

Spring 2014
CGU Office: Harper Hall E. 206
Office Hours: Tuesday 3-4 pm
Thomas.Willett@cgu.edu

Professor Thomas Willett
CMC Office: Bauer 106
Office Hours: M/W 4-5 pm
and by appointment

CMC Economics 140 The World Economy

COVERAGE AND LEARNING OBJECTIVES

In this course students will develop an understanding of major concepts of international economics and how they relate to political economy and geopolitical considerations in order to analyze major historical and current policy episodes such as

- 1) the debates over globalization and protectionism
- 2) concepts of economic power and the implications of the economic rise of China and other emerging market nations
- 3) the beggar-thy-neighbor policies during the Great Depression and similarities and differences with the oil shock of 1973-74, the global financial crisis and recession of 2007-2009 and current discussions of currency wars
- 4) global imbalances and the debates over China's currency policies
- 5) hegemonic stability theory, the economic rise of the United States and the provision of international public goods and institutions
- 6) international environmental and resource issues
- 7) how defective exchange rate regimes contributed to the breakdown of the Bretton Woods international monetary system in the 1970s, and to numerous crises since.
- 8) the European integration project, the creation of the euro, and the euro crisis.

Compared with traditional courses in international economics which emphasize the technical details of economic theories, this class will focus more on how economic and political considerations interact in order to better understand the workings of the global economy and policy disputes concerning it.

Beyond standard international trade and monetary theory, we will also emphasize economic concepts of externalities and public goods that are relevant for the analysis of issues such as international environmental issues and economic aspects of national security, as well as domestic and international political economy considerations.

While much of economic theory focuses on maximizing aggregate economic efficiency we will also emphasize economic and public choice analysis of externalities, public goods, distributional effects and the aggregation problems which Adam Smith recognized could impede the operation of the invisible hand and create a case for government intervention in the economy even under competitive conditions. Analysis of such "market failures" will be complemented with analysis of "government failures" so that most policy issues involve balancing of relationships between imperfect markets and imperfect governments. Popular debates about markets versus government are fundamentally flawed. Any well functioning economy needs both and it's the most appropriate way for them to interact that should be at the core of most policy debates.

We will also discuss the importance of noneconomic objectives that can influence policymakers such as objectives of national power and security that are emphasized by the realist school in international relations and the role played by different world views or ideologies, theories, ideas, and mental models that often influence the behavior of policymakers and other political actors and lead to conflicts over policy. We will also go beyond the standard rational self-interested models that have dominated economic and realist theories to discuss some of the developments in cognitive psychology and neuro science that are being incorporated into the new subfields of behavioral and neuro economics and finance. These analyze biases and other imperfections by decision makers in both the public and private sectors. Such factors help explain the adoption of inefficient policies, the surges and sudden stops of international capital flows to emerging market economies, the generation of the recent US financial crisis that spread across the globe and the ineffective policy responses by the European Union to the current euro crisis.

The textbook for the course is:

Thomas A Pugel, International Economics, 15th edn., McGraw-Hill (P)

This will be supplemented by a number of additional readings and notes that are available on Sakai. There will be a midterm and a final. Students will have the option to also write a short paper that analyzes some international economic policy issue. Its terms of reference will be discussed in class. Exercises and practice problems will be handed out as the class progress and some additional readings will likely be added.

Students are expected to keep up with major current developments in the world economy through the regular reading of one or more sources such as the Financial Times, NY Times, Wall Street Journal, and The Economist.

Reading List

Readings with an * are required. All unmarked items are denoted for reference. Notes on many of these are posted on my website. Additional references likely will be added as the course progresses.

I. Introduction: International Economics and Politics

A. Overview of Issues of Economic Power and Major World Views of the Global Economy

*P, Ch. 1

*Eric Chiu and T. Willett, "Measuring Economic Power and the Rise of Asia" (forthcoming)

*T. D. Willett, "The Public Choice Approach to International Economic Relations," 1995 Virginia Political Economy Lecture, George Mason University. Sections I-III.

*TW list of major approaches to IPE

Some Examples of Influential Books and Articles on Power and the Global System:

Arvind Subramanian, "The Inevitable Superpower: Why China's Dominance Is a Sure Thing." *Foreign Affairs*, Sept/Oct 2011, pp. 66-78.

David M. Smick. *The World is Curved: Hidden Dangers to the Global Economy*. Portfolio, Penguin 2009.

David A. Stockman. *The Great Deformation: The Corruption of Capitalism in America*. Public Affairs. 2013.

Fareed Zakaria. *The Post American World*. 2008.

Joseph Nye. *The Future of Power*. Public Affairs, 2011.

Josef Joffe. *The Myth of America's Decline: Politics, Economics, and a Half Century of False Prophecies*. Liveright. 2013.

Kaplan, Robert, *The Revenge of Geography: What the Map Tells Us About Coming Conflicts and the Battle Against Fate*, Random House, 2013

Kishore Mahbubani. *The Great Convergence: Asia, the West, and the Logic of One World*. Public Affairs. 2013.

Leslie H. Gelb, "GDP Now Matters More than Force." *Foreign Affairs*, Nov/Dec 2010, pp.35-43.

Michael Spense. *The Next Convergence: The Future of Economic Growth in Multispeed World*. Farrar, Straus, and Giroux, 2011.

Niall Ferguson. *The Great Degeneration: How Institutions Decay and Economies Die*. Penguin Press HC. 2013.

Peter Navarro. *The Coming China Wars*. FT Press, 2008.

Samuel Huntington. *The Clash of Civilizations*. 2011.

Steven Pinker. *The Better Angels of Our Nature: While Violence Has Declined*. Viking, 2011.

Susan Shirk. *China: Fragile Superpower*. Oxford University Press, 2008.

Thomas Friedman, *The Lexus and the Olive Tree: Understanding Globalization*, Farrar, Strauss, Giroux, 1999.

Thomas L. Friedman and Michael Mandelbaum. *That Used to Be Us: How America Fell Behind in the World It Invented and How We Can Come Back*. Farrar, Straus and Giroux, 2011.

Thomas Friedman. *The World is Flat*. Picador, 2007.

II. International Trade Theory

*P, Chs. 2-5, Ch 6 pp 95-98 & 114-116, & Ch 7 pp 127-138

*P. Dillon. J. Lehman, and T. D. Willett, "Assessing the Usefulness of International Trade Theory for Policy Analysis" in J. S. Odell and T. D. Willett, eds., *International Trade Policies: Gains from Exchange between Economics and Political Science*. University of Michigan Press, 1990.

III. Effects of Trade Policy Interventions

*P, Chs.8,9, and 11.

IV. TRADE POLICY DEBATES: Protectionism, International Externalities and Public Goods, National Security, Resource, and Environmental Issues and Global Leadership.

*P, Chs. 10 and 12-14.

*R. Tollison and T. Willett: "Institutional Mechanisms for Dealing with International Externalities: A Public Choice Perspective." in R. Amsacher and R.J. Sweeney. eds., *The Law of the Sea*. A.E.I., 1976.

W. Kaempfer, E. Tower, and T. Willett. "Trade Protectionism," in Charles Rawley ed., *The Encyclopedia of Public Choice*.

William D. Nordhaus. *The Climate Casino: Risk, Uncertainty, and Economics for a Warming World*. Yale University Press. 2013

Part II. International Monetary Relations

V. Basics of the Balance of Payments, Foreign Exchange Market, and Openeconomy Macroeconomics

*P, Chs. 16, 17, 22, & Ch 23 pp 575-583

*Michael Pettis (2013), *“The Great Rebalancing: Trade, Conflict, and the Perilous Road Ahead for the World Economy”*, Princeton University Press. Chapter 1.

VI. The Unholy Trinity, Theory of Optimum Currency Areas, the Breakdown of Adjustably Pegged Exchange Rate Regimes and the Euro Crisis

*P, Chs. 20 & 25.

*Willett and Srisorn (2011), “The Political Economy of the Euro Crisis: Cognitive Biases, Faulty Mental Models, and Time Inconsistency”, *Journal of Economics and Business* (forthcoming).

Marsh, David, *Europe's Deadlock: How the Euro Crisis Could Be Solved - And Why It Won't Happen*, Yale University Press, 2013.

Walter, Stefanie and Willett, “Delaying the Inevitable: A Political Economy Approach to Currency Defenses and Depreciation.” *Review of International Political Economy*. 2010

Willett, T., Clas Wihlborg and Nan Zhang (2010), “The Euro Debt Crisis: It isn't just fiscal” (with). *World Economics*, Vol. 11, No.4, October-December 2010.

Willett, T. and Clas Wihlborg, "Varieties of European Crises", in Gerald Caprio ed *The Encyclopedia of Financial Globalization*.

Willett, T., “The OCA Approach to Exchange Rate Regimes.” in *The Dollarization Debate*, Oxford University Press

Willett, T., Eric Chiu, Joshua C. Walton and Stefanie Walter, “Currency Crises”, pp. 245 – 253, *The Princeton Encyclopedia of the World Economy*

Willett, T. and Priscilla Liang, “Contagion”, pp. 213 - 219 in *The Princeton Encyclopedia of the World Economy*

VII. Global Interdependence and National Macroeconomic Policies: The Twin Deficits, Global Imbalances, Policy Coordination, Macroeconomic Discipline and Managed Exchange Rates

*P. Chs 19, 23, & 24

*Willett and Eric Chiu, “Power Relationships and the Political Economy of Global Economic Imbalances,” *Global Economic Review*, 2012 No. 4

Graham Bird and Willett, “Global Imbalances and the Lessons of Bretton Woods: A Review Essay”, *World Economics* July-September 2008, Volume 9, No.3, pp. 229-233.

Willett, Priscilla Liang and Alice Ouyang “The RMB Debate and International Influences on China’s Money and Financial Markets” (in James Barth and John Tatom, eds., *China’s Emerging Financial Markets: Challenges and Opportunities*, Milken Institute, 2009, pp. 267-301.

IX. The Global Financial Crisis, Currency Wars, and the Future of the International Financial Order

*P. Ch. 21.

*T.D. Willett, "The Role of Defective Mental Models in Generating the Global Financial Crisis" *Journal of Financial Economic Policy*, Vol. 4, No. 1, January 2012.

Alan Blinder (2013), *After the Music Stopped*, Penguin Press HC.

Graham Bird and Willett “Multilateral Surveillance: Is the IMF Shooting for the Stars?” *World Economics*, Vol. 8, No. 4, Oct-Dec 2007, pp 167-189.

Graham Bird and Willett, “Currency Wars” *World Economics*, Vol. 12, No.4, 2011, pp. 121-136.

Liang, P., T. Willett and N.Zhang (2010) “The Slow Spread of the Global Financial Crises” *Journal of International Commerce, Economies and Policy*

Ian Bremmer and Nouriel Roubini. “A G-Zero World: The New Economic Club Will Produce Conflict, Not Cooperation.” *Foreign Affairs*. March/April 2011.

Menzie Chinn and Jeffrey Frieden (2011), *Lost Decades: The Making of America's Debt Crisis and the Long Recovery*, W. W. Norton & Company

Raghuram Rajan. “Currencies Aren’t the Problem.” *Foreign Affairs*. March/April 2011.

Stephen D. King. *When the Money Runs Out: The End of Western Affluence*. Yale University Press. 2013.

Willett, “Some Lessons for Economists from the Financial Crisis.” *Indian Growth and Development Review* Vol. 3, No. 2, 2010: pp. 186-208.

Willett, “Understanding the IMF Debate”, *The Independent Review*, Spring 2001

Note: All unpublished papers by Willett are available on his website: <http://www.cgu.edu/pages/468.asp>. These give extensive references to other literature on the topics addressed.