov. 13	<i>International Trade; National Income Accounting</i>	5, due Nov. 15		
6	Nov. 16	<i>Global Allocation of Capital; Current Account-1</i>	6, due Nov. 19		
7	Nov. 20	<i>Current Account-2</i>		Quiz 2	
8	Nov. 27	<i>Money, Banks, and the Central Bank</i>	7, due Nov. 29		
9	Nov. 30	<i>The Treasury Yield Curve</i>	8, due Dec. 3		
10	Dec. 4	<i>Budget Deficits; Exchange Rates-1</i>	9, due Dec. 6	Quiz 3	
11	Dec. 7	<i>Team Presentations-1; Exchange Rates-2</i>	10, due Dec. 10		Teams 1-4
12	Dec. 11	<i>Team Presentations-2; Financial Crisis</i>			Teams 5-8

Pre-Reading

ABC ch. 1

Commanding Heights, PBS video series in three episodes (video),
www.pbs.org/wgbh/commandingheights/hi/story/index.html.

World Development Report 2022: Finance for an Equitable Recovery (video),
<https://live.worldbank.org/events/finance-equitable-recovery-world-development-report-2022>

Daron Acemoglu, "Inclusive institutions, democracy and the key drivers of economic growth," video, Feb. 18, 2021,
<https://www.youtube.com/watch?v=KLdnISYOUo4>

Optional books to read, in case you are interested:

Acemoglu, Daron and James A. Robinson, *Why Nations Fail*, 2012, Crown Business Press, New York.

Fukuyama, Francis, *The Origins of Political Order*, 2011, D&M Publishers, New York.

Lecture 1, October 30, Long-Term Growth

ABC chs 3.1, 6.1, 6.4

Assignment 1 posted online, due Nov. 1.

The Europe Center (TEC) Lecture, Joel Mokyr, "Long-Term Economic Change in China and Europe: The Needham Paradox Revisited," 2015. (video)

<https://www.youtube.com/watch?v=ERmxxgpqfw>

The World Bank, *World Development Report 2019: The Changing Nature of Work*, chapter 3, "Building Human Capital."

<http://documents.worldbank.org/curated/en/816281518818814423/pdf/2019-WDR-Report.pdf>

Council of Economic Advisers, *Economic Report of the President*, 2022, chapter 1, "The Public Sector's Role in Economic Growth."

<https://www.whitehouse.gov/wp-content/uploads/2022/04/ERP-2022.pdf>

Lecture 2, November 2, Origin of Institutions: Country Studies

Assignment 2 posted online, due Nov. 5.

Acemoglu, Daron and James Robinson, "The Role of Institutions in Growth and Development," *Review of Economics and Institutions*, vol. 1, no. 2, Fall 2010.

<http://www.rei.unipg.it/rei/article/view/14>

Acemoglu, Daron, Starr Forum: Why Nations Fail, MIT Center for International Studies, 2013, (video)

<https://www.youtube.com/watch?v=r9cQzQVt8u8&t=1190s>

Lecture 3, November 6, Wage Rates Across Countries

ABC chs. 3.2-3.5

Assignment 3 posted online, due Nov. 8.

Council of Economic Advisers, *Economic Report of the President*, 2022, chapter 4, "Investing in People: Education, Workforce Development, and Health."

<https://www.whitehouse.gov/wp-content/uploads/2022/04/ERP-2022.pdf>

The World Bank, *World Development Report 2019: The Changing Nature of Work*, chapter 1, "The Changing Nature of Work."

<http://documents.worldbank.org/curated/en/816281518818814423/pdf/2019-WDR-Report.pdf>

Lecture 4, November 9, Supply-Side Economics

Quiz 1, in class.

Assignment 4 posted online, due Nov. 12.

Keleher, Robert E., *Economic Review*, Federal Reserve Bank of Atlanta, "Historical Origins of Supply-Side Economics," pp. 12-19, January 1982.

fraser.stlouisfed.org/files/docs/publications/frbatlreview/pages/66482_1980-1984.pdf

Lecture 5, November 13, International Trade; National Income Accounting

Assignment 5 posted online, due Nov. 15.

ABC ch. 2

The World Bank Live, *Driving Global Trade for Development*, February 14, 2023 (video)

<https://live.worldbank.org/events/driving-global-trade-development>

The World Bank Live, *Preserving Open Trade: Subsidies, Geopolitics, and International Cooperation*, April 22, 2022 (video)

<https://live.worldbank.org/sm22/trade>

Council of Economic Advisors, *Economic Report of the President*, 2021, chapter 9, "Pursuing Free, Fair, and Balanced Trade."

<https://www.govinfo.gov/content/pkg/ERP-2021/pdf/ERP-2021-chapter9.pdf>

Congressional Research Service, "U.S. Trade Policy Primer: Frequently Asked Questions," CRS Report for Congress, Feb. 4, 2021.

<https://crsreports.congress.gov/product/pdf/R/R45148/7>

Poole, William, "Free Trade: Why Are Economists and Noneconomists So Far Apart?" *Review*, Federal Reserve Bank of St. Louis, pp. 1-6, September/October 2005.

research.stlouisfed.org/publications/review/04/09/Poole.pdf

Lecture 6, November 16, Global Allocation of Capital; Current Account-1

Assignment 6 posted online, due Nov. 19.

ABC ch. 4

Bernanke, Ben, "Global Imbalance: Links to Economic and Financial Stability," Speech given at the Banque de France Financial Stability Review Launch Event, Paris, France, February 18, 2011.

www.federalreserve.gov/newsevents/speech/bernanke20110218a.htm

Kroszner, Randall, "International Capital Flows and the Emerging-Market Economies," Speech given at the Central de la Republica Argentina Seminar, Central Bank of Argentina, Buenos Aires, Argentina, May 15, 2007.

www.federalreserve.gov/newsevents/speech/kroszner20070515a.htm

Council of Economic Advisors, *Economic Report of the President*, 2019, chapter 8, "Evaluating the Effects of the Tax Cuts and Job Acts."

<https://www.govinfo.gov/content/pkg/ERP-2019/pdf/ERP-2019-chapter1.pdf>

Lecture 7. November 20, Current Account-2

Quiz 2, in class.

ABC chs. 5

Higgins, Matthew and Thomas Klitgaard, "Viewing the Current Account Deficit as a Capital Inflow," *Current Issues in Economics and Finance*, Federal Reserve Bank of New York, December 1998.
data.newyorkfed.org/research/current_issues/ci4-13.pdf

Clarida, Richard, "Comment and Analysis: America's Deficit, the World's Problem," *Financial Times*, October 22, 2002.
www.jimpivonka.com/unpublished/FT_com-World-US-TradeDeficit-Clarida-021022c.htm

Barro, Robert, "Government Spending is No Free Lunch, Now the Democrats Are Peddling Voodoo Economics," *Wall Street Journal*, January 22, 2009.
online.wsj.com/article/SB123258618204604599.html

Lecture 8, November 27, Money, Banks, and the Central Bank

Assignment 7 posted online, due Nov. 29.

ABC ch. 7

"U.S. Monetary Policy: An Introduction," Federal Reserve Bank of San Francisco, 2004.
<https://www.frbsf.org/economic-research/publications/economic-letter/2004/january/us-monetary-policy-an-introduction-part-1-how-is-the-fed-structured-and-what-are-its-policy-tools/>

Warsh, Kevin, "An Ode to Independence," Speech given at the Shadow Open Market Committee, New York, New York, March 26, 2010.
www.federalreserve.gov/newsevents/speech/warsh20100326a.htm

Kohn, Donald, "The Federal Reserve's Policy Actions during the Financial Crisis and Lessons for the Future," Speech given at Carleton University, Ottawa, Canada, May 13, 2010.
www.federalreserve.gov/newsevents/speech/kohn20100513a.htm

Ihrig, Jane and Scott A. Wolla, "The Fed's New Monetary Policy Tools," *Page One Economics*, Econ Primer: August 2020 <https://research.stlouisfed.org/publications/page1-econ/2020/08/03/the-feds-new-monetary-policy-tools>

Ihrig, Jane and Scott A. Wolla, "How Does the Fed Use Its Monetary Policy Tools to Influence the Economy?" *Page One Economics*, May 2022 <https://research.stlouisfed.org/publications/page1-econ/2022/05/02/how-does-the-fed-use-its-monetary-policy-tools-to-influence-the-economy>

The World Bank, *World Development Report 2022: Finance for an Equitable Recovery*, chapter 2, "Resolving Bank Asset Distress."
https://openknowledge.worldbank.org/bitstream/handle/10986/36883/9781464817304_Ch02.pdf

Lecture 9, November 30, The Treasury Yield Curve

Assignment 8 posted online, due Dec. 3.

ABC ch. 14

Kohn, John, "John Taylor Rules," Speech given at the Conference on John Taylor's Contributions to Monetary Theory and Policy, Federal Reserve Bank of Dallas, Dallas, Texas, October 12, 2007.
www.federalreserve.gov/newsevents/speech/kohn20071012a.htm.

Wood, John, "Do Yield Curves Normally Slope Up? The Term Structure of Interest Rates, 1892-1982," Economic Perspectives, Federal Reserve Bank of Chicago, July/August 1983.
www.chicagofed.org/webpages/publications/economic_perspectives/1983/july_august_wood.cfm.

Federal Reserve Bank of Cleveland, *Indicators and Data*, "Yield Curve and Predicted GDP growth," February 2023.
<https://www.clevelandfed.org/indicators-and-data/yield-curve-and-predicted-gdp-growth#background>

Estrella, Arturo and Frederick Mishkin, "The Yield Curve as a Predictor of U.S. Recessions," *Current Issues in Economics and Finance*, Federal Reserve Bank of New York, June 1996.
www.newyorkfed.org/research/current_issues/ci2-7.pdf

Harvey, Campbell, "Yield Curve Inversions and Future Economic Growth," May 2011, Fuqua School of Business, presentation notes.
faculty.fuqua.duke.edu/~charvey/Research/Professional_Materials/Term_Structure_May_17_2011.pdf

Lecture 10, December 4, Budget Deficits; Exchange Rates-1

Quiz 3, in class.

Assignment 9 posted online, due Dec. 6.

ABC ch. 15;

Humpage, Owen, "A Hitchhiker's Guide to Understanding Exchange Rates," *Commentary*, Federal Reserve Bank of Cleveland, 1998.
www.clevelandfed.org/en/newsroom-and-events/publications/economic-commentary/economic-commentary-archives/1998-economic-commentaries/ec-19980101-a-hitchhikers-guide-to-understanding-exchange-rates.aspx

Catao, Luis, "Back to Basics: Why Real Exchange Rates?" *Finance and Development*, International Monetary Fund, September 2007.
www.imf.org/external/pubs/ft/fandd/2007/09/basics.htm.

Obstfeld, Maurice, and Alan M. Taylor. 2017. "International Monetary Relations: Taking Finance Seriously." *Journal of Economic Perspectives*, 31(3): 3-28.
<https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.31.3.3>

Lecture 11, December 7, Team Presentations-1; Exchange Rates-2

Assignment 10 posted online, due Dec. 10.

Team Presentations: Teams 1-4.

Amadeo, Kimberly, "IMF, Its Objectives, Structure, Functions, Members, Role, History: Three Ways the IMF Protects the Global Economy," *The Balance*, January 2022.

<https://www.thebalancemoney.com/what-is-the-imf-its-role-and-functions-3306115>

Lecture 12, December 11, Team Presentations-2; Financial Crisis

Team Presentations: Teams 5-8.

Council of Economic Advisors, *Economic Report of the President*, 2022, chapter 2, “The Year in Review and the Years Ahead.”

<https://www.whitehouse.gov/wp-content/uploads/2022/04/ERP-2022.pdf>

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