

ECON 5450 Course Calendar Fall 2015

Last update December 14th 2015

Office hours: see my web page for the most up to day office hours Wednesday 9:30-10:30pm (in E-530 Dealy) or Monday 4-5pm or by appointment in E527 Dealy Hall.

Please make and confirm appointments via email mcleod@fordham.edu put ECON 5450 the subject line of your email; if I am not in my office, send me a text 914-661-6998 or email.

We use will use blackboard to submit assignments online. Most course readings are online, but see the ftp reader info below. If you need a text not on reserve in the library or a find a nonworking reading url please send me an email immediately so I can fix it. See the course [syllabus for readings](#) and the course description. Most readings are on www.gdsnet.org or <http://class.povertylectures.com/> you are trying to open a www.fordham.edu reading try legacy.fordham.edu instead.

December 2016						
SUN	MON	TUE	WE	THU	FRI	SAT
29	30	1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	1	2	3	4	5

Final exam make [sure you print and bring version 3C](#) (Wednesday December 16th 7:30pm E530 Dealy or Monday December 21st): The Final exam has changed to a two part exam, on part written in class [Here is version 3C of the final exam](#) which you should plan to write on December 16th. Part 2 of the exam, which includes the optional case study. Who should take Part 2? This depends on whether having your grade on Part I and the rest of the course, you are pleased with your grade or my recommendation, at least one of which you will have by December 19th latest. If you decide to do Part II, or you just want to do a case study and get my feedback, please turn in your answers online for in line grading by December 30th. The [case study](#) is a power point with notes...

Midterm challenge questions: Thank you for a considerate 2nd try. Thank goodness a few of you got the whole answer, and most of you came very close. The novel key idea that a fiscal policy rule funding a [Sovereign Wealth Fund \(SWF\)](#) can be a substitute for international capital flows and flexible exchange rates reminds us that fiscal policy and monetary policy can be substitutes and complements, (recall the three adjustment arrows). Chile and a few other countries have managed this (SWFs are more efficient than huge Reserves, though China is doing both). Here are [the answers](#), let's discuss in class, institutionally the SWF and the fiscal rule are very difficult for many countries (Nigeria). With international support, however, these countries might be able to do this. Finally if we look at Chile right now, the copper stabilization is evidently not a panacea (viewing the diagrams, what can go wrong?).

India final exam question: The world's most populous economy is currently being run by two of the best economists alive today... Arvind Subramanian (AS) and Raghuram Rajan (RR, recall why is he famous?). Fortunately, they are both on youtube discussing the problem of navigating titanic India through a rough patch in the global economy. With China stumbling, they may be our last best hope for sustained global growth and poverty reduction... during the first 20 minutes of this [interview](#) Professor Subramanian describes the "Latinization" of India, what does that mean, is this good or bad? Unfortunately, the material for this question is spread out a bit more than I thought. For example, he discusses India's declining debt problem (part inflation, part growth) is at minute 25. This will be an optional question, I will try to post RR and AS minutes before the exam, both interviews are highly recommended, but deal with wide ranging issues related to India's growth and macro policy.

In the news: IMF adds Chinese Renminbi made part of SDR basket by the IMF... whose idea was the SDR? Who heralded China's renewed commitment to reform in [today's New York Times](#), her video announcement is worth watching...



Midterm Round 2: Please turn answer to [these two questions](#) Monday December 7th on BB do the best you can, diagram and description, be sure to label Figures 1, 2 etc. and discuss shifts in curves and points on these diagrams carefully. No one got these on the midterm, but a number of you got very close... we can do it.

Reformatting midterms: It is essential to reformat "zero" midterms for BB inline grading by end of day Saturday December 5th. How to do this is discussed in a 10 minute video now on BB. It should not take long. Then everyone should have their midterm grade by Dec. 8th including their [Round 2 Midterm](#) grade (see above).

What about the case study? If you want to do a case study, you can as one third of the final and as extra credit if you hand in a qualifying (ready to post) powerpoint (See [Case Study Prep-Review](#)) The deadline for turning in case studies is January 3rd 2016. Everyone please fill out [Table CS-1](#) for at least two countries, even if you are not planning to present your case study: Make sure [at least one countries graduated?](#) Check Povcalnet for income distribution data (everyone should do this for India, but check here next week, Indian Poverty data should be available by then, posted online if only in a spreadsheet).

Readings for December 3rd: Cabellero, et al. 2010, [Sudden Financial Arrest](#), [On the ZLB Economy](#) Kindleberger, Charles P.; Robert Z., Aliber (2011). Manias, Panics and Crashes: A History of Financial Crises, Sixth Edition (pp. 265-272). Palgrave Macmillan Chapter 13 [The Lehman Panic – An Avoidable Crash](#) (5th edition) After the music stopped [Ben Bernanke let Lehman Fail](#)



Lecture Monday November 18th: [CAP Part II lecture notes](#) This [Generations Handout](#) includes [Uncertainty case](#) [Generation III Handout w/Euro](#) [Chang and Velasco QJE 2001](#) [Chang and Velasco Notes](#) [Transparencies](#) This [2010 Handout](#) lays out all three models... briefly. [Balance Sheet Approach Box 1](#) [Krugman Figure 1](#) [CFA Zone Poverty Rates](#) [Has the EU worked?](#)

Useful readings: [Agenor, Chapt 8 Predicting Currency Crises](#); [Chapt 8 Currency Crises examples](#) [Maurice Obstfeld](#) [Generation II crises](#) [IMF on the Mexican Crisis](#)

Monday November 9th See updated V 3A of midterm in [PDF](#) and word [Midterm Exam](#) New: please Use [Metzler, TNT](#) or [Elasticities](#) diagrams from these spreadsheets where possible. See video for custom copy/paste instructions. [Revised lecture notes for M-3 part B](#). Please turn in Essay M-1 on blackboard on November 13th 2015, Questions M3 and M2 are due Saturday November 22th. If possible, use this extra time to do your figures using these spreadsheets (sometimes you can find exactly the TNT or Metzler or Elasticities diagram you need!) PhD students see also the DLR-123 model diagrams posted. See [modern approaches lecture notes](#) updated and [DLR 1-2-3 model](#) and [Agenor Chapter 9 last 10 pages](#) on 1-2-3 model (PhD students only).

Wednesday November 11th, at 7:30pm in E-530 I will be in Senegal but Walter Bazan has offered to help anyone interested understand the DLR-123 Model. [The DLR Model class presentation](#). Walter is helping us update [Shantayanan Devarajan's 1993](#) Figure 8.1 estimates of CFA Franc over/under valuation. Walter needs to understand the [1-2-3 or DLR model](#), but one way to do that is to explain it to others. However don't worry your answer to question M-2 is not due until September 13th (lucky day). In a test of globalization's reach, I will attempt to participate via join.me (though it will be very late in Dakar, so I may not make it).

By Tuesday December 7th : Please fill out [Table CS-1](#) for at least two countries, even if you are not planning to present your case study or answer this final exam question [have your countries graduated?](#) Povcalnet? see [Case Study Prep-Review](#)

Lecture October 29th: [Handout Stbz Income distribution](#) Nora Lustig [Socially responsible Macroeconomics](#) Chang and Velasco [Notes](#) [Transparencies](#) [Generation II Handout](#) The Washington Consensus [A damaged Brand](#)

Lecture October 28th: [Scary secular stagnation \(or just hard to follow\)?](#) Does IMF head Lagarde believe we are headed for secular stagnation? See her Lima talk. Why does this matter? [CAP Part II](#)

Lecture October 21st: [Sustainable Debt Answers](#) [Last year's Midterm](#) [J. Frenkel on the Eurozone crisis](#) [Overshooting](#) [Does Greece have a Debt Overhang?](#) [How is Puerto Rico not Greece](#)

[Latin American Inflation](#) returns? [Orthodox vs. Heterodox Programs](#) [Generations of Currency Crisis \(CAP Part 2\)](#) [Venezuela from Stabilization to Growth, 1996](#) [Venezuela last week](#)

Must reads: [Design failures in the Eurozone](#) (Capitalism?) [The Japan Syndrome](#) comes to China? RER Figures

Answers: [S&L Chapter 6 question and Debt](#) [Nominal Exchange Rates](#)

Commanding Heights (crises on videos) [Dependency Theory](#) [Chile](#) [Chicago Boys](#) [Bolivia on the Brink](#)
[Shock Therapy](#) [Thailand gets swept up](#)

Lecture October 14th: [Updated Problem Set #3 v2](#) including a revised 3.3 a new 3.6. See the [Drazen Chapter 12](#) and my 2013 comments. [World Bank Comments](#)

Lecture October 7th: [Sustainable Debt Handout Fall 2015 \(revised\)](#) [Dilemma or Trilemma or Trilemma](#)
[MF Handout](#) [Modern CA Adjust Approaches](#) [WAEMU debate: IMF vs. African Development Bank](#)
[Frenkel and Razin Chapter 5](#) (PhD students, see also [Chapter 17](#))

In the news : [Argentina Quick take](#) [Lima: What can IMF do for Emerging Markets?](#) [R. Rajan on IMF Reform](#)
[IMF Outlook Lima Christine Lagarde](#) [Brazil's perfect storm](#) (serious not hopeless) [Argentina's remarkable History](#)
Fordham's Paul McNelis [Japan](#) (nice pictures) [Argentina's debt problem](#) (Jorge Mariscal remind me to mention the "hand of God") [Financial Openness and Inequality](#)

Please turn these in on Blackboard, let me know if you have any problems, Dropbox HW folder last resort.

HW #1 **HW#1 Due Wednesday September 16th**, please use this word [answer template](#)

HW #2 Due September 28th question 2.1 and 2.2 [word file to answer](#) to questions 2.1 and 2.2 from [PS #2 v3](#) (

HW #3 Due Monday Oct 6th **HW#3:** answer questions 2.3 to 2.4 (**not 2.5**) [PS#2 v3](#) (see this [word file template](#))

HW #4 due Friday Oct 9th **HW #4** (5 points) October 9th Question 2.5 and question 3.1 from [PS #3](#) [word version](#)

HW# 5 due Thursday Oct 15th (4 points) Question 3.2 [Problem Set #3](#) [word version](#)

HW #6 due Monday Oct 19th (4 points) Question 3.3 [Problem Set #3](#) [word version](#)

Lecture October 7th [RER Adjustment in the TNT Model](#) [Traditional Approaches to CA Adjustment](#)
[This time is different](#) [Elasticities Approach Notes 2015](#) [Graduation Handout](#) [The Polak Model or MABP](#)
[Handout: notes on the TNT model](#) [Sachs and Larraine, Chapter 21](#)
[Aid Lecture notes](#) [Handout](#)



Managing the Transition to a Healthier Global Economy

Address by Christine Lagarde, Managing Director, IMF
At "A Conversation with Christine Lagarde"
An event hosted by Council of the Americas
Washington, D.C., September 30, 2015

[Webcast of the speech](#)

Due Monday HW # 2 September 28th Use this [word file to answer](#) to questions 2.1 and 2.2 from [PS #2 v3](#) (check for updates). Only blackboard submissions accepted. [Exchange rate Figures and data Sources](#) Please read the revised [Elasticities Approach handout](#) before class. Anything you do not understand in this handout or Figure 4.5? Please ask in class [Figure 4.5](#)

Videos: See how to use FTP below **How to make diagrams using templates** [How to use the snipping tool](#)
[Early Draft of Box 4.1 UNDP BCPR Chapter 4 Senegal Project](#) [Nominal Exchange rates](#) [Introduction Lecture Notes](#) [Vegh Road to Redemption](#) [Crises and Recovery](#) [Aid and Recovery](#) [CBN Presentation Nigeria](#)

Midterm Preview questions (see also question 3.6 in PS #3 v 2 will also likely be on the Midterm): In this Euro crisis question we avoid discussing banks (and shadow banking). They make their appearance in the 2nd half of the course. However we can make some basic arguments regarding why it has been so difficult for the GIPSI countries to adjust. MP-1.1 A) Focusing on the "this time is different" prototype crisis, what is different about the Euro crisis? In some respects, the Euro is a form of "financial liberalization." What were banks and private investors able to do after the EU was formed? What were governments not able to do? B) Use the market for dollars or the TNT model or the Metzler diagram to discuss the problems caused by "sudden stops" discussing in common sense terms what

“adjustment” means with each approach. C) What can emerging market countries do to adjust to sudden stops that GIPSI countries cannot do? Demonstrate this response using one of the same diagrams? D) *PhD students: review the basic arguments for an optimal currency area, does Europe sans Norway and the UK meet these requirements.*

How to answer a question like this: The luxury (burden) of take home exams is that you can show you did the reading by using quotes selectively. For example, “...also tended to drive up wages and costs in a way that harmed the competitiveness of the receivers’ export earnings, thus encouraging further worsening of their current accounts.” Baldwin and Giavazzi (2015, p.19). We can see this in Figure 4, the TNT diagram (or the elasticities diagram). The next sentence has a good “sudden stop” quote, be sure to explain why it is “not the speed that kills, but the sudden stop” especially in the Euro zone 2008 to 2010. In your answer make use of diagrams or models discussed in the class or text, at every opportunity make it clear that you (a) did the reading and (b) attended the lectures and know the basic models.

Baldwin, Richard and Francesco Giavazzi (2015) *The Eurozone Crisis A Consensus View of the Causes and a Few Possible Remedies* A [VoxEU.org eBook](http://VoxEU.org) CEPR Press, London 978-1-907142-88-8.

Terms for Review: Automatic vs. Managed Adjustment; the gold standard vs. floating exchange rates; competitive devaluation and inflation; good neighbor policies; **secular stagnation** post WWII and post 1990 Japan; Martin Wolf “managed depression”; the elasticities approach in small open economies; Sudden Stops; Good neighbors, large countries ; the real exchange rate ($q = ep^*/p_a$); structural adjustment (e.g., the Hartz Reforms).

Revised ECON 5450 HW#1 Due Wednesday September 16th, please use this word [answer template](#) to answer to questions 1.1 & 1.2. Sections in italics are optional. Type your answers single spaced after each question mark or section. Make your answers in a different font or color. To show you did the reading short pasted in quotes or references to page numbers are great (as R&R,2010 point out...but Krugman, 2012 disagrees). Use APA reference format, though for obvious references you can use R&R, 2010 for example. Be prepared to discuss question 1.3 in class. Question 1.4 and/or 1.5 are optional extra credit if you have time. Let me know if linked readings don’t work I can fix these quickly if you sent me an email. R&R 2010 *This time is different* is available online in the library.

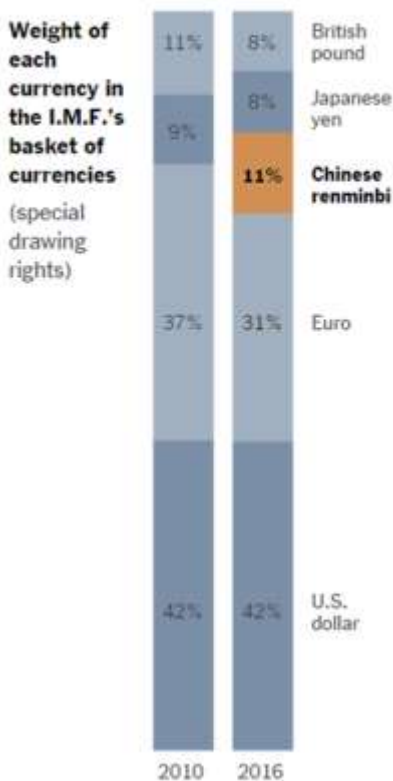
September 2, 2015: [Senegal Project](#) [Nominal Exchange rates](#) [Introduction Lecture Notes](#) [Vegh Road to Redemption](#) [Crises and Recovery](#) [Aid and Recovery](#) [CBN Presentation Nigeria](#)

Terms/concepts: Bretton Woods Agreement; Contagion; the role of the IMF in Europe; Original Sin; Redemption; graduation; pro vs counter cyclical fiscal policy; IMF Austerity (adjustment); default vs. debt overhang; debt service vs. Debt overhang, Mario Dragi “whatever it takes and the OMT July-Sept 2012; AbeEconomics (3 arrows); Quantitative easing; Taper Tantrum (May 2013);

Reading for the long labor day break: Krugman, 2012 [chapter 10](#) *End this Depression Now* on internal devaluation, why “depression economics” is so painful and also Blanchard, 2014 “[Dark corners.](#)” Read [notes on Adjustment in Developing countries](#) and skim the linked readings, [Chapter 17 of](#) Reinhart and Reinhart, 2009. See also the [lecture notes summary](#) of this time is different which has a link to their Occupy Wall Street Summary. Before class please read the [DeVries chapter 1](#) and [Chapter 2](#) of Krugman, 2008. In Manias, crashes and panics Aliber and Kindleberger, 2011 review the same long history with a slightly more nuanced perspective. Take a look at the prototypical crisis outlined in R&R 2009 *This Time is different* [here](#) or [here](#). Why is this time different? (hint: AbeEconomics and deflation aka [secular stagnation](#) see [Larry Summers](#)).

Making Room for Renminbi

The changing makeup of the International Monetary Fund's accounting system reflects the rising economic power of China, while Europe's influence wanes.



Source: International Monetary Fund

By The New York Times

LDQ 1.1: Debt relief and Greece: The battle over fiscal spending to end the 2008 recession has taken a number of twists and turns, including an episode of replication featured on the Steven Colbert show (also the Colbert Show is gone, but he takes over Letterman Show next Tuesday) and the FT. (a) The [IMF has refused to endorse](#) or [become involved in](#) the most recent Greek [restructuring deal](#)? [Is the Greek Debt unsustainable](#) according to Paul De Graue, 2015? Can the IMF help Greece at this point (why not)? Who should (and is) [providing debt relief now](#). (b) Was debt and austerity preventing Greece's growth (see 2015 [Ricardo Hausmann](#)?) In Chapter 10 Krugman says Germany caused Greece's problem. In what sense is Krugman right about Greece (or Ireland) and in what sense is he wrong? (c) Jeffery Frenkel, 2015 thinks Greek Prime Minister Alexis Tsipras may be the next [Kim Dae-jung or Luiz Inácio Lula da Silva](#) (we hope so, if he gets reelected). D) What does this suggest about one "benefit" of financial crises (see page 26 of [Rodrik's 1996 survey on crises and policy reform](#) (optional: what happened two years later in Korea and Indonesia).

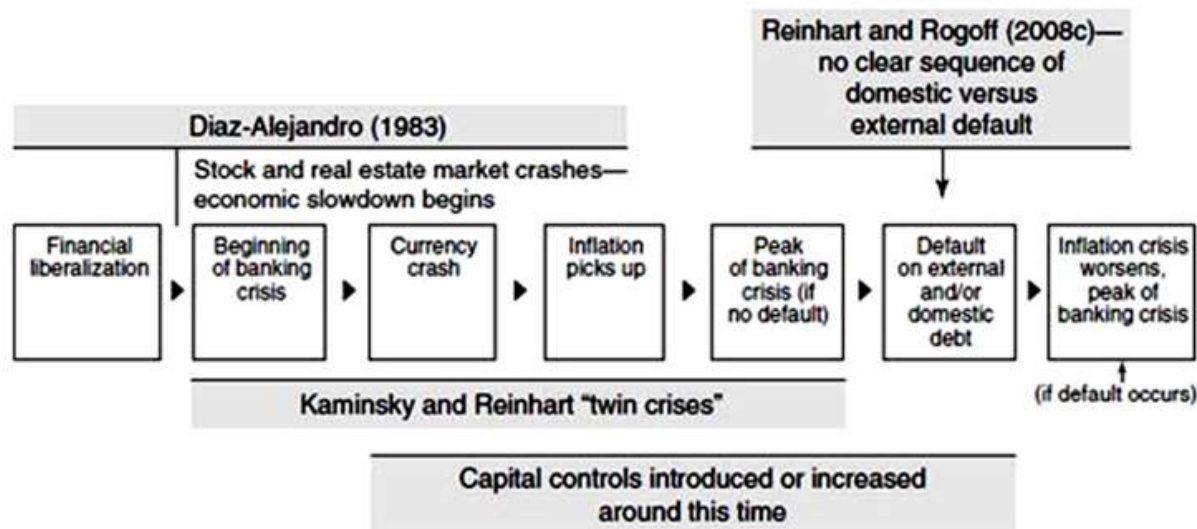
LDQ 1.2 Bretton Woods and the origins of the IMF and the World Bank:

a) Why does someone from Europe head the EU and someone from the U.S. head the World Bank? Who are the heads of these institutions right now? See the amazing history of the battle between Dexter White and Keynes that shaped the Bretton Woods Agreement in [Banker, Tailor, Soldier, Spy](#) or this [Econtalk interview](#) with Ben Stiehl. C) Do we need a new Bretton Woods or a new IMF? What according to Stiehl and [McLeod Chapter 4 box 4.4](#). what did work in post war Europe? (hint: not the WB or the IMF, these lecture notes have a slide on the [Marshall Plan](#)). D) What are the lessons of this experience for the current crisis in Europe? See also Eichengreen video or this [short summary](#). E) What did the IMF do during the [Bretton Woods era \(1946-73\)](#). F) *In fact the IMF played a very important role in Argentina during 1998 and in Greece during 2010, what was that role? Why did the Trioka decide to support Greece despite its lack*

of progress on reform? Why they become much less tolerant in 2015? Draw the parallel to Argentina in 2001. Where does the comparison end (so far)?

LDQ 1.3 On the nature and predictability of crises, including the 2008 GFC. From the point of view of those at its epicenter, us here in New York for example, the financial crisis of the moment is always unexpected and always the end of capitalism as we know it. For [Rheinhardt and Rogoff's 2010](#), policy makers are to blame: each time they argue ["This time is different"](#) and naively follow the financial system over the cliff, suspended for a "Minsky Moment" in thin air before plunging into the abyss of banking crisis (see Rheinhardt & Rogoff: [chapter 1](#), [chapter 13](#) and [chapter 17](#)). Or as Alan Blinder put in more thoughtful though less empirical book, "the music stops" (and the bubble bursts, as it is to some extent in China). Why do policy makers keep making the same mistakes over and over again? Partly because the trajectory is different each time (that is, their basic premise is wrong). (a) First a few economists did predict this crisis (Dr. Doom does not count, he predicts crises always). Chicago Business Professor/Economist Raghuram Rajan did predict the [crisis quite clearly in 2005](#), and suitably awarded with an appointment as Director of Research at the IMF and is now Central Bank head of the "last of the booming BRICs..." which is? Briefly summarize Rajan's argument, why was he ignored, more or less, by Ben Bernanke and many other very experienced economists and policy makers? (b) Krugman and Wells (2010) [call this a "white swan" crisis](#) (as opposed to what?). Where Krugman and other Keynesian part ways with R&R and other more orthodox economists is in the ["way out" of a slump caused by a burst bubble of debt](#): they say borrow even more, [fight a debt crisis with more debt](#). Explain. (c) Why was monetary policy less effective after the 2008 crisis? (hint: Depression economics or secular stagnation, [Larry Summers style](#) and more recently in the Eurozone ([Paul de Grauwe](#))). See also the diagram below and the ["this time is different"](#) lecture notes, do we see hints of depression economics (deflation) and secular stagnation in the diagram below (or the lecture notes summary of their book?). d)

Quantitative easing was used and did work however in the U.S. and perhaps less so in Japan and Europe. How do we know it worked? How did quantitative easing benefit most emerging market economies (and its end is doing the reverse)?



LDQ 1.4 Did the IMF cause the Ebola crisis? The BBC and Lancet blame the IMF for the spread of Ebola in West Africa. Is the BBC correct? See also [Sangeev Gupta's reply](#) to the Lancet Article (which refers to similar controversy focusing on HIV/Aids in 2007 initiated by the CGD.)

LDQ 1.5. Why are these BRICS leaders so happy? (hint: [what launched July 21st](#)) Is this the beginning of the end of the IMF? (look at the most recent [IMF lending map](#)) Which two countries held the IMF's future in their hands but chose to save it? B) Are these new [BRIC institutions a dream come true?](#)

[AbeEconomics slides](#)



1.6 Dealing with huge debts: As those of you who have seen (or read) Hamilton know, dealing with large national debts is difficult but crucial to the fate of nations. A) In 2010 the U.S. had a debt scare (in the WSJ mainly). Below is a scary forecast from the CBO published in the WSJ during 2010 (see notes on [debt and growth: a U.S. California case study](#)).

Agenor chapter 16 includes [sample crisis case](#) studies and a review of crisis models ([part 1](#)) as well as [part 4 on predicting crises](#) and an excellent summary of this chapter covering most of what we discussed in part II of the course.

Graduation Revision: In refining your case study selection some need to revise their graduation review, use the [graduation Figure 3](#) in the updated [handout](#), find evidence for your country, see my comments, revise and resubmit before class if possible. read Agenor Chapter 16 to get ideas for case study

[Vegh Road to Redemption](#) [Updated Case Study Review Sheet](#) [Crises and Recovery](#), [Aid and Recovery](#), [CBN Presentation Nigeria](#), [Reducing Developing Country Debt](#), [Krugman 1989](#), [Third Generation Models](#) **Is the Euro Crisis a third generation crisis How is it different?** [Box 1 Balance Sheet Approach](#) [Notes 3rd Gen Approaches](#) [Large type](#) [Mexico's 1996 Speculative Attack](#) [Balance Sheet approaches](#) [Obstfeld Rogoff](#) [Chapter 8 Mechanics of a Speculative Attack](#)

Japan's [Abe Economics ramped up](#) [PK's apology: EU makes Japan](#) look great...as does his 1998 seminal and prescient BPEA article "It's Baaack: [Japan's Slump and the Return of the Liquidity Trap](#)" validated by events here and in Japan and Europe. Surprisingly, starting about page 160 Krugman argues fiscal policy may not be needed, that monetary policy can do the job, this would be great, the U.S. has relied mainly on monetary policy, and the EU has none (especially if Germany will not expand). It is nice to have three arrows in your toolkit, but if one is enough to stimulate recovery, we'll take it...

[handout on graduation](#), [Generations of Financial Crises](#) [Tirole Lecture notes](#) [CAP Part II lecture notes](#) [Obstfeld and Rogoff Chapter 1](#) [Chapter 8 Transp](#) [Krugman 1979 Figure 1](#) [New Figure 1](#) [Figure G-1-2 Tirole Chapter 1](#) [Chapter 6-7 & Chapter 8 with index](#) and references

[On Point, October 23rd 2014](#) Wild World Markets with Martin Wolf and E. Prasad, Worried about the [Euro Area Again](#), [WSJ](#) [ECB bond buying with sterilization, not QE](#)

[1944 IMF Out of the Ashes](#) (IMF at 70 mainly Keynes speaking at Bretton Woods) [Socially Responsible Macroeconomics](#) Handouts: [Income Distribution Adjustment](#) [Generations of Currency Crisis](#)

Case Studies: [Case study project](#) [CBN 50th Anniversary 2009](#) [Venezuela October 1996](#)
OECD Study Income distribution & Stabilization (see corereadings on the FTP)

Euro Area stall? Does the ECB have any [Arrows](#) left? A [conversation with Mario Draghi](#) and Stanley Fischer at Brookings (during October IMF meetings—who has Fiscal Space in Europe?). PK on the [case for debt relief](#). [Euro Crisis Archive 2010-13](#) [PS1](#) [PS 2](#): Midterm will include problem set questions 1.4 to 1.6 and 2.5 and [Figure 1D from part 1](#) so take a look at these questions before October 15th class.
[PS2 #2.2. Answers](#) [Using Figures and Tables](#) [WEO October 2014](#) [Chapter 4 Imbalances](#)

Notes: [Classic CA Adjustment](#) [CBN Presentation 2009](#) [Real exchange rate Adjustment in LatAm](#)
[The TNT or Australian Model](#) [Stephanie and Martin's lecture notes](#) [Modern Approaches to Adjustment](#)

Handouts: [Absorbing Aid \(or not\) MABP Elasticity Approach](#) [Fiscal Policy and Debt Alternative Adjustment](#) [Marshall Plan Box 4.1](#)

Case studies: [Abeconomics](#) [Foreign Aid Surges](#) [Austerity's Spreadsheet Error](#) **Lecture notes:** [Modern Approaches](#) [The TNT or Australian Model](#)

Table 3 from Annex A of Age of Austerity...
Change in Fiscal Spending as % of GDP

	2008-9 vs 2005-7	2010-12 vs 2008-9	Cyclicality During vs. Post GFC	Gov Spending Trend % of GDP	
				Average Change 2005-12	Cummulative Change 2005-12
Chile	3.7	0.4	3.3	0.4	3.1
Mexico	2.9	0.1	2.8	0.6	4.6
Nigeria	2.5	1.1	1.4	-0.1	-0.4
Malaysia	3.1	-1.2	4.3	0.0	0
Indonesia	0.0	-0.9	0.9	0.0	-0.1
Venezuela	-2.8	7.5	-10	1.6	12.6

Source: Ortiz and Cummings (2013) Annex A: The Age of Austerity, Policy Dialogue, http://policydialogue.org/files/publications/Age_of_Austerity_Ortiz_and_Cummins.pdf

Other material: [Dutch Disease in CEMAC?](#) [Some LatAm RERs](#) [Dutch Disease, Chilean Cure](#) [Taper Tantrums](#) [Nominal exchange Rates](#)

HW 3: Graduation Case study: See this handout version [word](#) or [pdf](#). Use this [spreadsheet for fiscal stance](#).
OECD countries generally use fiscal and monetary policy to mitigate the effects of economic crises. Developing countries who approach the IMF for assistance are generally asked to cut fiscal spending and tighten monetary policy. Fiscal and monetary policy are generally pro-cyclical in these countries, amplifying rather than dampening

booms and busts. **(a) For the midterm**, briefly explain why using the IMF prescribes “austerity” in the form of caps on G and L (domestic credit). Why can’t developing countries just “devalue” their way out of an economic crisis (that is when they run out of reserves or cannot service their external debt) Use the financial programming and market for dollars diagram (with for example, [AbeEconomics](#) 3arrows) to support the standard IMF conditionality program. **(b) Before the midterm**: pick 2-3 countries and see if they “graduated” after 2003 or during the 2008-09 GFC: that is, were these countries able to depreciate their currency, increase fiscal spending and perhaps even draw on their own reserves (or even borrow) during the crisis? To show this use the nominal exchange rate diagrams and the various indicators (does their currency depreciate in response to global shocks. Also see [Ortiz et al 2011](#) and [R&R chapter 17](#) for additional discussion

Does exchange rate policy help developing economies? [Taper Tantrum II Traditional Approaches Lecture Notes 1\)](#) For your case study country (or countries) plot nominal exchange rate and associate depreciations and appreciations with global shifts in capital flows (as Taper [Tantrum 1 and 2 illustrate](#)) [Modern Approaches Lecture Notes Problem Set 1](#), but just the revised [Question 1.1.](#) which uses AbeEconomics and the EU as a case studies. Use the [pdf version](#) for readings, then this [word template](#) and these [diagrams](#) to answer the question online (if you can). If you find it too difficult to do the diagrams electronically, bring your answers to class on paper and we will scan it in after class. The last question mentions [Eichengreen’s](#) and R&R’s solution to the Greece crisis (use their [letter to PK](#) or their JEP article—perhaps). *Please use the word file template and the drawings from the excel spreadsheet, if you possible. If you have trouble with the Figures, please print and bring your copy to class Wednesday and we can scan it in (and then you can submit it on turnitin.com). No paper copies will be accepted, however we can help you scan a pdf copy very quickly.* A pessimistic view of the Euro Crisis emerges in a Brookings paper [“Monnet’s Error”](#) by Luigi Guiso, Paola Sapienza and Luigi Zingales in a paper to be presented at this week’s Brookings Institution, see the WSJ [“real time”](#) blog and [Wolfers summary](#) (what is the “catch 22”).¹ Considerable real time accounts of the Euro crisis has been archived here.

[word template](#). See [Part I lecture](#) notes, the elasticities approach [handout](#) and [MABP handout](#). Part I is CA adjustment, Part II is currency crises models. Mainstream models vs. [“dark corners”](#) and depression economics. Traditional models are mainly ways to deal with the inflationary impact of CA of foreign exchange surges (or “sudden stops”). Depression economics is coping with deflationary tendencies related in part to fixed exchange rates and overly conservative monetary policy. It should be easier to generate 2% inflation than it is to control double digit inflation, but somehow of late it is a problem for the OECD countries. Why does this matter for emerging market and low income economies?

Chapter 6 rewrite: I mentioned in class, rewriting the equations in chapter 6 is a little tedious, but if you start with word version, you will find you can copy and paste a lot, and it may even be faster (at some point). All the post 2003 versions of Word have wonderful equation editors, but the equations below are just typed using the subscript command. We can define the CA surplus, $CA_t = TB_t - r^*Dt_{-1} + \Delta F = Dt_{-1} - Dt_t$, where D is foreign debt obligations (in S&L, 1993 use B, bonds or assets held by a net creditor nation, such as China). Assuming for now the change in other private capital inflows or outflows ΔF is zero, the current account deficit is equal to the change in Debt $\Delta Dt = Dt_t - Dt_{-1} = -CA_t$.

Essential reading: [Problem Set 1](#). Also before class, skim the [Elasticities Approach Handout](#) (and see Krugman, 2012 [chapter 10](#) from *End this Depression Now* on internal devaluation, why it is painful “depression economics” and also Blanchard, 2014 on [“Dark corners.”](#) Read [notes on Adjustment in Developing countries](#) lightly, meaning don’t read the linked readings, for example [Chapter 17 of](#) [Rheinart and Rheinart, 2009](#). If you have time, please take a look at and the DeVries reading linked to PS 1, question 1.2s [Chapter 2 of](#) the Krugman, 2008. During 2013, two debates over managing crises made an appearance in the popular press, one [“Austerities Spreadsheet Error”](#) was on [Steven Colbert](#) (the original version). The fiscal policy/austerity debate about one minute in (skip the air traffic controllers). Later he interviews UMASS graduate student, [Thomas Herndon](#). To be fair, Rogoff and Rheinart defend their results in several venues, including the [Wall Street Journal](#) and [the New York Times](#). See also their [JEP paper 2012](#) and [their letter to PK](#). (a) Why does this debate over debt and growth continue to be

¹ Monnet? Post Piketty, 2014 and Nasar, 2011 economics has become infused with literary references, “L’Europe se fera dans les crises et elle sera la somme des solutions apportées à ces crises.[Europe will be forged in crises, and will be the sum of the solutions adopted for those crises.] Monnet, J. (1976) *Mémoires* (Paris: Fayard). “In the novels of Jane Austen and Honoré de Balzac, the fact that land (like government bonds) yields roughly 5 percent of the amount of capital invested (or, equivalently, that the value of capital corresponds to roughly twenty years of annual rent) is so taken for granted that it often goes unmentioned. Piketty, Thomas (2014). *Capital in the Twenty-First Century* (p. 53). Harvard University Press. Kindle Edition.

important, substantively and methodologically? Relate to the IMF fiscal multiplier debate [summarized in the FT](#) (again Olivier Blanchard and [Daniel Leigh defend the IMF view ably](#)) (b) Briefly summarize [Krugman's 2008 Chapter 2](#) and Blanchard's 2014 [Dark Corners](#) arguments about why most economists were blindsided by the 2008 crisis. Krugman's focuses on the "largest economy in Asia" meaning in 2008 (vs. today?). Why does Krugman associate Japan with "depression economics?" while Blanchard hint that it was in a "dark corner"? What do these terms mean for economic policy? *What is the solution to this problem* [Abe Economics is implementing?](#)

Further reading on the 2008 Crisis the two Krugman books are clear if opinionated (chapters mentioned above) see also Lo's [21 Financial Crisis books in review](#) and [Krugman's & Krugman and Wells' two part review of Rajan and Roubini and Mihm \(2010\) in NY Review of books](#), New York Review of Books—the second published in two articles, [The Slump Goes on](#) and [The Way out](#)). [The lecture notes](#) have links to other a few other readings (such as [Blinder](#) use these links for [Rheinhart & Rogoff: chapter 1](#), [chapter 13](#) and [chapter 17](#) (70 pages) and [Rajan \(2010\) Fault Lines](#), [Intro and chapter 2](#). The chapter on [Lehman Brothers](#) in [K & A](#) seems essential for us New Yorkers. You can draw your own conclusions but mainly take a look at the questions below, then read enough to answer the discussion questions. Of course the real question is not what caused the crisis, but why it has dragged on this see [Stanley Fischer's "Fiscal Policy and the Great Recession on the limits of fiscal policy, which leaves? Right, monetary policy.](#) [Rheinhart and Rogoff](#) have a quick summary of their book in [Bryne's \(2012\) Occupy Handbook](#) (Robin Wells coeditor). See more notes and readings below. *Sections in italics optional... answer what you can, send me an email if you cannot find a reading or understand a question.*

A) According to the IMF WEO outlook data set (or the WDI) which countries currently have the highest inflation and unemployment rates in the world Is the threat to the world economic growth inflation deflation or inflation? How do you know? In this sense, how do we know QE1 and QE2 worked? In what sense did they not work from the U.S. point of view (but perhaps better for developing countries, see [notes on external adjustment](#)?) B) What is AbeEconomics? Is it working? Of the four major currencies (Japan, the U.S. the Euro and the pound who has had trouble weakening their currency? Why does everyone want a weak currency? Why can't everyone have a weak currency? Can developing countries have one? C) Is a weak currency a beggar thy neighbor policy? (hint: Triffin's Dilemma—the U.S. is doing what it supposed to do, who is benefitting from QE1 and QE2? *What can the U.S. do to benefit more from looser monetary policy, if anything?*)

Case study tips: adding references to your presentation and case study final exam essay: some references in APA format are essential, Figures, pictures and Tables are nice too but only a list of references is essential. A quick way to get references for academic papers (those that have references too) and newspaper articles that others have cited is to paste the paper/article title into google scholar, then choose "more" or "cite" and copy the APA style reference. Below are examples of what I found for Edwards (2002) and Klein and Forbes (2013) [note the author, date citation format]. Add these to a typed sheet with your list of references in standard alphabetical order, again only the references you will have tip and reason to cite in your case study (or any) essay on the exam. Hand in the sheet, then fold it into the exam booklet when you finish...

Edwards, S. (2002). The great exchange rate debate after Argentina. *The North American Journal of Economics and Finance*, 13(3), 237-252.

Forbes, K. J., & Klein, M. W. (2013, October). Pick Your Poison: The Choices and Consequences of Policy Responses to Crises. In 14th Jacques Polak Annual Research Conference, November.

Probably a pdf copy url will appear as well, you can add this, but this is not a complete reference, you need both... Only the Economist keeps its author's anonymous, if others have cited the same source in an academic setting, the reference will show up in google scholar too,

P Krugman (2012) Internal Devaluation, Inflation, and the Euro (Wonkish) *The Conscience of a Liberal*. Blog entry, NYTimes.com, New York. http://krugman.blogs.nytimes.com/2012/07/29/internal-devaluation-inflation-and-the-euro-wonkish/?_r=0

Note I add the url, this is not necessary, but sometimes helpful for others in a hurry (urls change, so you need the title and source). The nice thing about google scholar is that it will update and add your literature, for example this pops up with the Krugman article,

Åslund, A. (2011). Lessons from the East European Financial Crisis, 2008–10. Peterson Institute for International Economics Policy Brief.

II. Accessing the FTP reader: (1) type this into your browser window <ftp.povertylectures.com> (2) wait for a box to pop up type this in as the user name econ5450@povertylectures.com and use the password Fall2015 (caps matter). Focus on the core readings, especially the book excerpts (Sachs and Larraine and the Agenor 2004 2nd edition) Enjoy To view an FTP site in Windows Explorer for example: press Alt, click View, and then click “Open FTP Site in Windows Explorer” menu below the url window, if it is open. Chrome and Firefox can also open FTP sites. Again, the user name is econ5450@povertylectures.com the password is Fall2015.

FTP-SSL (AUTH TLS, Explicit FTPS or FTPES) security is available.

11/07/2010 07:01PM	Directory	CaseStudyResources
11/07/2010 07:01PM	Directory	Classics
11/07/2010 07:02PM	Directory	CoreReadings
11/07/2010 07:02PM	Directory	Country Studies
11/07/2010 07:02PM	Directory	Further Reading
11/07/2010 07:02PM	Directory	IDB Publications
11/07/2010 07:02PM	Directory	IMF Publications
11/07/2010 07:02PM	Directory	NotesPresentations
11/07/2010 07:02PM	Directory	pdfWebpageBackup
11/07/2010 07:02PM	Directory	WorldBankPubs

References

Luigi Guiso, Paola Sapienza and Luigi Zingales (2014) “Monnet’s Error?” [Final Conference Draft](#) to be presented at the Fall 2014 BPEA ([Brookings Panel on Economic Activity](#)) September 11-12, Wash DC.

Nasar, S. (2011). [Grand pursuit](#): The story of economic genius. Simon and Schuster ([pdf in Russian](#))

Piketty, Thomas (2014). Capital in the Twenty-First Century (p. 53). Harvard University Press.

Quote from De Janvry, Alain, Elisabeth Sadoulet, and André Fargeix (1991) "Politically feasible and equitable adjustment: [Some alternatives for Ecuador](#)." World Development 19.11 1577-1594.

*Income transfers can be used to compensate the poor for the negative effects of efficient stabilization, but political feasibility requires that these transfers originate, at a relatively low cost and for only a short period of time, in international resource transfers. To make efficient stabilization politically feasible, complementary reforms that enhance the flexibility of the real side of the economy should be implemented. We have seen that these reforms only partially mitigate a negative political response. Political feasibility of efficient stabilization is further enhanced by reallocating public investment to the agro-export and import substitution sectors of agriculture, stressing the key role of agriculture in the initial stages of recovery in an economy with an immature industrial sector. In order to enhance the poverty reduction effects of these investment strategies, the employment creation capacity of agroexports should be increased by removing the strong price distortions in favor of labor-saving technologies. Rural development programs should be organized to allow smallholders to participate in agroexports and to improve their efficiency in the production of staple grains for import substitution. Political instruments are also necessary to make efficient stabilization sustainable within a democratic context. **These include compensatory income transfers to the politically powerful urban middle class, increasing the relative autonomy of the state and the subjective discount rate at which the public evaluates the utility effects of stabilization policies, and cooption to induce the public to judge the policies implemented against the counterfactual of policy inaction.***

We found that combining the instruments for efficient stabilization with a packaging of structural, policy, and political reforms should allow their sustained implementation. By choosing to use the effective instruments for stabilization but failing to package them with these complementary reforms. De Janvry et al. (1991) page 1593.

INR per 1 USD

23 Mar 2008 00:00 UTC

USD/INR close:39.86000

