

EIB 203: Contemporary World Economic Issues

Summer 2009

Professor Graham Bird

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. The lectures provide the skeleton of the course. The reading adds the flesh.

Second, there will be mini sessions based on questions that will be circulated in advance and for which you will be asked to prepare answers. 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.

The second and third modalities are designed to create a structured opportunity for discussion and dialogue. 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 provide a useful format for the preparation of the case studies. They 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, and the global financial and economic crisis of 2008/09. 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. Contemporary Issues and the World Economy

- ***Currency and financial crises in the recent past: their causes and consequences. (Case studies: the ERM, 1992; East Asia, 1997/98; Argentina, 2002; Turkey, 2001/02).***
- ***Global economic imbalances and the future of the US dollar.***
- ***The global financial and economic crisis of 2008/2009: causes and consequences. (We shall run a workshop to involve everyone is discussing this topic and the previous one).***
- ***The IMF and its reform: with particular reference to the international coordination of macroeconomic policy. (Case study: the IMF and multilateral surveillance).***
- ***Exchange rate regimes and monetary integration in Europe and elsewhere. (Case study: dollarization in Latin America and the future of the euro).***
- ***Trade reform: multilateralism, regionalism and preferential trading agreements. (Case study: US trade policy and the Doha Round).***
- ***The development gap and ways of closing it. (Case study: the Millennium Development Goals)***
- ***International terrorism***

Reading and Preparation to be Undertaken Outside Class

There is no single book that acts as a *core* text for this course. Instead, the course is based on *readings* that are available electronically on the course's web pages. Having said this, fairly frequent reference will be made to:

Graham Bird (2007), *An Introduction to International Macroeconomics: Theory, Policy and Applications* (3rd edition), Palgrave, (relevant chapters will be made available to you).

World Economics. This is a non-technical journal that is written at exactly the right level for this course and covers exactly 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.

Use will also occasionally be made of reports from international organisations.

You will need to become familiar with the principal sources of world economic data; important references for this purpose include recent editions of:

- *World Economic Outlook*, IMF
- *World Development Report*, Oxford University Press
- *International Financial Statistics*, IMF, and,
- *Human Development Report*, UNDP, Oxford University Press

Another useful journal that you should consult on a regular basis is:

- *Finance and Development*, IMF/World Bank (this is available online on the IMF website).

More detailed reading for each topic is appended, and additional references may be suggested as the course progresses. Further direction on the reading will be provided 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. For country-specific information the country reports produced by the Economist Intelligence Unit are very useful, and even the brief country profiles available on the BBC's website provide relevant information.

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 65% of the marks. A mandatory *mid term in-class test* carries 25% of the marks. Questions for this will be drawn from a 'bank' that will be circulated to you more than one week in advance of the test. You will also be given the option of writing *an additional 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. The *case study* will carry the remaining 10% of the marks. 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

Bird (1985) 'World Economic Performance: Facts, Theories and Controversies', in *World Finance and Adjustment* (Chapter 2), Macmillan.

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

Bird (2001) 'What Happened to the Washington Consensus?' *World Economics*, December.

Bird (2007) 'Evolution in Macroeconomics: Principles, Policy and Performance,' in Roy, Denzau and Willett, eds, *Neoliberalism: National and Regional Experiments with Global Ideas*, Routledge.

Bird (2007) 'On Solving the World's Economic Problems by Doing Something Unfashionable,' *World Economics*, April-June.

Bird and Helwege (1997) 'Can Neoliberalism Survive in Latin America?' *Millennium: Journal of International Studies*, 26, No 1.

World Economic Outlook, (most recent edition, April 2009)

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

Deardorff (2003) 'What Might Globalisation's Critics Believe?' *The World Economy*, August.

Finance and Development (2007), Section on Financial Globalization, March.

Kenen, Shafer, Wicks and Wyplosz (2004) *International Economic and Financial Cooperation: New Issues, New Actors, New Responses*, Geneva Reports on the World Economy, 6.

Rajan and Bird (2001) 'Economic Globalisation: How Far and How Much Further,' *World Economics*, 2, 3, July– September.

Rodrik (2000) 'How Far Will International Economic Integration Go?' *Journal of Economic Perspectives*, 14, 1, Winter.

3. CONTEMPORARY ISSUES IN THE WORLD ECONOMY

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

Bird (2007) *An Introduction to International Macroeconomics: Theory: Policy and Applications*, Chapters 6, 10 and 14.

Bird and Milne (1999) 'Miracle to Meltdown: A Pathology of the East Asian Financial Crisis,' *Third World Quarterly*, 20, 2.

Bird and Rajan (2001) 'Banks, Financial Liberalisation and Financial Crises in Emerging Markets,' *The World Economy*, 24, 7, July.

Bird and Willett (2008) 'Why Do Governments Delay Devaluation: The Political Economy of Exchange Rate Inertia,' *World Economics*, 9 (4).

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 and the future of the US dollar***

Bird (2007) *An Introduction to International Macroeconomics: Theory Policy and Applications*, Chapters 10 and 15.

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

Bird (2008) 'Unwinding Global Economic Imbalances: What's Growth Got to Do with It?' *World Economics*, 9 (3)

Bird and Mandilaras (2005) 'Reserve Accumulation in Asia: Lessons for the Holistic Reform of the International Monetary System,' *World Economics*, 6, (1).

Corden (2007) 'Those Current Account Imbalances: A Sceptical View,' *The World Economy*, 30 (3).

Lane and Milesi-Ferretti (2006) 'Examining Global Imbalances,' *Finance and Development*, March.

Mann (2002) 'Perspectives on the US Current Account Deficit and Sustainability' *Journal of Economic Perspectives*, 16 (3).

World Economic Outlook, April, 2007, Chapter 3. 'Exchange Rates and the Adjustment of External Imbalances.'

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

This is a complex and rapidly evolving issue. We shall run a **workshop** to investigate the current status and will draw heavily on web-based resources. As a particular focus, we shall examine the outcome of the G 20 meeting held in London at the beginning of April and assess whether this is likely to lead to appropriate reform. We shall also investigate the connections between the crisis and some of the other issues that the course examines.

An introduction to this topic that raises a number of the issues that we can then discuss further is:

Bird (2009) 'The Dangers of Déjà Vu Economics,' *World Economics*, 10 (1).

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

Bird, (2007) *An Introduction to International Macroeconomics: Theory, Policy and Applications*, Chapters 11 and 16.

Bird (2007) 'The IMF: A Bird's Eye View of Its Role and Operations,' *Journal of Economic Surveys*, 21 (4).

Bird (2006) 'Are Mr de Rato's Spectacles Rose Tinted? Globalization and the IMF's Medium Term Strategy,' *World Economics*, 7 (2).

Bird (2007) 'Running the IMF: Reducing Political Bias and Increasing Independence,' *World Economics*, 7 (4).

Bird (2001) 'A Suitable Case for Treatment? Understanding the Ongoing Debate About the IMF,' *Third World Quarterly*, 22, 5.

Bird and Willett (2007) 'Multilateral Surveillance: Is the IMF Shooting for the Stars?' *World Economics*, 8 (4).

Boughton (2004) 'The IMF and the Force of History: Ten Events and Ten Ideas That Have Shaped the Institution,' *IMF Working Paper*, 04/75.

Eichengreen (2007) 'A Blueprint for IMF Reform: More Than Just a Lender,' *International Finance*, 10 (2).

Feldstein (1998) 'Refocusing the IMF,' *Foreign Affairs*, March/April.

Meltzer (2007) 'A Blueprint for IMF Reform: What Is Worth Retaining?' *International Finance*, 10 (2).

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

Berg, Borensztein and Mauro (2002) 'An Evaluation of Monetary Regime Options for Latin America,' *North American Journal of Economics and Finance*, 13.

Bird (2007) *An Introduction to International Macroeconomics: Theory, Policy and Applications*, Chapter 13.

Chinn and Frankel (2007) 'The Euro May Over the Next 15 Years Surpass the Dollar as Leading International Currency,' National Bureau of Economic Research, Working Paper 13909 (www.nber.org/papers/w13909).

Feldstein (1997) 'The Political Economy of European Economic and Monetary Union: Political Sources of an Economic Liability,' *Journal of Economic Perspectives*, 11, 4, Fall.

Eichengreen (2007) 'The Breakup of the Euro Area,' National Bureau of Economic Research, Working Paper, 13393 (www.nber.org/papers/w13393).

Masson and Patillo (2004) 'A Single Currency for Africa?' *Finance and Development*, December.

Tavlas (1993) 'The 'New' Theory of Optimum Currency Areas,' *The World Economy* (or 'The Theory of Optimum Currency Areas Revisited'; *Finance and Development*, June).

Willett (2000) 'Some Political Economy Aspects of EMU,' *Journal of Policy Modeling*, 22, 3.

- ***Trade Reform: multilateralism, regionalism and preferential trading agreements.***

Baier, Bergstrand and Vidal (2007) 'Free Trade Agreements in the Americas: Are the Trade Effects Larger than Anticipated?' *The World Economy*, 30 (9).

Bouett, Mevel and Orden (2007) 'More or Less Ambition in the Doha Round: Winners and Losers from Trade Liberalization with a Development Perspective,' *The World Economy*, 30 (8).

Bhagwati (1994) 'Free Trade: Old and New Challenges,' *Economic Journal*, March.

Evenett and Meier (2008) 'An Interim Assessment of the US Trade Policy of Competitive Liberalization,' *The World Economy*, 31 (1).

Feinberg (2003) 'The Political Economy of United States' Free Trade Arrangements,' *The World Economy*, August.

Kinnman and Lodefalk (2007) 'What is at Stake in the Doha Round?' *The World Economy*, 30 (8).

Krueger (1999) 'Are Preferential Trading Arrangements Trade-Liberalizing or Protectionist?' *Journal of Economic Perspectives*, 13, 4, Fall.

Krugman (1995) 'Growing World Trade: Causes and Consequences,' *Brookings Papers on Economic Activity*, 1.

Momani (2007) 'A Middle East Free Trade Area: Economic Interdependence and Peace Considered,' *The World Economy*, 30 (11).

Pomfret (2007) 'Is Regionalism an Increasing Feature of the World Economy?' *The World Economy*, 30 (6).

Winters (2004) 'Trade Liberalisation and Economic Performance: An Overview,' *Economic Journal*, 114, February.

- ***The development gap and ways of closing it.***

Bird (2004) 'Growth, Poverty and the IMF,' *Journal of International Development*, 16.

Bird (1999) 'The Political Economy of Aid: Fatigue or Regeneration,' *Review of International Economics and Business*, November.

Bird (1991) 'The Third World Debt Crisis: Causes and Cures,' in Bird and Bird, eds; *Contemporary Issues in Applied Economics*, Edward Elgar.

Bird and Milne (2003) 'Debt Relief for Low Income Countries: Is it Effective and Efficient?' *The World Economy*, 26, January.

Easterly (2002) 'The Cartel of Good Intentions: The Problem of Bureaucracy in Foreign Aid,' *Journal of Policy Reform*, 4.

Killick (2004) 'Politics, Evidence and the New Aid Agenda,' *Development Policy Review*, 22, 1.

Pritchett (1997) 'Divergence, Big Time,' *Journal of Economic Perspectives*, Summer.

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

- ***International terrorism***

Bird, Blomberg and Hess (2008) 'International Terrorism: Causes, Consequences and Cures,' *The World Economy*, 31 (2).