

ECONOMICS 154.01/254.01
MACROECONOMICS IN THE GLOBAL ECONOMY

1. Introduction

This course in Intermediate Macroeconomics favors a new approach to understanding macroeconomic phenomena by emphasizing the significance of the strong economic ties that link the nations of the world today. While only a few years ago buying foreign financial assets was a costly and problematic affair, today investors have free access to a large global capital market in which all types of financial instruments issued by industrial and developing countries are easily traded. Markets for goods and services, including banking services, have also become "globalized" to unprecedented levels. This globalization is a major development that can help promote the efficient allocation of resources at a world-wide scale. At the same time, however, the global market presents unprecedented challenges. For example, Mexico's financial crash in 1994 led to deep economic recessions and very high unemployment rates not only in Mexico, but also in other large emerging economies like Argentina. The recent financial meltdown of Russia and several East Asian economies have also been heavily influenced by financial globalization. International capital flows have played a role not only in triggering financial crises in economies with weak "fundamentals," but also in spreading crises around the world. The policy ramifications of these events thus affect not only the countries directly involved, but virtually every country that takes part in the global market. The U.S. Federal Reserve Board, for instance, noted that the turbulence in foreign markets was a key factor in its latest decision not to increase domestic interest rates.

In this context, it has become evident that Macroeconomics must be studied by building international relations as an integral part of the subject, rather than treating them as a special topic often segregated to a few lectures as if it were a separate subject. This course thus provides students with an analytical framework to understand macroeconomic phenomena in a global economy. This framework is built on the premise of developing microfoundations of macroeconomic behavior, and hence learning to use it requires firm knowledge of introductory economics, both microeconomics and macroeconomics, as well as basic algebra and differential calculus. The power of these analytical tools will be illustrated with the discussion of key current policy issues, such as the desirability of the creation of common currency areas, like the European Monetary Union, the connection between misalignments in fiscal and monetary policies and speculative attacks on currencies, and the operations of the international financial institutions like the IMF and the World Bank.

2. Textbook and Course Home Page

The textbook for the course is:

Macroeconomics in the Global Economy, by Jeffrey D. Sachs and Felipe Larrain B, Prentice-Hall Inc., 1993, New Jersey.

This textbook will be followed closely for the most of the lectures, aiming to cover the basic framework developed in Chapters 1-15, and studying as time allows the selected topics examined in the rest of the book. Material not covered in the textbook will be introduced in particular areas in which the extra material can help clarify ideas. Students **must** read the book in advance and be prepared for class discussion. Awareness of the current policy issues, through reading of publications in the financial media, such as the *Wall Street Journal* and *The Economist*, will also be helpful for class discussion.

The URL for the course's homepage is: <http://www.econ.duke.edu/~mendozae/econ154/>

This homepage will be used to post short summaries of the key concepts studied in the lectures, problem sets and exams, answer keys to problem sets and exams, and any special messages as necessary. The page will also provide answer keys from past exams and problem sets that can be used as additional study aids. Links to other sites of interest in the subject matter of the course will also be available through the page.

3. Evaluation

The aim is to give students an incentive to follow the course continuously during the term, rather than clustering study time around the dates of the exams. This is critical because the course develops gradually the elements of an unified analytical framework, and so the lectures are all closely related and work to build up this framework and illustrate its use. For this reason, class attendance is also very important. The course grade is determined as follows:

1. Two "mid-term" exams, each worth 20 percent of the final grade
2. A final comprehensive exam worth 40 percent of the grade
3. A batch of 6 or 7 problem sets worth 20 percent of the final grade (Note: participation in specific class assignments and surprise tests are also included in this item).

The problem sets will include about 10 questions each, and will consist mostly of a selection of the problems presented at the end of each chapter in the textbook. One problem set will be assigned for every two chapters of the textbook covered in class. The problem sets will be handed out in class. A problem set will be due about every 10 to 14 days. Answers to the problem sets will be posted in the course's homepage.

4. Outline

Part I. Basic Concepts

Chapter 1. Introduction

Chapter 2. Basic Concepts in Macroeconomics

Chapter 3. Output Determination: Introducing Aggregate Supply and Aggregate Demand

Part II. Macroeconomics of the Real Economy: Intertemporal Decision-Making

Chapter 4. Consumption and Saving

Chapter 5. Investment

Chapter 6. Saving, Investment and the Current Account

Chapter 7. The Government Sector

Part III. Monetary Macroeconomics

Chapter 8. Money Demand

Chapter 9. The Money Supply Process

Chapter 10. Money, Exchange Rates and Prices

Chapter 11. Inflation: Fiscal and Monetary Aspects

Part IV. The Business Cycle, Stabilization Policy and Long-run Growth

Chapter 12. Macroeconomic Policies and Output Determination in a Closed Economy

Chapter 13. Macroeconomic Policies in the Open Economy: The Case of Fixed Exchange Rates

Chapter 14. Macroeconomic Policies in the Open Economy: The Case of Flexible Exchange Rates

Chapter 15. Inflation and Unemployment

Chapter 16. Institutional Determinants of Wages and Unemployment

Chapter 17. Explaining Business Cycles

Chapter 18. Long-Term Growth

Part V. Policy Challenges of the Global Economy

Chapter 19. The Theory and Practice of Economic Policy

Chapter 20. Financial Markets

Chapter 21. Tradable and Nontradable Goods

Chapter 22. The Developing Country Debt Crisis

Chapter 23. Stopping High Inflation