

Fall 2010

ECO 332

Open Macroeconomics for Developing Countries

Tuesdays and Thursdays, 9-10:15, Olin 113

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Office hours: Tue and Thur, 12 – 1 & by appointment

1. Course description

This course studies the critical association among openness, macroeconomic stability and growth in the economies of developing countries. It begins with an analysis of the basic concepts, themes and institutions of these economies. Next, it analyses the external and internal constraints, capital flows, exchange rate determination, fiscal and monetary policies. We will study the economic problems and policy dilemmas that these economies face and their vulnerability regarding external shocks, in particular, the 2008 financial crisis in the US and Europe.

2. Learning goals

- The course will familiarize you with the stylized features of the economies of developing countries in which openness and macroeconomic stability are interlinked. It means that to keep their international competitiveness, these economies need to keep inflation rate under control and use a realistic exchange rate to attain external balance. At the same time, these economies have to deal with strong pressures for fiscal deficits because they need to address major developmental issues and market failures.
- To add to this challenge, developing countries are more prone to external shocks such as price volatility, capital flight and sudden changes in the external demand for their goods and services. A second learning objective is to study how these countries attempt to reduce and/or cope with the vulnerability that arises from these external shocks (including the 2008 global crisis).
- A third learning objective is to understand the political economy of macroeconomic management in developing countries and to contrast it to developed countries. By using adequate open economy models you will be able to anticipate short - and long term implications of changes in key economic variables at the global level on developing countries and compare these outcomes to developed countries.
- Finally, you will be required to analyze the macroeconomic performance of selected countries that are considered "emerging" economies. This training will refine your analytical macroeconomic tool-kit.

3. Prerequisite

Intermediate Macroeconomics, Eco 206

This course has a FLAC (foreign language across the curriculum) component in Spanish, for one credit, 10 hourly sessions.

4. Course requirements

- 20% Class participation which includes: one power point presentation of your country paper, postings on our moodle forum to either ask a question or write a comment on a reading; share a recent article or paper and comment on it in class; volunteer to present or discuss on a macroeconomic topic affecting your selected country,

- etc. Two unjustified absences will lower your grade by a full grade point, three will lower it by two full points, and so on.
- 15% Paper on: impact of the 2008 global crisis on a developing country. The paper will include government interventions and the current overall macroeconomic situation. (see guidelines and due date on our moodle site)
 - 15% Paper on Paul Krugman's book (see guidelines and due date on our moodle site)
 - 15% Paper on sections of the books by Rodrik, Paulson, and Stiglitz
 - 15% Mid-term exam in early November
 - 20% Final examination

5. Country studies

Two students will select a country of preference from the following list and write a research paper. List of countries:

G-20 except G-7, rest of EU and Australia: Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey; and, in Africa, Botswana, Egypt, Ghana, Kenya; in Asia, Bangladesh, Philippines, Thailand, Malaysia; in Latin America and the Caribbean, Bolivia, Chile, Cuba, Peru and Venezuela

6. Textbooks and other readings

Krugman, Paul, 1999, *The Return of Depression Economics and the Crisis of 2008* (2009). New York: W.W. Norton and Co. (requested)

Blanchard, Oliver, 1997, *Macroeconomics*, 2010 edition (5th edition), Pearson/Prentice Hall. (requested)

Rodrik, Dani, 2007, *One Economics. Many Recipes. Globalization, Institutions, and Economic Growth*, Princeton University Press (recommended)

And selected chapters --- all of these are posted on moodle:

Agénor, Pierre-Richard, and Meter J. Montiel, 1996, *Development Macroeconomics*. New Jersey: Princeton University Press.

Hossain, Akhtar, and Anis Chowdhury, 1998, *Open-Economy Macroeconomics for Developing Countries*. Northampton, MA: Edgard Elgar.

Paulson, Henry M., 2010, *On the Brink. Inside the Race to Stop the Collapse of the Global Financial System*. New York: Business Plus.

Roubini, Nouriel, and Stephen Mihm, 2010, *Crisis Economics. A Crash Course in the Future of Finance*. New York: Penguin Press.

Stiglitz, Joseph E., 2010, *Freefall. America, Free Markets, and the Sinking of the World Economy*. New York: W.W. Norton Co.

All relevant materials are posted on moodle. Visit our site periodically and read the announcements when posted.

7. Academic honor

Academic honor is of utmost importance. Depending on the violation, a student could receive an F grade on the test, assignment or course, and could be suspended or expelled from the College. All students must write the following pledge in every exam before it is handed in for grading: "I promise neither to give nor receive any aid on this examination." Please, read the section on academic integrity at

<http://aspen.conncoll.edu/camelweb/index.cfm?fuseaction=zbook&circuit=4&function=view&action=10063&solution=40&zbook=1584&fuse=plagiarism#zbook1584>.

And, for a description of plagiarism, please check:

<http://www.conncoll.edu/Libraries/info-resources/subject-guides/plagiarismguide.html>

8. Learning disability

If you have a physical or mental learning disability which may require classroom, test-taking or other reasonable accommodation, please let me know as soon as possible. If you have not already done so, please be sure to register with Sherine A. Miller, Director of the Office of Student Disability Services, extension 5240.

9. The Writing Center

The Roth Writing Center provides one-to-one peer tutoring (free of charge) to help student writers of all abilities during all stages of the writing process. To make an appointment, call x2173 or stop by the Writing Center at 214 Blaustein. If you're a confident, experienced writer we can help you to push your ideas and polish your style; if you're a relatively inexperienced and not-so-confident writer we can also help you, by working on grammar or organization or whatever you need. Writing Center tutors are trained to help you to discover what you think through writing. Working with a tutor gives you the opportunity to share your work-in-progress with an actual reader, so that you can get useful feedback on that work *before* you have to turn it in for a final grade. For further information, visit the Writing Center web page at <http://write.conncoll.edu/>.

10. Program

<u>Session</u>	<u>Topics and Assigned Readings</u>
Thursday, September 2	<u>Developing Countries, Emerging economies,</u> How to define “developing countries”? UN, UNDP, WB, and IMF country group classifications.
Tuesday, September 7	<u>Stylized features of developing countries, part 1</u> Williamson, John, “What Washington Means by Policy Reform” Kozul-Wright, “The Rise of Market Fundamentalism” Rodrik, Dani, “Understanding Economic Policy Reform” Dornbusch, Rudiger, “The Case of Trade Liberalization in Developing Countries” UN, World Economic and Social Situation 2010, Executive Summary
Thursday, September 9	<u>Stylized features of developing countries, part 2</u> Birdsall, Nancy et al, “How to Help Poor Countries” Krueger, Anne, “Government Failures in Development” H.W. Arndt, “The Origins of Structuralism” Hossain and Chowdhury, “Openness and Macroeconomic Performance”
Tuesday, September 14	<u>Basic open macroeconomic model, part 1</u> Blanchard, ch 18, “Openness in Goods and Financial Markets”

Thursday, September 16	<u>Basic open macroeconomic model, part 2</u> Blanchard, ch 18, “Openness in Goods and Financial Markets” Blanchard, ch 19, “The Goods Market in an Open Economy”
Tuesday, September 21	<u>Basic open macroeconomic model, part 3</u> Blanchard, ch 19, “The Goods Market in an Open Economy”
Thursday, September 23	<u>One Economics, Many Recipes</u> Rodrik, ch 1, “Fifty years of Growth (and Lack Thereof): An Interpretation” Rodrik, ch 3, “Synthesis: A Practical Approach to Growth Strategies”
Tuesday, September 28	<u>One Economics, Many Recipes</u> Rodrik, ch 5, “Institutions for High-Quality Growth” Rodrik, ch 6, “Getting Institutions Right”
Thursday, September 30	<u>Krugman’s book discussion</u> Krugman, <i>The Return of Depression Economics. And the Crisis of 2008</i>
Tuesday, October 5	(No class) Book report on Krugman is due (on line, moodle submission)
Thursday, October 7	Fall break
Tuesday, October 12	<u>Exchange Rates</u> Blanchard, ch 20, “Output, the Interest Rate, and the Exchange Rate”
Thursday, October 14	<u>Exchange Rates Regimes</u> Blanchard, ch 21, “Exchange Rate Regimes”
Tuesday, October 19	<u>The 2008 Financial Crisis: On the Brink</u> Paulson, ch 10, ch 11, and ch 12
Thursday, October 21	<u>Stiglitz’s <i>Freefall. America, Free Markets, and the Sinking of the World Economy</i> discussion</u> Stiglitz, Preface Stiglitz, ch 1, “The Making of a Crisis” Stiglitz, ch 2, “Freefall and its aftermath” Stiglitz, ch 3, “A Flawed Response” Stiglitz, ch 7, “A New Capitalist Order” Stiglitz, ch 8, “From Global Recovery to Global Prosperity”

Tuesday,
October 26 Anatomy of the Business Cycle
Blanchard, ch 22, “Depression and Slums”

Thursday,
October 28 Inflation
Blanchard, ch 23, “High Inflation”
Book report on Rodrik, Paulson, and Stiglitz due (on line, moodle submission)

Tuesday,
November 2 Crisis economics
Roubini & Mihm, ch 1, “The White Swan”
Roubini & Mihm, ch 2, “Crisis Economists”
Roubini & Mihm, ch 3, “Plate Tectonics”
Roubini & Mihm, ch 5, “Global Pandemics”

Thursday,
November 4 How much do economists know?
Blanchard, ch 24, “Should Policymakers Be Restrained?”
Country reports are due (on line, moodle submission)

Tuesday,
November 9 Monetary policy revised
Blanchard, ch 25, “Monetary Policy: A Summing Up”

Thursday,
November 11 Fiscal policy revised
Blanchard, ch 26, “Fiscal Policy: A Summing Up”

Tuesday,
November 16 Review session

Thursday,
November 18 Review session

Tuesday,
November 23 **mid-term exam**

Thursday,
November 25 **Thanksgivings break**

Tuesday,
November 30 Student presentations

Thursday,
December 2 Student presentations

Tuesday,
December 7 Student presentations

Thursday,
Student presentations

December 9

Tuesday,
December 14

Student presentations

Final examination

Notes: