

ITRN 503-DL2/P01

Syllabus

Macroeconomic Economic Policy in a Global Economy

Fall 2020

Monday 7.20 pm – 10.00 pm

On-line Presentation

Contacts Information:

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Office Hours:

Office Hours: I am normally available in my “office” at between 5.00 pm and 7.00 pm on Monday before class and between 2.30 pm and 4.00 pm on Tuesday. Meeting can be by Skype or Zoom, or in person at Arlington. I am always ready to help with anything by telephone. Use the office number which I check regularly – leave a message if no immediate answer, by e-mail or at other times by appointment at Arlington. I have a large office allowing social distancing and there is space outside of the building for personal meetings – I live 150 yards or so away and thus I am very flexible.

Important: make sure that you read and conform with GMU policies regarding the outbreak of Covid-19.

PLEASE inform me at once of any change in your GMU e-mail address since I will use that extensively for communications.

Course Learning Goals:

The objective of the course is to provide a foundation allowing students to gain an understanding of the macroeconomic. The aim is not to be doctrinaire in terms of the macroeconomic theories and philosophies covered but to indicate to students the various theories and approaches that are involved in policy assessment and the ways policies may be implemented. It is aimed at giving insight into the way economists view national economic issues. Many of the issues will be domestic concerns of the US but some will be more international in their orientation.

Course Content:

A part of the course is concerned with straightforward macroeconomic theory and how this is important for policy formulation. The course also provides considerable background material, in the form of case studies, that highlight the relevance of macroeconomics in the appreciation of how national economies have performed in the twentieth century both and in relation to their trading activities. The case study approach

also forces students to become familiar with the standard sets of economic statistics used in trade policy assessment and to appreciate some of their limitations. I will send out this material a week before each class. I normally arrange for some guest lecturers – these are listed where possible at this point.

Texts:

I intend using Paul Krugman and Robin Wells's *Macroeconomics 5th edition* as the theoretical background text for this course. This is a new edition and so, you may find it more economical to get a used, older edition. The changes are not huge; and mainly in terms of examples!! What has changed a little is the order of the material, but this still aligns quite well with that in the most recent edition. There is a need to read through most of it during the course; this is expected as part of average performance.

I am also listing some video material that will be very useful. It is straightforward and provides some helpful (and sometimes amusing) background. It is readily accessible and comes from two serious on economics fronted by two very eminent economists who look at the world from different perspectives. It is dated but the course is not one in current affairs but rather economic principles that change little over time.

In addition to this material, I give out numerous tables, graphs and other information in class. Further, towards the end of the course I try to bring in more topical issues to which the basic macro-political economy ideas covered earlier on are applied. This usually means reference to Web-site papers. These will be decided upon as the course progresses (e.g. it would seem useful to look at the implications of the recent bubble in the housing market for the US economy, but I delay citing material at this point).

Pedagogy:

Instruction will be in part by the case method, which requires everyone to come to each class fully prepared to discuss the issues raised by the assigned reading material. The quality of learning depends in large measure on everyone's preparation for and participation in the case discussions. Examinations: There will be one mid-term and one final examination.

Grading:

Grades will depend on contributions to class discussion, contribution to a debate (to be explained in initial class), and short exercises (25%), on the mid-term (30%) and the final (45%) examinations. In addition, there will be material handed out (with answers supplied a week or so later) that is optional to complete and will not be assessed for grading purposes. The aim is that YOU have a reasonable idea of what you are learning.

NOTE:

Should for any reason a session be cancelled (weather, illness, breakdown of physical plant, generic SPP special lectures of relevance to the class, etc), I build in a little slack. It is basically seen as a make-up allowance. If there are no cancellations, then I will add a little more material and use that date for a class — advanced notice will be given. Experience suggests that normally one class must be cancelled for one reason or another.

Also, if an important policy issue comes to the fore the final week's class gives scope for building in material on this — again reading will be indicated later.

I WILL FIRM UP ON DATES FOR EACH THEME AND DEBATE LATER JUST BEFORE THE CLASSES BEGIN. I INTEND TO HAVE A GUEST SPEAKERS OR TWO AND THEIR ABILITY MAY CAUSE SOME RESCHEDULING. OF DATES. THIS WILL THUS RREQUIRE FIRMING UP AT THE BEGINNING OF CLASSES.

OUTLINE OF COURSE

THEME #1 Some Basic Economics (August 24)

Textbook Reading: CHAPTERS 1, 2 and 3

Video

Age of Uncertainty 1. (http://www.youtube.com/watch?v=KGSID_Uyw7w)

Refer to any standard 101 economics text that is available and refresh ideas of economics Introduction to macroeconomics.

Useful basic microeconomics to understand the macro economy. This is particularly designed to assist those with no prior background in economics or with only a very basic grounding. Defining macro, meso and micro economics. Identifying common schools of thought in macroeconomics. The links between the domestic and the international economy.

Questions:

1. How does macroeconomics link to microeconomics
2. Some key microeconomics useful in macroeconomic analysis
3. How is consumption determined in a Keynesian framework?
4. In what general ways can government intervene in the economy?
5. What are the benefits of trade?

THEME #2 Measuring National Income (August 31)

Textbook Reading: CHAPTER 7

This component of the course also looks at the types of data available to analyze macroeconomic problems. It considers the problems involved in the data. It looks at leading indicators and aggregate measures of key parameters. It looks at key macro economic linkages in a Keynesian framework Basically it is concerned with the tool kit of macroeconomics. The circular flow of income concepts. The key figures in macroeconomic thought. Definitions. It runs over some of the very basic concepts in both macro and microeconomics that are required to frilly understand the macroeconomics. These include such things as supply and demand, elasticities, rational behavior, and so on.

Questions:

1. Is it possible to aggregate individuals' demand curves?

2. What is the difference between optimum and equilibrium?
3. What are the problems of developing National Income Accounts?
4. What is the circular flow of income?

LABOR DAY No class (September 7)

THEME#3 Keynesian Economics and Fiscal Policy (September 14)

Textbook Reading: CHAPTERS 11, 12, 13, 18

Video

The Age of Uncertainty 7. (<http://www.youtube.com/watch?v=cUKGhjnOSuY>)

This session focuses on Keynesian macroeconomic concepts that will be useful in the rest of the course. "The Means to Prosperity," an article written in 1933 by John Maynard Keynes, lays out the fundamentals of the Keynesian prescription for meeting the problems of the Great Depression. The article was a prelude to Keynes's masterwork, *The General Theory of Employment, Interest and Money*, which was published three years later and which established Keynes as the most influential western economist of the mid-twentieth century. Because of the power of Keynesian ideas on a generation of economists and policy makers (especially in the U.S. and the U.K.), this statement of his analysis has an importance beyond the context of its composition in 1933.

Questions:

1. Evaluate the Keynesian diagnosis. What were Keynes' assumptions about the nature of unemployment, the relation between savings and investment, and the role of government?
2. How might Roosevelt go about implementing a full-scale Keynesian program? How much, roughly, would such a program cost?

In this session, we examine the intellectual, political, and economic underpinnings of the landmark tax legislation begun by John F. Kennedy and carried through Congress by his successor, Lyndon B. Johnson. Our aim is to examine the economic thinking that grew out of the Depression experience and reached its climax in the 1964 legislation.

Questions:

1. What are the assumptions of Kennedy, Heller, Keyserling, and other players regarding the proposed acts in individual and corporate income taxes?
2. How well did Kennedy manage the political process required for passing his proposal?
3. Evaluate the tax cut package passed in 1964. By what criteria should its success be measured?

THEME #4 Money Supply and Economic Performance (September 21)

Textbook Reading: CHAPTERS 14, 15

Video

The Age of Uncertainty 6. (<http://www.youtube.com/watch?v=-lzFdDWPWJ8>)

Freedom to choose (http://www.youtube.com/watch?v=L6N_wYOEUSY)

These materials introduce the underlying economic concepts of the money creation process, the banking system, and how the money supply affects aggregate demand. We also explore the monetary policies, tools and role of the Federal Reserve System during the early years of the Great Depression. There will also be some discussion on how monetary controls differ now as compared to that period.

Questions:

1. What is money?
2. How is money created?
3. Evaluate the goals of the Federal Reserve in the 1920s and in the 1930s.
4. How did the money supply change between 1929 and 1933 and why? Did the Fed's action create the Depression?
5. What actions might you yourself have taken as a member of the Fed? When? Why?

THEME#5 The Supply-Side (September 28)

Textbook Reading: CHAPTER 18

Questions:

1. Evaluate the situation facing President Reagan in February 1981.
2. How was the Reagan strategy supposed to work, in theory? Does it address the causes of U.S. economic problems?
3. What assumptions--economic, social, political and international--did the President make in his speech? To what extent are they valid?

THEME #6 Inflation and the Keynesian/"Classic" Debate in More Detail (October 5)

Textbook Reading: CHAPTERS 16 and 18

Video

Freedom to Choose 9 (<http://www.youtube.com/watch?v=jE7zxo61Xc8>)

Inflation has been a major problem since the introduction of money and the end of the barter system. It entails system rising prices that essentially erodes the value of money. There have been several explanations for this over time and a variety of policies have been initiated to "cure" it should it arise, including reducing the money supply to imposing price controls.

Questions:

1. What are the causes of hyperinflation?
2. What are the economic costs of inflation?
3. Is there an optimal level of inflation?

MID-TERM EXAMINATION (October 12)

THEME#7 Long-term Economic Development (October 19)

Textbook Reading: CHAPTER 9

Video

Age of Uncertainty 10 (http://www.youtube.com/watch?v=Rv8b_ou-NQM)

Freedom to Choose 6 (<http://vimeo.com/11501693>)

Economists are not very good at explaining long term economic growth, or why some countries grow faster than others

Questions

1. To what extent does economic growth depend on a nation's natural endowments?
2. How important is migration in influencing the relative economic growth of countries?
3. What are the most effective ways for policy makers to stimulate economic growth in a country?
4. What role does human capital play in enhancing economic growth?

THEME#8 BALANCE OF PAYMENTS (October 26)

Textbook Reading: CHAPTER 18

Our objective in this session is to introduce balance of payments analysis, an important tool in many international cases. A technical note and exercise provide analytical tools. The case selling is the Kennedy Administration's attempt to achieve satisfactory tradeoffs among the competing goals of world political and military leadership, commercial and industrial supremacy, and avoidance of balance of payments deficits.

Questions:

1. What was the Gold Exchange Standard?
2. What are Kennedy's balance of payments problems and how are they reflected in the statistics?
3. What policy options are available to Kennedy?
4. Were Kennedy's tax measures genuinely Keynesian?

THEME#9 Links between Domestic and International Economy (November 2)

Textbook Reading: CHAPTER 18

This session covers the U.S. economic situation and strategy from 1969 to 1978. Richard Nixon has become President and must assess the situation he inherited. His diagnosis is that inflation is the principal problem. Do the exhibits confirm this diagnosis? If so, what are the causes and consequences of this inflation? Why are some of his advisers confused? What are Nixon's options in the Spring 1971? Here we see Richard Nixon's hand forced, as he simultaneously acts on the foreign and domestic economic fronts. August 15, 1971 marks the end of the dollar's convertibility to gold and to growth without inflation.

In this session, we also examine more generally factors that affect the exchange rate for a nation's currency; important economic concepts will be introduced that will be useful in the rest of the course. What, in fact, determines the value of one currency against another? What is the meaning of a "strong" or "weak" currency? What should a major industrial power such as the United States strive for? All these questions confront the American government in 1978, as it tries to decide whether to "strengthen" the dollar by more active intervention.

Questions:

1. Evaluate the economic situation Nixon confronted upon taking office in 1969. How effective were the policies implemented at that time?
2. How tied-up was the problem of the dollar in the 1960s to the wider foreign policies of the US?
3. What were the primary forces accounting for the decline of the dollar during 1977 and 1978? How flexible was the exchange rate system during this period?

DEBATE 1.

THEME#10 Economic Integration or Not? Europe (November 9)

The case initially looks at the efforts in the early 1990s within the European union to remove the barriers to trade that remained. The EU had until that time been slow to harmonize national policies and relatively high barriers still existed to trade within the Union. The session looks at some of the problems of trying to integrate the economies of the EU and at some of the successes and failures. It goes on to consider the issue of the importance of having some form of common currency structure within an economic union.

Questions:

1. What were the objectives of the 1992 Single Market initiative?
2. What were the main impediments to free trade in the EU prior to 1992?
3. How do the main policy making institutions of the EU differ from those of the US?

This looks at the rationale behind and actions taken to allow for the introduction of the Euro. It looks at issues of the advantages and problems of a single currency and the conditions required for its introduction. It considers members as optimal currency areas.

Questions.

1. Is the Single European Currency an economic or a political measure?
2. What are the problems of having a single currency?
3. What is the role of the central bank when there is a Single Currency?
4. What are the challenges for the Euro in 2013
5. What sort of fiscal policy is needed to support the Euro?

DEBATE 2:

THEME#11 'Bubbles' and Cycles (November 16)

Textbook Reading: CHAPTER 17

The economic performance of Mexico led in the to it becoming a member of the OECD in the mid-1990s but prior to that (and after!) it went through several economic crises. In particular, in the early 1980s it, like many other developing countries, found itself in difficulties regarding debt liabilities. It had enjoyed a period of growth due to petroleum exports. The subsequent problems were in part due to the links the economy had to larger international markets. The Japanese economy boomed for a long period from the 1960s only to collapse into stagnation in the 1990s.

Questions:

1. What were the underlying weaknesses of the Mexican economy in 1981?
2. What actions should an agency take in the circumstances of 1991?
3. What options were open to the new government of Mexico at the end of 1981?
4. What caused the Japanese bubble to burst?
5. What has been the long-term effects of the US housing bubble?

Questions:

1. Why should industries be owned by the state?
2. What are the macroeconomic gains from privatization in the short term and in the longer term?
3. What sort of regulation should accompany privatization?
4. What were the implications of deregulating US domestic air transportation on the US economy?

DEBATE 3:

THEME#12 Macroeconomics and Economic Regulation (November 23)

The session will initially look at the link between microeconomic issues of public ownership and the use of privatization as a macroeconomic policy instrument. The situation in the UK represented a dramatic shift in the way in which public ownership was viewed that went well beyond the boundaries of that country. It will also consider the implications of deregulation of the private sector on the performance of the larger economy, taking US airline deregulation as an example.

THEME#13 The Great Depression, the Great Recession and the Pandemic: An International Perspective (November 30)

Readings to be provided

FINAL EXAMINATION (December 7)

Statement on special needs of students If you are a student with a disability and you need academic accommodations, please see me and contact the Disability Resource

Center (DRC) at 993-2474. All academic accommodations must be arranged through the DRC.

SPP Policy on Plagiarism

The profession of scholarship and the intellectual life of a university as well as the field of public policy inquiry depend fundamentally on a foundation of trust. Thus, any act of plagiarism strikes at the heart of the meaning of the university and the purpose of the Schar School. It constitutes a serious breach of professional ethics and it is unacceptable.

Plagiarism is the use of another's words or ideas presented as one's own. It includes, among other things, the use of specific words, ideas, or frameworks that are the product of another's work. Honesty and thoroughness in citing sources is essential to professional accountability and personal responsibility. Appropriate citation is necessary so that arguments, evidence, and claims can be critically examined.

Plagiarism is wrong because of the injustice it does to the person whose ideas are stolen. But it is also wrong because it constitutes lying to one's professional colleagues. From a prudential perspective, it is shortsighted and self-defeating, and it can ruin a professional career.

The faculty of the Schar School takes plagiarism seriously and has adopted a zero-tolerance policy. Any plagiarized assignment will receive an automatic grade of "F." This may lead to failure for the course, resulting in dismissal from the University. This dismissal will be noted on the student's transcript. For foreign students who are on a university-sponsored visa (e.g. F-1, J-1 or J-2), dismissal also results in the revocation of their visa.

To help enforce the SPP policy on plagiarism, all written work submitted in partial fulfillment of course or degree requirements must be available in electronic form so that it can be compared with electronic databases, as well as submitted to commercial services to which the School subscribes. Faculty may at any time submit student's work without prior permission from the student. Individual instructors may require that written work be submitted in electronic as well as printed form. The SPP policy on plagiarism is supplementary to the George Mason University Honor Code; it is not intended to replace it or substitute for it.