Aims and Learning Outcomes

The course aims to show how basic economic analysis may be applied to gain an understanding of key global issues. By the end of the course:

• You will be aware of data relating to global economic performance and will be able to interpret what they show.

• You will have an overview of the evolution of the world’s monetary and trading systems.

• You will have acquired an understanding of some of the basic elements of balance of payments and international trade theory.

• You will be able to apply this theory to investigate and better understand contemporary world economic issues.

• You will be able to discuss, with authority, recent global economic events.

• You will appreciate some of the more specific problems facing particular regions of the world, including the US, Europe, Asia, Latin America, the Middle East and Africa.

Teaching and Learning Methods: Lectures, Discussion and Case Studies

The course material will be covered using a number of modalities.

First, there will be conventional lectures that are designed to go over the basic material and point you in the direction of further reading and investigation. The lectures provide the skeleton of the course. The reading adds the flesh.

Second, there will be structured discussion sessions based on questions that will be circulated in advance and for which you will be asked to prepare answers to share verbally with others.
These will be designed to make you think more deeply about what has been covered in the lectures.

Third, you will be asked to examine selected case studies. Again, the purpose of these is to encourage you to think about some of the things we cover in a little more depth and detail and to undertake your own investigations. They will also create a structured opportunity for class discussion.

You are strongly encouraged to meet regularly in study groups. These will provide you with a way of reviewing the material we cover and will also enable you to identify issues from the reading that you want me to go over in class.

Course Outline

1. The World Economy: Performance and Policy

Principal performance indicators and explaining what they show. The oil crisis and the 1970s; the debt crisis and the 1980s; financial crises and the 1990s; global economic imbalances in the 2000s, the global financial and economic crisis of 2008/09, and the crisis in the eurozone in 2010. Disaggregating the global picture; comparing economic performance in different regions of the world. The evolution of economic theory and policy.

2. The World Economy: A Brief History

The evolution of the world’s monetary system. The evolution of the world’s trading system. The convergence of economic systems. Globalization (the main focus of the reading is on this topic). The relevance of historical experience in understanding contemporary economic issues.

3. Issues Confronting the World Economy


• Currency and financial crises in the recent past: their causes and consequences. (Case studies: the ERM, 1992; East Asia, 1997/98; Russia, 1998; Argentina, 2002; Turkey, 2001/02. We might also examine the financial crises in Japan and Sweden in the early 1990s).
• **Global economic imbalances, the future of the US dollar and reform of the international monetary system.** *(Case study: the global reserve system)*.

• **Exchange rate regimes and monetary integration in Europe and elsewhere.** *(Case study: the 2010 eurozone crisis and the future of the euro and the eurozone)*.

• **The IMF and its reform.** *(Case study: IMF conditionality, the international co-ordination of macroeconomic policy and multilateral surveillance)*

• **The development gap and ways of closing it.** *(Case study: the Millennium Development Goals and the implications of the global financial crisis for low income countries)*

• **Trade reform: multilateralism, regionalism and preferential trading agreements.** *(Case study: protectionism and the Doha Round)*.

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**Reading and Preparation to be Undertaken Outside of the Classroom**

There is no single book that acts as a core text for this course. Instead, the course is largely based on readings that are either available electronically on the Sakai system or can be easily accessed by consulting relevant web sites. Having said this, there are a number of books that it may be helpful for you to consult occasionally. These fulfil different purposes and I will refer to them from time to time as the course progresses:

*Graham Bird (2007), An Introduction to International Macroeconomics: Theory, Policy and Applications* (3rd edition), Palgrave. This book provides an introduction to the analytical foundations of open economy macroeconomics. It covers this material more formally than we shall cover it in class. It goes on to discuss balance of payments and exchange rate policy and examines applications of the analysis. The level of analysis in the book represents a natural progression from what is conventionally covered in a basic principles of economics course.

*Andrew Walter and Gautem Sen (2009), Analyzing the Global Political Economy,* Princeton University Press. This book covers many (but certainly not all) of
the issues that are relevant to the course. It is designed for international relations students and seeks to integrate economics into the study of international political economy. It is quite descriptive in style and is ‘light’ on formal economic analysis. Although (largely for this reason) it is not suitable as a core textbook, it is useful as a supplementary text and you should try to read it as the semester progresses.

Paul Krugman and Maurice Obstfeld, (most recent edition), *International Economics: Theory and Policy*, Addison-Wesley. This is one of many good textbooks that cover open economy macroeconomics and trade theory. It is written essentially for economics majors at the intermediate or more advanced level and adopts a more formal and rigorous approach than we need. It is not therefore a book that has to be read from cover to cover but quite selectively. Individual chapters or sections are useful. For example, the chapter that deals with balance of payments accounting is a useful supplement to our discussion of the balance of payments and, in particular, the section that covers international trade theory provides a good analytical foundation for the trade issues upon which we shall be focusing.

Rather than buying individual personal copies of the above books it may be sensible to make sure that you have access to a copy within your study group as and when needed.

Useful journals carrying many articles relevant to the course are:

- *Finance and Development*, IMF/World Bank. (This is available on the IMF’s website and you can flick through back copies fairly easily. Take a look at the most recent issue to get an idea of the sort of topics covered).

- *World Economics*. This is a non-technical journal that is written at exactly the right level for this course and covers the sort of issues with which we deal. You should take time to look at recent back copies and select articles that are either directly of relevance to the topics we are covering or of interest to you more generally.

Occasional use will also be made of reports from international organisations such as the IMF and the United Nations.

You will need to become familiar with the principal sources of world economic data. A particularly useful source of information is:

- *World Economic Outlook*, IMF. (Available on the IMF’s web site). But also see:
  - *International Financial Statistics*, IMF.
More detailed reading for each topic is appended, and additional references may be suggested as the course progresses. I shall provide you with further direction on the reading as we move through the material. Note that a large amount of relevant information is available online. Useful websites include www.imf.org, www.worldbank.org, www.un.org and www.wto.org. Another very useful source is the Peterson Institute for International Economics (www.iie.com) and many relevant items may be found on the Institute’s web site. Also useful is the www.voxeu.org website that contains many interesting and short articles about current global economic issues. For country-specific information the country reports produced by the Economist Intelligence Unit are instructive, and even the brief country profiles available on the BBC’s website are helpful.

Every issue of the Economist magazine, and the Financial Times, contains articles relevant to this course. You can monitor your progress by assessing how much you get from reading these articles.

Assessment

This comprises a number of elements. A final two hour exam accounts for 50% of the marks. A mandatory mid term in-class test carries 25% of the marks. Questions for this will be based on the ‘questions for discussion’. You are also required to write a brief report on one of the case studies we examine. This will carry 25% of the marks. In addition to the above, you will also be given the option of writing a take home essay. Your mark on this essay will only be counted (on equal status with the mid term quiz) if it serves to raise your overall mark. Students who have made a consistent and constructive contribution to class discussion will have this taken into account if their overall grade on the course comprising both the exam and coursework components falls on the borderline of a grade.

Detailed Reading and Study Program

1. THE WORLD ECONOMY: PERFORMANCE AND POLICY

Blanchard, Dell’Ariccia and Mauro (2010) ‘Rethinking Macroeconomic Policy,’ IMF Staff Position Note, SPN/10/03.

(You should update the data contained in this chapter from the World Economic Outlook.)


*World Economic Outlook*, (most recent edition)

### 2. THE WORLD ECONOMY: A BRIEF HISTORY (with particular emphasis on globalization)


### 3. ISSUES CONFRONTING THE WORLD ECONOMY

- *The global financial and economic crisis of 2008/09*

This is a complex issue. We shall investigate the current status and will draw heavily on web-based resources. Those available at the IMF, the Peterson Institute and voxeu are very useful. As a particular focus, we shall examine the outcome of recent G 20 meetings. We shall also briefly rehearse the connections between the crisis and some of the other issues that the course examines.

As an introduction to this topic that raises a number of the issues that we can then discuss further see:


• **Currency and financial crises in the recent past: their causes and consequences**


Willett (2000); ‘International Financial Markets as Sources of Crises or Discipline: The Too Much, Too Late Hypothesis,’ Essays in International Finance, No 218, Princeton, May.

• **Global economic imbalances, the future of the US dollar and the reform of the international monetary system.**


Bird (2006) ‘Are We Heading for a Dollar Crisis?’ World Economics, 7 (1).


_World Economic Outlook_, April, 2007, Chapter 3. ‘Exchange Rates and the Adjustment of External Imbalances.’

* Exchange rate regimes and monetary integration in Europe and elsewhere.


• The IMF and its reform (with particular reference to the international coordination of macroeconomic policy).


• The development gap and ways of closing it.


Ranis and Stewart (2001) ‘The Debt Relief Initiative for Poor Countries: Good News for the Poor?’ World Economics, 12 (3).


• Trade Reform: multilateralism, regionalism and preferential trading agreements.


