

## ECON 5450 Course Calendar Spring 2018

*Last update May 9<sup>th</sup> 2018*

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 confirm appointments via [mcleod@fordham.edu](mailto:mcleod@fordham.edu) put ECON 5450 the subject line of your email; or send a text to 914-661-6998. We use will use blackboard to submit assignments online. Most course readings are online, **but see the ftp reader info below**. If you find a url that does not work, please send me an email so I can fix it. See the course [syllabus for readings](#) and the course requirements. Most readings are on or let me know if you find a [www.fordham.edu](http://www.fordham.edu) urls

May 2018						
Mon	Tu	W	Th	Fri	Sat	Sun
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	29	30	31	1	2	3

**Final exam:** You are welcome to present your case study to the class on May 2<sup>nd</sup> (and avoid writing it up on the final exam, provided you agree to update it after you present it, if necessary). Thank you to Victoriia and Natcha they set a high bar for all of us. If you want to present May 10<sup>th</sup> or May 16<sup>th</sup>, either way I must have your slides early AM Tuesday. I will return them Tuesday evening so you have time to revise them before class. You can take the final exam May 9<sup>th</sup> or 16<sup>th</sup>. If you decide to take the exam on May 16<sup>th</sup> you can present on the 9<sup>th</sup> or the 16<sup>th</sup> you will have an audience of at least one (me book

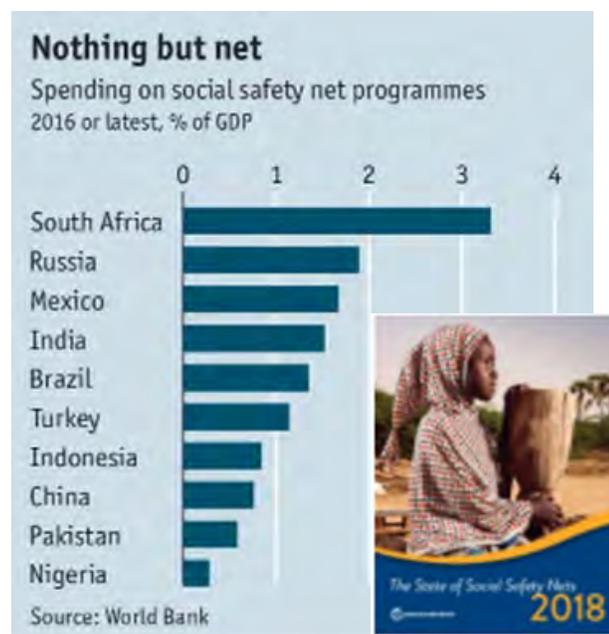


	Table CH-1 Savings and Investment Shares for China			Change	
	2000	2007	2008	2000-08	2000-07
<b>GCF Gross Capital Formation</b>	34	42	43	9.0	7.2
<b>GDS Gross Domestic Savings</b>	37	51	50	13	14
	2.9	9.2	7.1	4.3	6.4

Source WDI interactive figures posted here: <http://darrylmcleod.com/interactive-figures/>

[Case Study Final-presentations Questions](#) [Formatting Guidelines](#)

According to [Friday's WSJ Argentina](#) has hit a rough patch (same with Turkey). The peso [fell more than 10% Friday](#) even as the Central Bank raised the policy interest rate to 40%, trying to restore confidence in both its currency and its 15% inflation target. Don't forget Argentina just switched to a officially floating exchange rate regime when Macri took office in December of 2015. Referring to Figure AR-1 when did Argentina

Updated data: Poverty & [middle class ZAR](#) [Russia, Peru COL](#)

[Nominal Exchange Rates SSA and LatAM](#) [BIS RER data](#)

[WEO Data \(inflation, growth, unemployment, CAB for SSA, LatAm](#) [ZMB ZAR](#) )

April 25<sup>th</sup>: [Case Study Final-presentations Questions](#) with links to most data you will need. Here is the updated [Fred BIS demo\(v2\)](#) [IMF-WB Meetings](#) [Debt and Growth MM Cardenas Minute 47](#).

[Dark Matter 2018 Ricardo Hausmann](#) [USDA RERs Economist](#) & [World Bank The State of Social Safety Nets 2018](#)

### Stopping High Inflations:

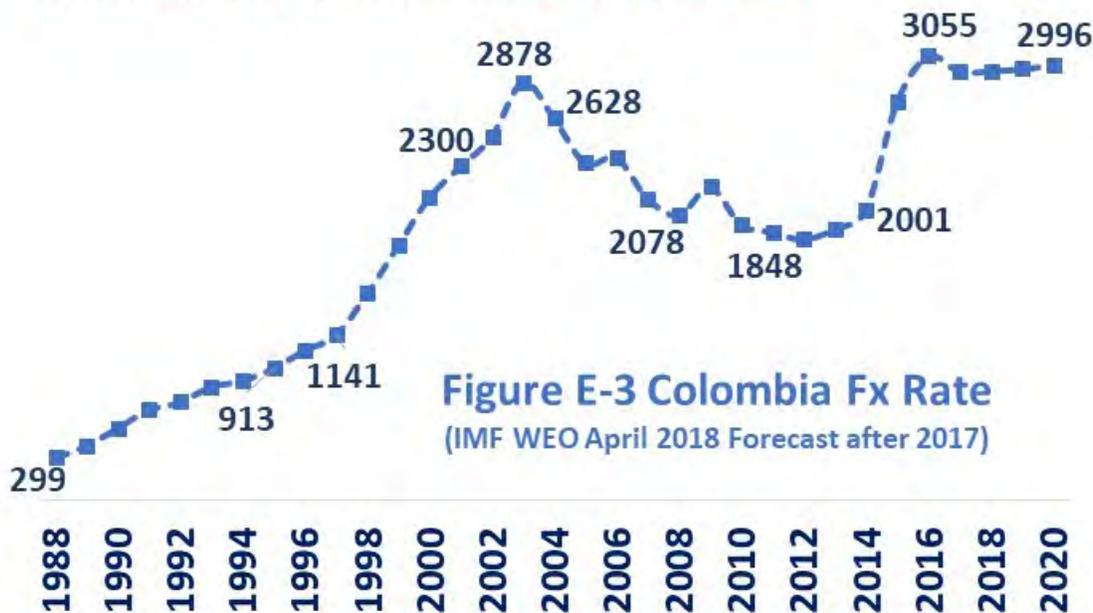
Kiguel, M. A., Liviatan, N. (1995). Stopping three big inflations: Argentina, Brazil, and Peru. In [Reform, recovery, and growth: Latin America & Israel?](#) 369-414 Univ of Chicago Press [62].

Calvo, Guillermo A., and Carlos A. Végh. "Inflation stabilization and BOP crises in developing countries." [Handbook of macroeconomics](#) 1 (1999): 1531-1614.

[Handout: Alternative High Inflation Programs](#) Calvo, Guillermo A.& Carlos A. Végh (1994)"[Inflation stabilization and nominal anchors.](#)" [Contemporary Economic Policy](#) 12, #2:35-45 [Chile Data is here](#)

**Fiscal Space:** Measuring Fiscal and Monetary Space: Romer, C. D., & Romer, D. H. (2017). Why some times are different: Macroeconomic policy and the aftermath of financial crises (No. w23931). National Bureau of Economic Research.

### When did fear of floating end for Colombia?



**Here is** [version 4 of the Midterm](#) see BB for due dates by question. See the [Macroeconomics of Aid Handout](#) (references including Gupta 2005) and the updated [graduation handout\(v3\)](#).

[IMF Blog Migrant buffers shocks](#) [Best Buffer for Climate Shocks?](#) (IMF, WEO, Oct 2017)

Lessons for [exchange rate management](#)...in Africa?

[Alesina et al. 2018 on "Expansionary Austerity"](#) ([Climbing out of Debt, pdf](#))

**Case Study Data Resources** HW#2 is a preliminary data inventory for your country due Thursday on BB if possible (you can revise it if you find more data). This is PDF version (check for frequent updates). For the word template check the BB assignment 2 (HW2). I will post the first Problem Set tomorrow before class, it will be due a week from today (Feb. 27<sup>th</sup>). I will post the midterm March 6<sup>th</sup> more or less two weeks before Spring Break starts on March 21<sup>st</sup> [Sustainable Debt](#) [Graduation Handout](#) [PS1 Now Japan Only](#) [PS2 Mexico and Chile](#)

**Lecture Notes:** Feb. 28<sup>th</sup> [Paroling the Spanish Prisoner](#) (Wonkish) [Heller: Fund supported programs & the poor Sustainable CA Deficits](#) [PS3\\_2015](#) [Paul Krugman on Spain's sacrifice](#)

**Midterm Models to review:** [MABP](#) [Traditional Approaches to CA Adjustment](#) [The Australian on TNT Model](#) (see Chapter 21) [Review TNT model](#) [Modern Approaches to CA Adjustment](#)

**Lecture Notes:** Feb 21<sup>st</sup> [2015 Midterm \(for review purposes only\)](#) [Macroeconomics of Aid Stabilization and Income Distribution](#)

**Lecture Feb 14<sup>th</sup>:** [LDQ 1.1v2 pdf](#) see BB for word template/due date. [Answers](#) Thank you for: [CFR Abenomics](#)<sup>1</sup> [Sample answers from 2015](#) [Formatting guidelines](#) [Traditional and Modern Approaches Sp 2018](#) [MABP TNT Model with Sachs and Larraine](#) [Dutch Disease LatAM](#) [Sachs and Lorraine](#) [Chapt 21 color](#) [Chapter 6](#)

**Goals for March 2<sup>nd</sup>:** Post Midterm including CS question (your country) [Review TNT model](#) Terms for Review: Graduation, Redemption, original Sin, debt to GDP tipping point (sustainable debt level); twin deficits, Depression Economics (DE: in this course), Internal vs. External Devaluation, BRICs IMF?, [Chile's Fiscal Rule](#),

Fleming, Michael J., and Nicholas Klagge. "[The Federal Reserve's foreign exchange swap lines](#)." (2010).

Jeffrey Frankel, 2011. "[A Solution to Fiscal Procyclicality: the Structural Budget Institutions Pioneered by Chile](#)." Journal Economía Chilena (Chilean Economy), CB of Chile, vol. 14(2), 39-78, August [NBER paper 16945](#)

Frankel, Jeffrey A. 2012. The Natural Resource Curse: [A Survey of Diagnoses and Some Prescriptions](#). HKS Faculty Research Working Paper Series RWP12-014, John F. Kennedy School of Government, Harvard Univ

**Lecture Feb 7<sup>th</sup>:** [How to be a good neighbor](#) [Argentina Presentation 2014](#) [Nigeria 2009](#) [The Australian on TNT Model](#) (see Chapter 21) [Revisiting the Paradox](#) (voxeu) [Coping with Capital Flows Adjustment Approaches](#) [Post conflict recovery and Aid Surges](#) [DeVries chapter 1](#)

**Volatility returns:** Check your country re Feb 6th Mexico [Thailand](#) Indonesia India [South Africa](#) Poland Project [Nominal Exchange rates](#) [Introduction Lecture Notes](#) [Vegh Road to Redemption](#) [Crises and Recovery Aid and Recovery](#) [CBN Presentation Nigeria](#), [UNDP 2008 Chapter 4](#) [Argentina 2001](#) [Greece v Puerto Rico](#)

**Lecture Jan 31<sup>st</sup> :** [Problem Set #1](#) Handouts: [Alternative Adjustment strategies](#) [Monetary Approach to the B of P](#)

**Lecture January 25<sup>th</sup>** [Abe Economics 3 Arrows, 2014](#) Today's Paul Krugman [Inflation Derp column](#) today is helpful and relevant to our "Is Austerity Necessary?" hypothesis, see also chapters of "End this recession Now" posted on BB. Please read [Sachs and Lorraine, Chapter 21](#) through page 669 especially Table 21-1 showing Chile's "neo-conservative" stabilization program 1979-85 which crashed in 1981 raising unemployment to nearly 20% in 1982, one of three over 20% unemployment spells that changed mainstream thinking about stabilization policy (the others were Argentina during the late 1990s and Greece after 2008). Which of these three infamous episodes involved internal devaluation, which involved a sharp (involuntary) external devaluation\*? As usual we have to get to work and return to the nice austerity arguments later, but see also Chile and Israel's famous adjustment programs in Calvo and Vegh, 1997 [Table 1 and Table 3](#) and in the shorter "nominal anchors" overview by Calvo and Vegh, 1994 Tables 1-4 (see class handout and [Heterodox summary](#)). Why did "orthodox" money-based programs often

result in sharp exchange rate appreciation? How did these programs often fail (the most important example being Caracazo in 1989, launching the career of one of the most important leaders in Latin America... What did the IMF learn from these “IMF riots” (according to Stanley Fisher).

**Lecture 1:** Introduction: [Is Austerity Necessary?\\*](#): Thought experiment using the market for dollars (MFD) diagram below. This looks like a supply and demand diagram, but it really is not a normal market in that...what? Discuss the three arrows of AbEconomics? Why are three arrows better than one (according to an ancient Japanese myth). How does an ancient sign discovered after the devastating Tsunami that shut down Japan’s nuclear power industry remind us of how much Japan appreciates running a trade surplus. China is much less vulnerable to climate shocks, so why did it accumulate over three trillion dollars in reserves, held mainly in U.S. bonds... though less so now. Why is China running down its reserves during the past two years? Jeff Sachs believes this is a tragic mistake, in fact the same mistake Japan made in accepting the Plaza Accord. Explain. How would the end of NAFTA affect Mexico? In what sense has Mexico been too successful post NAFTA? (hint: where do most of its dollar earnings come from? Hint: see the opening scenes of Specter, very much fiction, so what did the Mexican government do about this? What can be done about the Venezuela tragedy [Real Exchange Rates and adjustment](#)

**Disaster Capitalism and the Shock Doctrine attributed to Milton Friedman (and free markets): revisiting “heterodox” policies.** The Tablita programs or mainly “exchange rate based” programs were an important transition in moving away from money targets to modern “managed expectations” approaches to monetary policy (the past decade for example has

**Is Austerity Necessary?** Three developments suggest stabilization policy has become less necessary in middle income and developing countries. One is the success of “heterodox” policies in bringing down inflation

**Do the Chinese characters for crisis imply danger and opportunity\*** No just a favorite consultant’s cliché, according to Brookings we should blame JFK...but then how can we, he is our hero... recall the Kennedy tax cuts.

Very few economics courses have wonderful videos setting the stage for current debates. However, Democracies are fragile but remain our best ally in dealing with crises (cf. Tunisia and the Arab Spring). Commanding heights Episode is a 2001 documentary produced at the peak of post-cold war optimism (it does not anticipate the rise of left and now right populist political movements...). We will focus on initially on Latin America, Chile and Bolivia (now the Plurinational state of Bolivia). Chile and Bolivia became the poster children for “shock treatment”: Watch the prologue in first four minutes of Episode 2 (the intro segment with J. Sachs and President Clinton...sounds strange I know). Then skip to [Chile and Bolivia at 19:38](#) where the mixed legacy of the Chicago boys is discussed (see also Naomi Klein on the human cost of the Shock Doctrine in Chile and Argentina...). At the end of the prologue the narrator and producer of this video, Daniel Yergin, says “This free-market revolution has really led to the new global economy. It excites some and terrifies others.” The ongoing backlash against globalization is a little terrifying right now... if your roommate doesn’t like loud music, see the [PBS transcript of this video](#) here (or turn on CC). The video benefits of focusing on crises continues with ten-minute videos produced by Visual Politics (in Spanish and English) focusing on [the crisis in Venezuela](#) (several [videos](#)) and new [threats to Mexico](#)... (on [Venezuela VOX](#) also has short video...1.6M views, the VOX video sets the stage from ). How bad was it five years ago... see Krugman, Paul (2012) End This Depression now Chapter 1 and Chapters 10-12...

**Is Austerity necessary? the enduring lessons of Chilean/Southern Cone & Asian Stabilization programs**

In this course we argue that the main lesson of Chile and the early Southern Cone Stabilization experiments is that there is no need for shock treatment, even for ending hyperinflation. Chile paid a heavy price (twice) to end inflation, but this was largely for ideological reasons. Other Southern Cone countries used innovative “Heterodox Stabilization programs” to end inflation. The Chicago boys ignored nontraded goods prices (including real estate) so free trade and capital inflows did not stop inflation as planned. Instead the Chilean peso appreciated leading to a flood of cheap imports and a balance of payments crisis (see S&L 1993, [Sachs and Larraine, Chapter 21](#) ). A number of Heterodox programs combined “unorthodox” wage and price controls with the Chilean born “Tablita” to bring down high inflation with an expansion not a recession, making the most severe form of “shock therapy” bad

economics. For Chile and the infamous “Chicago Boys” the Shock Doctrine in Chile produced real changes, but ones that neither critics or supporters anticipated... Since 2000, Chile has alternated Left Social Democratic (Michelle Bachelet, two terms) and Center Right (President Sebastián Piñera and finance Minister Felipe Laraine) for 15+ years, with the Center Right just starting. In 2011 Chile saw prolonged and somewhat violent uprising against student debt (also a problem for North America).

**References Lecture 1:**

**Figure 2: capital flows and the RER in a small open economy**

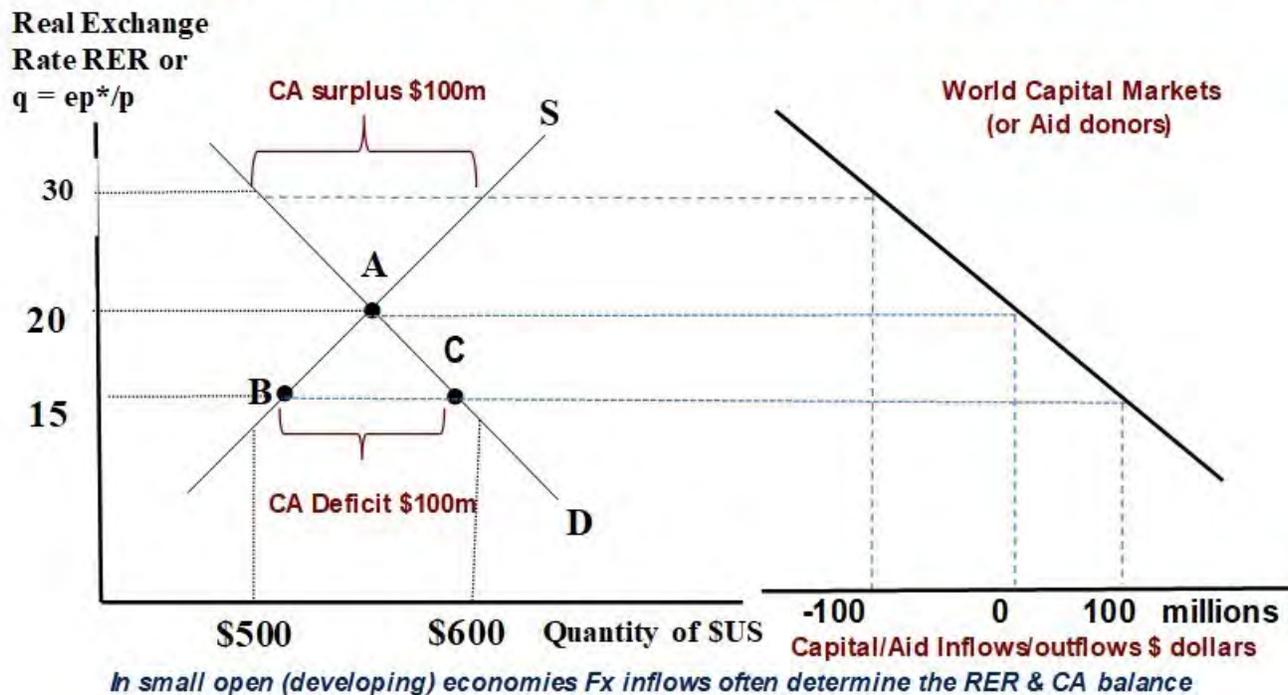
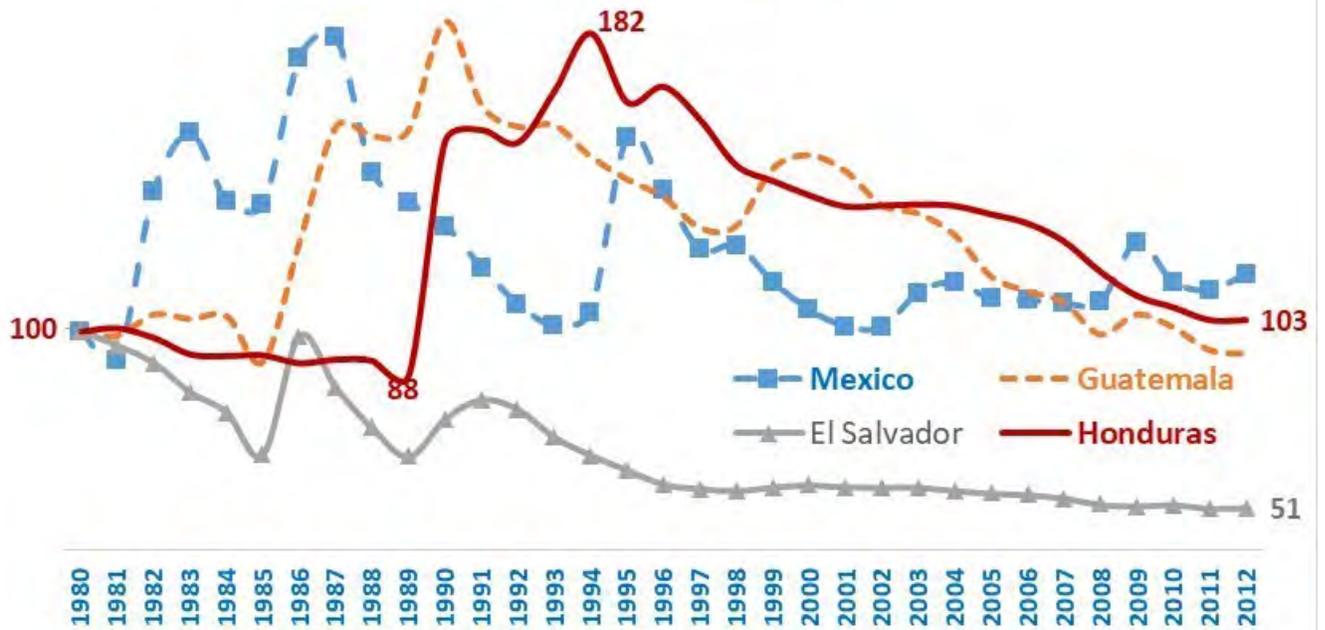


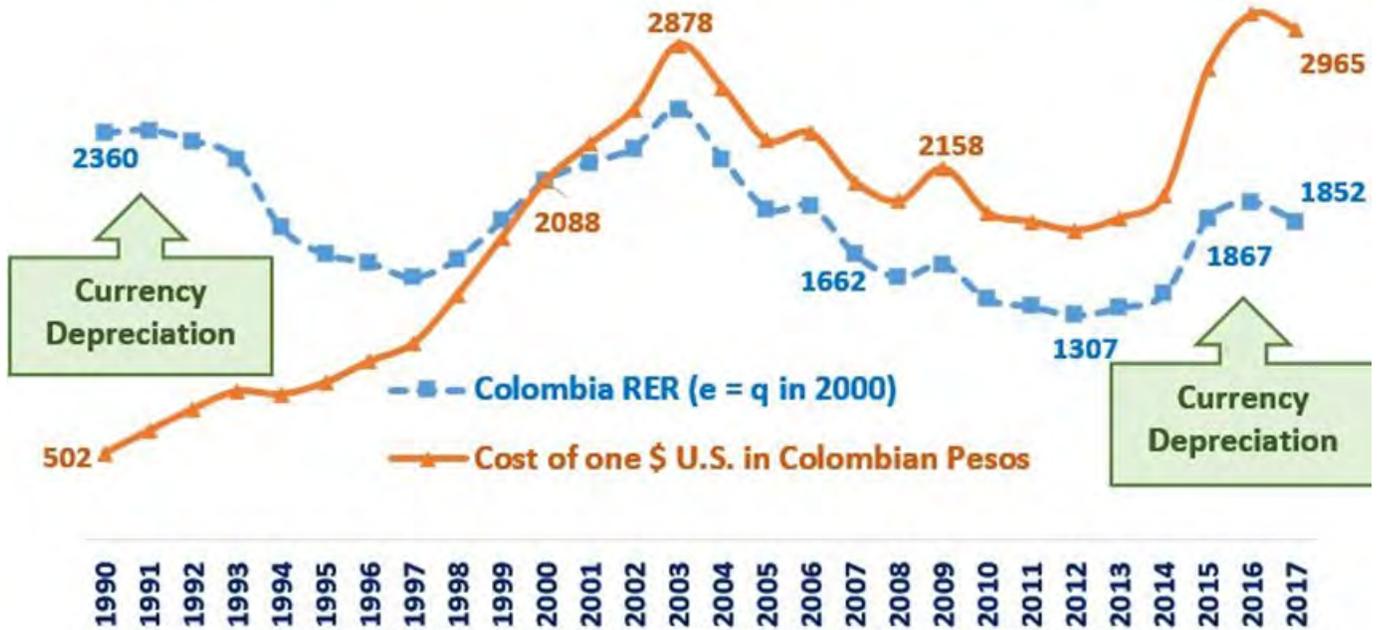
Figure R-3: Real Exchange Rate for CAFTA-NAFTA Countries

Source: USDA 8-29-2017 1980 = 100



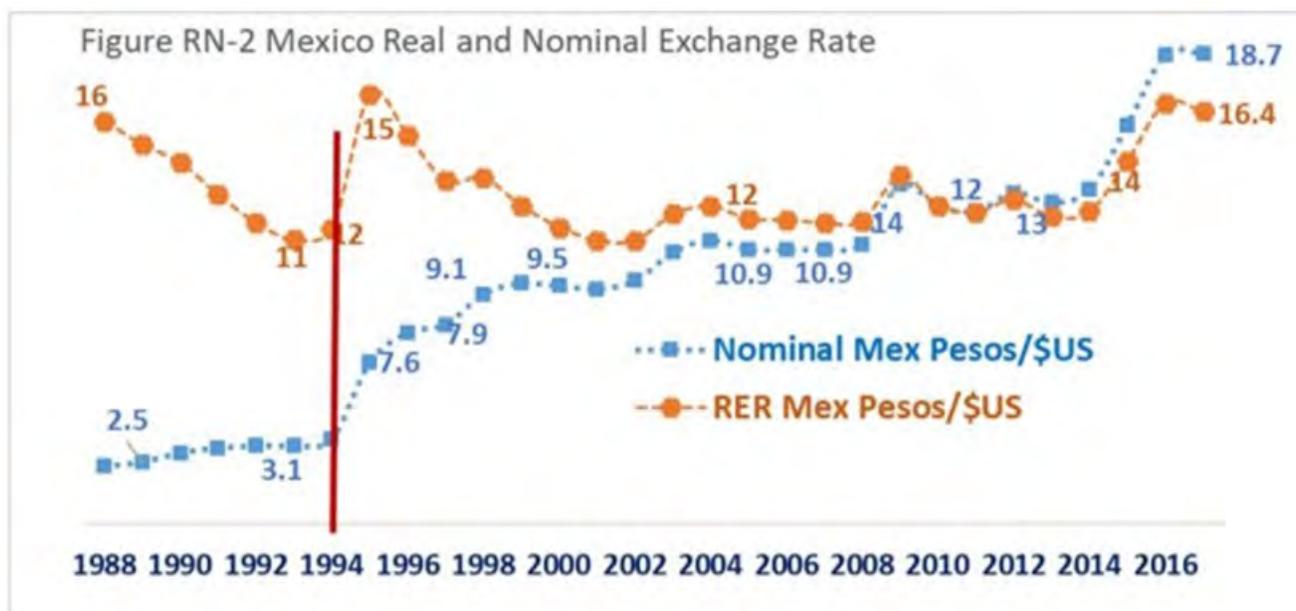
Source: USDA ERS Annual Real Exchange Rates, 8-29-2017 update, Karl Heerman, 202 694-5250

Fig RER-6 Colombia Real & Nominal Exchange Rate (USDA-ERS)



Source: USDA ERS Real Exchange rate (2017 projected) updated 8-29-17

<https://www.ers.usda.gov/data-products/agricultural-exchange-rate-data-set/>



Lustig, Nora, Albert Fishlow, and François Bourguignon. "Presidential Address: Crises and the Poor: [Socially Responsible Macroeconomics](#) [with Comments]." *Economia* 1, no. 1 (2000): 1-30.

Frankel, Jeffrey A., Carlos A. Vegh, and Guillermo Vuletin. "On graduation from fiscal procyclicality." *Journal of Development Economics* 100, no. 1 (2013): 32-47 [pdf from Harvard](#)

Ortiz, Isabel, and Matthew Cummins (2013) "[The age of austerity: a review of public expenditures](#) and adjustment measures in 181 countries" [Social Justice in Global Development](#), UNICEF

Venezuela Ricardo Hausmann, [Overdosing on Heterodoxy](#) buy don't read [D-Day for Venezuela](#)

Brad de Long [Why Low Inflation is no Surprise](#)

McLeod and Welch on [Venezuela's Outlook October 1996](#)

MLK week reading and [JFK on crises as opportunities](#)

My [Senegal Sample Case Study](#) Figures 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). This was the theme of last [year's midterm "challenge"](#) (and likely will be on this year's too)

**Lecture 2: January 24<sup>th</sup>** The remarkable transformation of the IMF [IMF Christine Lagarde in Lima](#)  
[Handout Stbz Income distribution](#) Nora Lustig [Socially responsible Macroeconomics](#) The Washington Consensus  
[A damaged Brand](#) [How is Puerto Rico not Greece](#) [Latin American Inflation](#) returns? [Orthodox vs. Heterodox Programs](#)  
 Our 1996 view of [Venezuela from Stabilization to Growth](#), [Venezuela last week](#)

**Lecture Notes** [RER Adjustment in the TNT Model](#) [Traditional Approaches to CA Adjustment](#)  
[This time is different](#) [Elasticities Approach Notes 2015](#) [Graduation 2018 Handout](#)  
[The Polak Model or MABP](#) [Handout: notes on the TNT model](#) [Aid Lecture notes](#) [Handout](#)

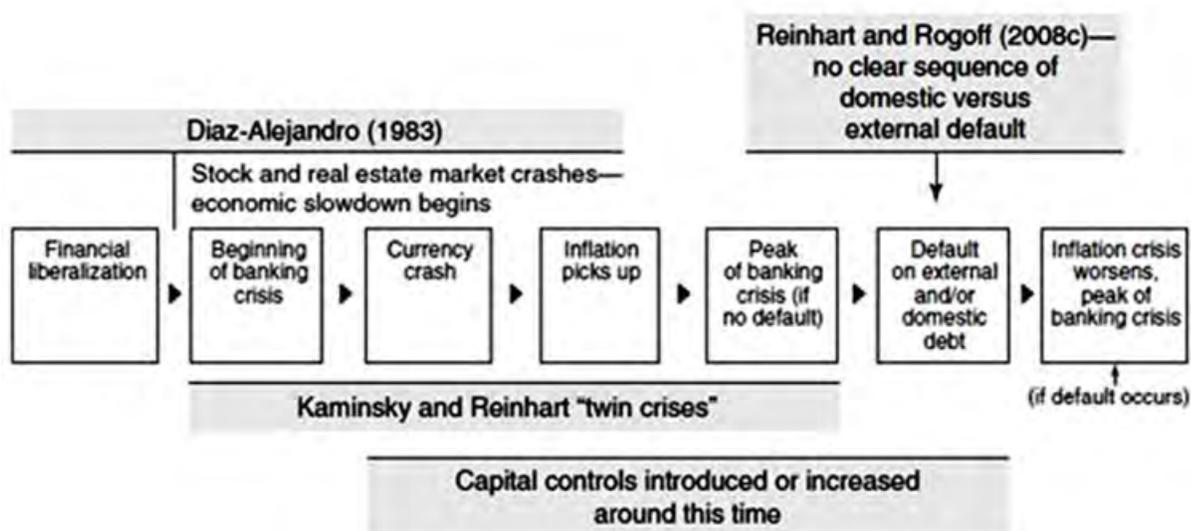
**Videos:** See how to use FTP below [How to make diagrams using templates](#) [How to use the snipping tool](#)  
[Early Draft of Box 4.1 UNDP BCPR Chapter 4 Senegal Project](#) [Nominal Exchange rates](#) [Introduction Lecture Notes](#)  
[Vegh Road to Redemption](#) [Crises and Recovery](#) [Aid and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

Baldwin, Richard and Francesco Giavazzi (2015) *The Eurozone Crisis A Consensus View of the Causes and a Few Possible Remedies* [A VoxEU.org eBook](#) 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 (  $q = ep^*/pa$  ); structural adjustment (e.g., the Hartz Reforms).

[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);



**LDQ 1.1** 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 1.2.** Why are these BRICS leaders so happy? (hint: BRICS NDB turns 2) 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](#)).

[Vegh Road to Redemption](#) My 2008 [CBN Presentation Nigeria](#) 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...

**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](mailto: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 2<sup>nd</sup> 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](mailto:econ5450@povertylectures.com) the password is Fall2015.

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

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## 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.

<https://www.project-syndicate.org/commentary/united-states-has-no-external-deficit-by-ricardo-hausmann-2018-03>