**Economics 370 – World Economy – Fall 2012**

**C*alifornia State University Channel Islands***

**Dr. Claudio Paiva**

Lectures: Wed 12 pm – 2:50 pm at Bell Tower 1424 Final Exam: Dec 12 (Wed), 1 pm – 3 pm

Office Hours: Wed 11:25 am – 11:55 am; Thu 1:30 pm – 4 pm; and by appointment

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**Course Description**

Theory, practice, and institutions of the international economy. Topics include international trade and investment, balance of payments, foreign exchange rates, international institutions in the global economy, and international economic policies. Prerequisite: ECON 111

No textbook will be assigned. We will use a collection of chapters, papers, and presentations from various sources. The material will be available on the web, at the library, or it will be made available through Blackboard or copies handed during lecture. If you are not sure where to find an assigned or additional reading, please come to my office hours. Because I am willing to find or directly provide readings to any student that seeks my help, I will not accept “I couldn’t find the reading” as a valid excuse for poor performance.

**Course Learning Objectives**

Students who successfully complete this course will be able to:

* evaluate various trade theories and determine the gains from trade and investment
* predict the pattern of trade between countries
* distinguish between various trade policy instruments and their economic impact
* describe the factors that cause exchange-rate fluctuations and the determinants of a country's balance of trade
* evaluate the costs and benefits of alternative trade and exchange rate policies.

**My Approach to Teaching**

The material posted on Blackboard provides the foundation for the course. However, my lectures and assignments will also make extensive use of “case studies” based on my previous work at the International Monetary Fund and on reports appearing in reputable media outlets (the Wall Street Journal, The New York Times, The Economist, CNN, etc.). These reports may be discussed in class and/or provide background to homework and exam questions. My main goal will be to give you the basic tools to understand, analyze, and form a critical opinion about the main economic and international issues of our time. We may also discuss links among economics, policies, politics, and social issues when appropriate.

**What should you do to succeed in this course?**

*Come to Class*: Attendance is expected. Lecture will be your best source of information and analysis for this course. Missing class means missing valuable discussion of the course content as well as information regarding assignments.

*Read the Support Material*: material distributed in class, made available through Blackboard, or available on the www will be a valuable source of information to complement lecture slides and the in-depth discussions in class.

*Read or watch (real) news*: The course will be very much related to current events and economic issues. Being aware of what is going on in the developing world, relating these developments to the course subject, and hopefully raising questions in your mind shall be important components of your learning experience.

*Do the Work*: I will provide regular assignments to help you develop and assess your knowledge. I believe in challenging assignments and exams, but I do not believe in surprises. You will be given many chances to test your understanding of the material, in the classroom and outside. Make use of my office hours and additional appointments available.

**Grades**

MID-TERM EXAM = 25% FINAL EXAM = 35% PROJECT PRESENTATION = 20% (10%+10%)

HOMEWORK = 5% CLASS PARTICIPATION = 7% CHECK THIS OUT Presentations= 8%

The final course grade is based on the ratio of the weighted sum of all points earned to the weighted sum of all points possible. I expect the average class score to earn a grade of C+.As a general guideline, a weighted-average score of 60 percent would be needed for a D; 70 percent for a C; 80 percent for a B; and 90 percent or more for an A. Let me emphasize that I want you to learn and do well in the course, and I will be glad to provide you with extra help if needed: please don't hesitate to drop by during office hours or to make an appointment with me for another time.

**Exams**

The exams in this course are designed to challenge your ability to apply the tools of economics and analyze real world problems. Pure memorization will not get you very far. Many questions shall require you to read an excerpt from a recent news article, explain the economic reasoning behind it, identify problems and suggest solutions using the theory and concepts covered in the course. In addition to proper application of the analytical techniques and extensive use of graphs, careful explanations in clear and concise written English are essential. Some math will be required. THERE WILL BE NO MAKE UP EXAMS.

You must bring a green scantron to all exams. The use of cel phones, computers, tablets, or Ipods is not allowed during exams. The only electronic gadget you may use during exams is a simple algebra calculator.

**Project Presentation: comparative country experiences in a major international issue**

Working in groups of 4 students, you will choose two countries to study through the semester. I expect you to read about these countries and to provide periodical updates in class and though homework assignments. Your presentation should be a comparative study between the performances of the two countries in one of the following major global economic issues: economic growth, inflation, international trade, international capital flows, and exchange rates. You should compare the performances, evaluate their impact on the overall economy, analyze the reasons why they are different (or similar), and recommend policies that could improve (or could have improved) outcomes. We will define the issue and the countries of study for each group during the first few weeks of class. You should aim at a 20 min presentation followed by 10 min of questions.

I will grade your presentation looking for a skillful application of the analytical tools covered in the course as well as critical and original thinking. The PowerPoint slides should be sent to me attached to an e-mail before November 21. This initial PowerPoint will count for 10 percent of your final grade in the course. I will then provide you with comments on this PowerPoint and allow you to incorporate these comments before you present it in class. The in-class presentation (and how well you answer questions) will count for the other 10 percent of your grade. Remember: gathering information will not earn you many points (anyone can Google!). Thoughtful explanations, analysis, comparisons, and critical thinking will earn you points. Supporting your arguments with data might also be an important feature of your presentation. Coming to discuss your ideas with me during the semester is “fair game” and strongly recommended.

I know some of you think of the presentation as an “easy credit.” DO NOT count on it. Not only I will carefully review the content of your presentation, I will also expect you to answer questions as you deliver your presentation: I will ask questions, your fellow students will ask questions. So you should read, prepare, and know a lot more about your countries and the issue you are studying than what you put on slides (which should be an effective summary of what you learn through your research). For more details, please see the “Complement to the Syllabus” PowerPoint that is posted on Blackboard. The presentations will take place on December 5.

**“Check This Out” Short Presentations**

EVERY OTHER WEEK throughout the semester, your group is expected to make a 3-minute “flash presentation” (check this out) about a single interesting economic issue you find about your countries of study. You should back your “check this out” presentation with one or two graphs or tables which should illustrate the point you want to make. You may choose to compare one country of study to another or to compare both countries of study to the rest of the world.

For instance: suppose the countries you are studying are Switzerland and New Zealand; you want us to “check out” the stronger impact that the crisis in the Euro Area has had on Switzerland compared to New Zealand. You could illustrate this point by building 2 graphs showing that economic growth and unemployment in Switzerland follow Euro-area growth and unemployment very close, while New Zealand’s growth and unemployment show little correlation to the Euro-area. A few sentences providing possible explanations for this different link would conclude a great “check this out” flash presentation.

As in every other assignment, I would be glad to discuss and help you develop your ideas during office hours.

**Homework**

Homework assignments will be given after each major block of material. The assignments may include some direct, straightforward questions about the material as well as applied or analytical questions based on various country experiences. Some homework will consist of assigned, short reports on your countries of study as described in the previous section.

**Class participation**

I expect students to participate in class discussions. Participation may include answering questions, raising relevant questions, discussing current events, making connections between lectures and country developments, adding relevant comments to ongoing discussions. Reading the recommended material ahead of class, reviewing lecture notes and slides, and following international developments should facilitate your participation in class. You may also be asked to share information about developments in your countries of study and connect them to the class subject. Submitting articles and reports to be used in class also counts as participation (i.e., e-mail me interesting articles).

**Course Outline – Main Topics & References**

1. The State of the World Economy
   1. Regional Differences
      1. Income +
      2. Access to Health +
      3. Access to Education =
      4. Quality of Life
   2. Common Measures of Success in the World Economy
      1. Human Development Index: quality of life
      2. **Gross Domestic Product (GDP): income, production, purchasing power**
   3. Inequality and Poverty Reduction in the Last Few Decades
      1. Search for Economic Policies to Stimulate GDP Growth and Reduce Regional Disparities
      2. The Role of International Trade
      3. The Role of International Financial Flows

References and readings: various sources listed on lecture slides (Newsweek; UN; Wikipedia) and available online; additional reading: World Economic Outlook (IMF), distributed in class and also available online at

<http://www.imf.org/external/pubs/ft/weo/2012/01/pdf/exesum.pdf>

<http://www.imf.org/external/pubs/ft/weo/2012/01/pdf/c2.pdf>

1. Gross Domestic Product (GDP); Interest Rates; Capital Flows; and Exchange Rates
   1. GDP as a Measure of Economic Performance and Well-Being
   2. GDP measures production, income, and therefore relate to:
      1. The ability to have better health, nutrition, education
      2. Employment: higher production normally calls for hiring more workers
   3. GDP Components from the Expenditure Side (C+I+G+NX)
      1. Policy Determinants of GDP: how fiscal policies (taxes and government expenditures) and monetary policies (interest rates) affect expenditures (C+I+G+NX) and therefore GDP
      2. The impact of the World Economy on a Country’s GDP: **the impact of international trade and the impact of international financial flows on interest rates and on exchange rates** (and vice-versa: the impact of exchange rates and interest rates on international trade and international financial flows.

References and readings: Hubbard/O'Brien: Macroeconomics (Ch12) available on Blackboard; Krugman/Wells (Ch 18): Open-economy macroeconomics available on Blackboard.

1. Capital Flows, Interest Rates, Exchange Rates, and International Trade
   1. The relationship between supply and demand for money and interest rates
   2. The relationship between supply and demand for money and exchange rates
   3. The relationship between exchange rates and international capital flows
   4. The relationship between interest rates and international capital flows
   5. The impact of exchange rates on exports and imports

References and readings: Krugman/Wells (Ch 18): Open-economy macroeconomics.

1. The Balance of Payments: a Country’s Accounting Record with the World Economy
   1. **The Current Account**
   2. The Financial Account
      1. Foreign Direct Investment (FDI)
      2. Portfolio Investment
      3. Foreign Borrowing (short and long term bonds; loans)

References and readings: lectures slides; references listed in slides; material distributed in class.

1. Determinants of the Current Account
   1. **The Trade Balance (exports minus imports)**
      1. Impact of economic growth and exchange rate fluctuations on trade
      2. *The real effective exchange rate (REER)*
   2. The Income Balance (interest on debt)
   3. Transfers (immigrants’ remittances; foreign aid)

References and readings: Krugman/Wells (Ch 5): Open-economy macroeconomics, available on Blackboard; Miller and Benjamin (Ch 27): The economics of macro issues, available on Blackboard; lectures slides; references listed in lecture slides; material distributed in class.

1. The Trade Balance: International Trade Policy and Trade Reform
   1. Opportunity Costs, Specialization, and Economic Efficiency
   2. Comparative Advantage: What Trade Patterns *Should* Be
   3. Economic and Political Issues Associated with Trade Policies
      1. Game theory: bargaining strategies and trade policies
      2. Political Pressures Reducing Social Welfare: domestic and international consequences

References and readings: Krugman/Wells (Ch 5): International Trade available on Blackboard; Miller and Benjamin (Ch 25): The economics of macro issues, available on Blackboard; lecture slides; references listed in lecture slides; material distributed in class.

1. International Capital Flows: economic and political factors behind globalization; the economic impact of globalization.

References and readings: World Economic Outlook (IMF, available online); Miller and Benjamin (Ch 26): The economics of macro issues, available on Blackboard; lecture slides; references listed in lecture slides; material distributed in class

1. Alternative Exchange Regimes: floating versus fixed exchange rates; managed exchange rates; the gold standard.
   1. The Choice of ER Regime and its Implication for Trade and GDP
   2. The Choice of ER Regime and its Implication for Inflation

References and readings: World Economic Outlook (IMF, available online); lecture slides; references listed in lecture slides; material distributed in class.

1. Fiscal Policy and Macroeconomic Issues in a Globalized Economy: fiscal policy and its impact on debt, interest rates, capital flows, investment, exchange rates, trade, the current account, and GDP
   1. The role of government credibility

References and readings: “Fiscal Consolidation Reduces Growth” and “Twin Deficits in Practice – New IMF Research” (IMF, available on CI Learn); lecture slides; references listed in lecture slides; material distributed in class.

1. The Latest Trend in Monetary Systems Around the World: Inflation Targeting

References and readings: World Economic Outlook (IMF, available online); lecture slides; references listed in lecture slides; material distributed in class.

**Academic Honesty**

*1. Academic dishonesty includes such things as cheating, inventing false information or citations, plagiarism and helping someone else commit an act of academic dishonesty. It usually involves an attempt by a student to show possession of a level of knowledge or skill that he/she does not possess.*

*2. Course instructors have the initial responsibility for detecting and dealing with academic dishonesty. Instructors who believe that an act of academic dishonesty has occurred are obligated to discuss the matter with the student(s) involved. Instructors should possess reasonable evidence of academic dishonesty. However, if circumstances prevent consultation with student(s), instructors may take whatever action (subject to student appeal) they deem appropriate.*

*3. Instructors who are convinced by the evidence that a student is guilty of academic dishonesty shall assign an appropriate academic penalty. If the instructors believe that the academic dishonesty reflects on the student's academic performance or the academic integrity in a course, the student's grade should be adversely affected. Suggested guidelines for appropriate actions are: an oral reprimand in cases where there is reasonable doubt that the student knew his/her action constituted academic dishonesty; a failing grade on the particular paper, project or examination where the act of dishonesty was unpremeditated, or where there were significant mitigating circumstances; a failing grade in the course where the dishonesty was premeditated or planned. The instructors will file incident reports with the Vice Presidents for Academic Affairs and for Student Affairs or their designees. These reports shall include a description of the alleged incident of academic dishonesty, any relevant documentation, and any recommendations for action that he/she deems appropriate.*

*4. The Vice President for Student Affairs shall maintain an Academic Dishonesty File of all cases of academic dishonesty with the appropriate documentation.*

*5. Student may appeal any actions taken on charges of academic dishonesty to the "Academic Appeals Board."*

*6. The Academic Appeals Board shall consist of faculty and at least one student.*

*7. Individuals may not participate as members of the Academic Appeals Board if they are participants in an appeal.*

*8. The decision of the Academic Appeals Board will be forwarded to the President of CSU Channel Islands, whose decision is final.*

# Disability Accommodations:

# *Cal State Channel Islands is committed to equal educational opportunities for qualified students with disabilities in compliance with Section 504 of the Federal Rehabilitation Act of 1973 and the Americans with Disabilities Act (ADA) of 1990. The mission of Disability Accommodation Services is to assist students with disabilities to realize their academic and personal potential. Students with physical, learning, or other disabilities are encouraged to contact the Disability Accommodation Services office at (805) 437-8510 for personal assistance and accommodations.*

**Notice**

Information contained in this syllabus, other than that mandated by the University, may be subject to change with advance notice, as deemed appropriate by the instructor.