

International Macroeconomics

New Economic School, Spring 2018

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Course information

Course Website: my.nes.ru

Instructor's Office Hours: Monday, 13:50-17:00, 15:40-16:10 Wednesday, 13:30-13:45, 14:10-14:30, and by appointment

Instructor's Office: Skolkovo, 2.25, Shabolovka 28, bld. 2, room #315

Class Time: M, 14:20-15:40 (113); Wednesday, 12:10-13:30 (5309)

TA: Darya Bakhareva, dbakhareva@nes.ru

Course Description

What is the relationship between the "Rise of China", the Great Reserve Accumulation, and the so-called Bretton Woods II system and the global property bubble and Financial Crisis of 2008 and 2009? What are the causes of the liquidity trap now facing many developed nations internationally, and how can they get out? What lessons can we learn from the Great Depression in order to cure the (still-ongoing) Great Recession today? What caused the Ruble Crises? The Latin American Debt Crisis? The Asian Financial Crisis? What sorts of policies can the IMF and World Bank promote to support economic development? What were the key determinants of the Industrial Revolution? What in the world is wrong with the Euro?

In this class, we will learn economic theories in the context of economic history to shed light on these key questions for Macro policy. The most important economic policy questions today are fundamentally questions about International Macroeconomics, and we will study the key debates.

Course Requirements, Grading, and Attendance Policies

The course will consist of two tests and several short writing assignments, problem sets, and data exercises. The course grade will be determined 60% from the tests (if one is missed for any reason then you will

need to do a retake at the end of the course), 20% from the papers (2-3 short papers; reduced from last year), and 15% problem sets (there will be 4-5 problem sets). In addition, attendance is required, and worth 5% of the semester grade. Occasionally, there may be other opportunities for bonus points. It is expected that students attend class having read the materials assigned for that class, and that students participate in the class discussion. Failure to turn in assignments could result in a failing grade, particularly if combined with poor attendance.

Course Contents and Readings

Note: Only *starred readings are required. Readings without a * are merely background readings listed for those who happen to be interested in learning more about certain topics (and they are typically brilliant), but reading them may not be an efficient way to prepare for the tests. By contrast, the readings with * will be explicitly covered on the tests. The dates are approximate, and significant changes to the schedule are expected. Note: I am writing a book, so when time allows I may give you (very rough) drafts of certain chapters to read.

1. Introduction, 1/13, 1/18

*Clark, Greg, [Chapter 1 of Farewell to Alms](#) (on my.nes)

*Campbell, Douglas, Chapter 1: Introduction (on my.nes).

2. The Malthusian Model

*Clark, Greg, [Chapter 2 of Farewell to Alms: The Logic of the Malthusian Economy](#) (on my.nes)

*Clark, Greg, [Chapter 3: Malthusian Era Living Standards](#) (on my.nes)

*Jared Diamond, [The Worst Mistake in the History of the Human Race](#) (Aside: I computed a ‘Total derivative’ in class. Notes on what this is are here: [here.](#))

3. The Kamarck-Crosby-Diamond-Sachs Theory of Development (1st Geographic Theory of Development)

*Crosby, Alfred, [Ecological Imperialism: The Overseas Migration of Western Europeans as a Biological Phenomenon](#) (this short article is also uploaded to my.nes).

*Diamond, Jared, Chapter 10 of *Guns, Germs, and Steel* (uploaded to my.nes).

Nunn and Qian, (2010) [The Columbian Exchange: A History of Disease, Food, and Ideas](#)

Crosby, Alfred, 1972, *The Columbian Exchange: Biological and Cultural Consequences of 1492*. Greenwood Press; Crosby, Alfred, 1986, *Ecological Imperialism: The Biological Expansion of Europe, 900-1900*.

Cambridge University Press.

Kamark, Andrew M. *Tropics and Economic Development: A Provocative View into the Poverty of Nations*. Johns Hopkins University, 1976.

Diamond, Jared, 1992, *The Third Chimpanzee*.

Diamond, Jared, 1997, *Guns, Germs, and Steel*.

Sachs, Jeffrey, 2001, [Tropical Underdevelopment](#).

4. Theories of the Industrial Revolution (IR); Institutions; Trade and the IR, 2/1-2/10

*Campbell, Douglas, *Theories of the Industrial Revolution* (on my.nes).

*Clark, Gregory, [Malawi vs. Sweden](#). (also uploaded to my.nes).

*Krugman, Paul, [Mongols of the Sea: Amateur Historical Speculation](#) (note: this is just a short blog post)

*Clark, Greg, [Chapter 8: Institutions](#) (on my.nes)

*Clark, Greg, [Chapter 9: The Emergence of Modern Man](#) (on my.nes)

*Clark, Greg, [The Industrial Revolution](#) (on my.nes)

Kremer, Michael, [Population Growth and Technological Change: One Million B.C. to 1990](#)

*Acemoglu, Johnson, and Robinson (2001) [The Colonial Origins of Comparative Development](#)

*Acemoglu, Johnson, and Robinson (2002) [Reversal of Fortune](#) (only need to read the 5 page introduction)

Landes, David, "The Wealth and Poverty of Nations", (1998).

6. The First Wave of Globalization and the Heckscher-Ohlin Model, Balassa-Samuelson, 2/17-2/24

FT Chapter 4

Feenstra, Chapter 1, Notes on Two Sector Models (on mynes) (Note: the HO model will be discussed only briefly, as this will be covered in your international trade course.)

6.5 Brief Notes on how to Critique Empirical Papers, 2/24

Taubes, Gary, [Do We Really Know What Makes us Healthy?](#)

9. The Gold Standard, the Trilemma, and the Interwar Collapse of World Trade, 2/16

John Maynard Keynes, Chapters 1, 2, and 3 [The Economic Consequences of the Peace](#)

10. A Cross of Gold: The Great Depression as International Financial Crisis, 2/20-3/6:

Note that 2/23 is a holiday and 3/9 there will be no class.

*Paul Krugman, ["Introduction" to John Maynard Keynes, The General Theory of Employment, Interest and Money](#) *John Maynard Keynes (1932), ["The World's Economic Outlook," Atlantic](#)

John Maynard Keynes (1936) [A General Theory of Employment, Interest, and Money](#)

*Wikipedia: [The Treasury View](#)

*Bernanke, Ben and Harold James, [The Gold Standard, Deflation, and Financial Crisis in the Great Depression: An International Comparison](#)

*Greg Mankiw ["2008 = 1929?" \(notes on deflation in an IS-LM framework\)](#)

*Eichengreen, B. (1995), ["Golden Fetters"](#) (Only the introduction is required; see course webpage)

Eichengreen, B. (1992), ["The Origins and Nature of the Great Slump Revisited."](#) *Economic History Review* 459(2), 212-239; Eichengreen, B., [Still Unfettered After all These Years](#)

Eichengreen, B. and Jeffrey Sachs [Exchange Rates and Economic Recovery in the 1930s](#)

Eichengreen, B. and Peter Temin [The Gold Standard and the Great Depression](#)

Irwin, Doug [Did France Cause the Great Depression?](#)

11. The Great Depression, the Theory: Open-Economy IS-LM, 3/6

*FT Chapter 19

*Paul Krugman, [There's Something About Macro](#) : <http://www.pkarchive.org/theory/islm.html>

*Paul Krugman, [Babysitting the Economy](#)

*Paul Krugman, [The World's Smallest Macro Model](#) : <http://web.mit.edu/krugman/www/MINIMAC.html>

*IS-LM-BP notes

[IS-LM-FX notes](#)

*Bryan Caplan channeling Truman Bewley, ["Why Wages Don't Fall During a Recession? Q&A with Me Channeling Truman Bewley."](#)

First Test, 3/13

11. The Gravity Equation; Currency Unions and Trade, 3/16, 3/21

March 23-29, No class (consultation week)

12. Exchange Rate Determination in the Short-Run: The Meese-Rogoff Puzzle, and the impact of Announcements on Exchange Rates (covered the end of March)

FT Chapter 14, 15

Meese, Richard and Kenneth Rogoff (1983a) "Empirical Exchange Rate Models of the Seventies: Do they fit out of sample?" *Journal of International Economics* 14, 3-24.

13. RERs and Growth, The Resource Curse, and Dutch Disease (4/4, 4/13)

Handout on Balassa-Samuelson (on my.nes)

Smith, Brock, "[The Resource Curse Exorcised: Evidence from a Panel of Countries](#)" (published version on my.nes)

Smith, Brock, "[Dutch Disease and the Oil Boom and Bust](#)" (published version on my.nes)

*Rodrick, (2008) [The Real Exchange Rate and Economic Growth](#)

*Smith, Brock [Dutch Disease and the Oil Boom and Bust](#)

14. The Asian Miracle/Import Substitution vs. Export Promotion (Skipped in class, but read Stiglitz)

Young, Alwyn, (2009) [The Tyranny of Numbers](#) (only the introduction, pages 1-4).

Robinson, (2009) [Industrial Policy and Development: A Political Economy Perspective](#)

*Stiglitz, Joseph, [Some Lessons from the Asian Miracle](#)

15. The IMF, the Latin American Debt Crisis, the Asian Financial Crisis, +Transition Economies (begin 4/13, 4/17)

FT Chapter 20

*Krugman, Paul, [Analytical Afterthoughts on the Asian Crisis](#)

*Krugman, Paul, Nobel Lecture

Stiglitz, Joseph, Globalization and Its Discontents, Chapter 4 "The East Asian Crisis: How IMF Policies Brought the World to the Verge of a Global Meltdown", (see my.nes).

*Stiglitz, Joseph, Globalization and Its Discontents, Chapters 5 and 6 "Who Lost Russia?", (see my.nes).

*Blustein, Paul, "The Chastening", chapter 9: "Getting to Nyet" (on my.nes)

Rogoff, Kenneth, [An Open Letter to Joseph Stiglitz](#) *Rogoff, Kenneth, [The IMF Strikes Back](#) *DeLong,

Brad [A Review of Paul Krugman, The Return of Depression Economics](#)

16. Japan's Liquidity Trap, (4/20, 4/24)

*Caballero, Ricardo J., Takeo Hoshi, and Anil K. Kashyap. "Zombie lending and depressed restructuring in Japan". No. w12129. National Bureau of Economic Research, 2006. (read for class discussion)

Hoshi, Takeo, and Anil Kashyap. "Why did Japan stop growing?" NIRA Report (2011).

Krugman, Paul, 1998, "It's Back – Japan's Slump and the Return of the Liquidity Trap," Brookings Papers on Economic Activity. (Only need to read 137-151 & the "Banking Problems" section from p. 174-177. The discussion at the end featuring many other prominent economists is recommended but not required)

Bernanke, Ben S. "Japanese Monetary Policy: A Case of Self-Induced Paralysis?." Japan's Financial Crisis and Its Parallels to US Experience (2000): 149-166.

Obstfeld, Maurice, 2009, ["Time of Troubles: The Yen and Japan's Economy 1985-2008"](#)

24. Bretton Woods II, the Great Reserve Accumulation, and the Impact of the Rise of China

Autor, Dorn, and Hanson, "The China Syndrome: The Local Labor Market Effects of the Rise of China," (AER) 2013.

*Campbell, Douglas L. ["Relative Prices, Hysteresis, and the Decline of American Manufacturing"](#)

*Campbell, Douglas L. [Guest Contribution: "The Cause of Secular Stagnation? Relative Prices, Trade, and the People's Republic of China"](#)

Campbell, 2014, "On the Causes of Secular Stagnation: China, Relative Prices, and the Collapse of Manufacturing." VoxEU. Apr. 15, 2014.

Acemoglu et al. (2014) ["Import Competition and the Great Employment Sag of the 2000s"](#) ; VoxEU Ebook, ["Secular stagnation: Facts, causes, and cures"](#)

*Avent, Ryan, ["Glut Busters"](#) in the Economist, May 2014.

*Ben Bernanke, blog post, ["Why are interest rates so low, Part 2: Secular Stagnation"](#)

*Ben Bernanke, blog post, ["Why are interest rates so low, Part 3: The Global Savings Glut"](#)

*Paul Krugman, ["Liquidity Traps: Local and Global"](#)

May 1-10, Spring Break

25. The Great Recession and the ZLB, (5/11)

*Clark, Gregory [Dismal Scientists: How the Crash is Reshaping Economics](#)

*Guajardo, Jaime, Daniel Leigh, and Andrea Pescatori. Expansionary Austerity: New International Evidence. Journal of the European Economic Association, 2014.

David Keohane, [Negative Rates and Gesell Taxes: How Low Are We Talking Here](#)

*Delong, Brad, [“Matt Yglesias vs. Robert Barro”](#) ; Barro, Robert, [“How to Really Save the Economy”](#)

; *Mulligan, Casey, [“Are Employers Unwilling to Hire, or Are Some Workers Unwilling to Work?”](#) ;

*Krugman, Paul, [A Dark Age of Macroeconomics](#) (also read links) ;

*Krugman, Paul, [A Note on the Ricardian Equivalence Argument Against Stimulus](#) ;

Goldfarb, Zachary, [“Geithner Finds His Footing”](#); Cato letter to Obama. ; Center for Budget Priorities and Policies, [“States Continue to Feel Recession’s Impact”](#)

Reinhart, Carmen M. and Kenneth S. Rogoff, "Growth in a Time of Debt", 2010, NBER Working Paper No. 15639.

Herndon, Thomas, Michael Ash and Robert Pollin, "Does High Public Debt Consistently Stifle Economic Growth? A Critique of Reinhart and Rogoff", 2013, working paper.

26. A Cross of Euros: The Euro in Crisis

FT Chapter 21

Eichengreen, Barry, and Peter Temin, [Fetters of Gold and Paper](#)

Krugman Blog Posts: [*The Economic Consequences of Mr. Trichet](#), [*The Madness of Jean-Claude Trichet](#), [*What’s the matter with Europe?](#), [*Meanwhile, in the Role Model](#), [*The Asian Crisis vs. the Euro Crisis](#), [*Neo Calvinists and the Euro Crisis](#) ; [Origins of the Euro Crisis](#)

Second Test, 5/26

Academic Integrity Policy

Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated.