BRANDEIS INTERNATIONAL BUSINESS SCHOOL

ECON 282F
CHALLENGES IN THE GLOBAL ECONOMY:
MACROECONOMIC POLICY AND FINANCE

Spring 2018 Module 2
Section 1: MW 11:00-12:30
Section 2: MW 2:00-3:30
Sachar International Center 116
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Office Hours: M 3:30-4:30 and by appt.

Course Description
This is the second half of the capstone course for students in the Brandeis IBS MA program. The focus is on growth, monetary, fiscal and regulatory policy. Students will apply tools and concepts from international macroeconomic, finance, and statistics to analyze key issues facing policymakers and international organizations. Using rigorous analysis and research, students will evaluate key global issues in-depth. In this classroom forum, they will present their views persuasively, in discussion, debate and in writing, as they brief the international organizations on potential solutions.

Learning goals
1. Carry out in-depth analysis of a current global policy issue, using the economic concepts and tools from international macroeconomics, international trade, finance, development and statistics.

2. Engage in effective debate on a current global issue, with a well-reasoned and compelling economic analysis that reveals knowledge of both sides of the issue.

3. Provide written evaluation of a policy issue of concern to government officials.

4. Analyze and present data effectively in discussions, oral presentations, and written analyses.

Course Structure
The course will cover four current policy issues on international macroeconomics and finance. Each topic will begin with a case, or a selection of other readings, focused on the broad policy issue. The objective of class meetings will be to discuss the issues raised in the case, achieving involvement of most of the students in the discussion. Finally, the class will focus on a key debate at the core of the policy issue.

Prerequisites: ECON 281f

Required reading
Required reading will include HBS Cases available at: [URL will be inserted]
Grading
1. Written assignments (30%)
2. Debates (30%)
3. Class participation (40%)

Overview of Assignments
Memo (30%). You are working for the central bank in your country. Your task is to evaluate the main points of one of the following two chapters from recent IMF publications:

1) Chapter 2 from the October 2017 IMF Global Financial Stability Report entitled:  
Household Debt and Financial Stability

2) Chapter 4 from the October 2017 IMF World Economic Outlook entitled:  
Cross-Border Impacts of Fiscal Policy: Still Relevant?

Do the authors make their case? Why or why not? And, what are the implications of the analysis for your country economy and financial system?

The memo should be not more than four pages (1250 words) plus charts, tables and references. Drafts of memo will be due on April 9, with the final version due on Wednesday April 25 at noon.

Debates (30%). We will have a series of 4 debates through the course of the semester. Debate topics and the schedule are in the syllabus. Debate groups will be assigned. Further instructions and resources are available on the course website.

Class Discussion (30%). Each class meeting focuses on a case. Student participation is crucial. Attendance in class is absolutely required, and preparation for class is mandatory. Students comments will be tracked and graded based on the quality of their comments during class. Students can expect to be called on without warning, but should also volunteer to speak during the discussion.

Class Preparation
Preparation prior to each class meeting is essential. You should expect to spend roughly 4 hours preparing a case for class discussion. In looking through the readings, be sure to think about the information in the tables and charts. For the cases, keep in mind that the exhibits at the end of the case are at least as important as the text.

The goal for each class is to (1) thoroughly and rigorously discuss the economic issues raised in the readings and (2) achieve involvement of most of the students in the classroom discussion. Study questions to guide your preparation for each class discussion are in this syllabus. The purpose of these questions is to stimulate your thinking rather than structure or limit your analysis. The classroom discussion is structured to stimulate your thinking and understanding of policy issues, not necessarily to give you the right answer.

The Professor will usually start each case discussion by asking a student to open the discussion. The student will be expected to clarify the issues and arguments made in the readings. After the opening discussion, everyone must be prepared to participate. The classroom discussion is the forum in which students will come to understand the issues that are being raised, and learn how best to formulate and advocate for policies.
**Class Participation**
The instructor will evaluate class participation with the help of the TA. Your participation score will be the sum of your attendance and classroom contribution.

- **Attendance is mandatory.** For each unexcused absence beyond the first, your participation grade will be reduced by one partial grade (A to A-, A- to B+, etc.) For each unexcused late arrival or early departure beyond the first, your participation will be reduced by one-half of one partial grades (two late arrivals = one unexcused absence).

- **Classroom contribution:** Your class discussion grade will be based on the *extent and quality* of your contributions. In each class meeting, grades will be assessed as follows:
  - High: a comment that move the discussion forward significantly
  - Good: a comment that provokes some discussion
  - Pass: a standard comment.
  - Zero: no comments

During class, the TA will keep track and provide a provisional score. Following the class, the Professor will review the video stream of the class to refine and finalize the scores.

**Policy on use of Computers, Tablets and Phones in Class**
During class, your computer, tablet and phone *closed and in your bag.*
**Violation of this policy will be the equivalent to an unexcused absence.**

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<tr>
<th>Workload Expectation</th>
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<tr>
<td>Success in this half-semester two-credit course is based on the expectation that students will spend a minimum of 9 hours of study time per week in preparation for class (readings, papers, discussion sections, preparation for exams, etc.).</td>
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<th>Academic Integrity</th>
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<td>You are expected to be honest in all your academic work. Please consult Brandeis University Rights and Responsibilities for all policies and procedures related to academic integrity. Students may be required to submit work to TurnitIn.com software to verify originality. Allegations of alleged academic dishonesty will be forwarded to the Director of Academic Integrity. Sanctions for academic dishonesty can include failing grades and/or suspension from the university. Citation and research assistance can be found at LTS - Library guides.</td>
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<th>Disabilities</th>
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<td>If you are a student with a documented disability on record at Brandeis University and wish to have a reasonable accommodation made for you in this class, please see me immediately.</td>
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### Readings and Course Outline

<table>
<thead>
<tr>
<th>Date</th>
<th>Reading</th>
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<tbody>
<tr>
<td>Mon Mar 5</td>
<td>China: The New Normal (2016) HBS Case #716080</td>
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<tr>
<td>Wed Mar 7</td>
<td>Brazil’s Enigma: Sustaining Long-term Growth (2014) HBS Case #713040</td>
</tr>
<tr>
<td>Mon Mar 12</td>
<td>Italy: The Good, the Bad and the Ugly (2016) HBS Case #716029</td>
</tr>
<tr>
<td>Wed Mar 14</td>
<td>Should Corporate Profits be Taxed? (2015) HBS Case #9714033</td>
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| Mon Mar 19 | Debate #1: Artificial intelligence and robotics will lead persistently high unemployment.
| Wed Mar 21 | Debate #2: Advanced economy government have unfunded liabilities make default inevitable. |
| Mon Mar 26 | Debate #3: Central banks should issue digital currency as soon as practically possible. |
| Wed Mar 28 | Debate #4: The Big Five tech firms – Amazon, Apple, Facebook, Google, and Microsoft – will use their monopoly power to disrupt financial services, lowering costs and improving access. |
| Mon Apr 9  | Janet Yellen and the Bernanke Fed (2015) HBS Case # 714030              |
| Wed Apr 11 | Japan: Betting on Inflation? (2014) HBS Case #714040                    |
| Mon Apr 16 | Brooksley Born & The OTC Derivatives Market (2010) HBS Case #9311044     |
| Wed Apr 18 | Deferred Tax Assets in Basel III: Lessons from Japan (2011) HBS Case #9111076 |
| Mon Apr 23 | Iceland (A) (2010) HBS Case # 709011                                   |
Detailed Class Schedule

Class 1: March 5

*China: The New Normal* (2016), HBS Case #716080

China's slowing growth is giving rise to difficult challenges. Development has created unprecedented wealth. But along with it has come increasing inequality and an aging population. Political leaders are facing the need to improve health care and pensions, while they confront rising environmental problems and the legacies of the state-owned enterprises. Meanwhile, the economic system is undergoing a difficult transformation shifting from export-led to domestic demand-led growth. Stresses may be highest in the financial system, where stock market and property market volatility, driven in part by high credit growth, combined with surging capital outflows and exchange rate depreciation are potentially destabilizing.

Study questions:
- How has China performed since 2001?
- Has the entry in the WTO worked well for China?
- What is the future of Chinese-U.S. relations?
- Can Chinese development continue without democratization?

Class 2: March 7

*Brazil's Enigma: Sustaining Long-term Growth* (2014), HBS Case #713040

Over the past decade, Brazil's future as a leading world economic power appeared certain. An expanding middle class and commodity boom had fueled economic growth, with GDP growth hitting a peak of 7.5% in 2010. However, the high cost of conducting business in Brazil, known as "Custo Brasil," was hurting domestic manufacturing, while incoming foreign investments threatened to overwhelm Brazilian markets. Under President Dilma Rousseff, economic growth stagnated, and the Rousseff administration struggled to find the best balance between reducing inflation, maintaining a flexible exchange rate, and improving the competitiveness of Brazilian exports.

Study questions:
- What has been Brazil's growth experience?
- How is Brazil doing now?
- What are capital controls? Why did Brazil put capital controls in place? Did they meet policymakers’ objectives?
- What challenges, internally and externally, is the country facing?
- What sources of growth can Brazil look to going forward?

Please be sure to review growth accounting. You may find the following note useful: *Accounting for Productivity Growth* (1994), HBS Background Note #784051.
Italy faces a daunting task. Today, per capital real GDP is the same as it was in 1999. But, as growth has stagnated, government debt has accumulated so that gross debt of the Italian government now stands at more than 130% of GDP. Every previous attempt at reform having failed, in 2014 a young, unelected prime minister launched a wide-ranging series of macroeconomic and institutional reforms. The most important of Matteo Renzi’s reforms was to be voted on in a referendum in early December 2016.

Study questions:
- What are Renzi’s reforms? Are they the right ones?
- Can the euro area survive without changes in Italy?

Class 4: March 14
Should Corporate Profits be Taxed? (2015) HBS Case #9714033

Tax reform is on many countries’ legislative agendas. Reform of the corporate tax system in the United States seems all but guaranteed in 2012. Both Republicans and Democrats appeared to agree that the proliferation of deductions and exemptions combined with the high statutory rate combined to reduce tax revenue from highly profitable corporations, distort investment, and complicate tax planning, while the deferral of taxation on profits earned outside the country caused U.S. companies to invest and hire abroad rather than at home. There were broad calls for reform.

Study questions:
- What is the most convincing argument for taxing corporate income?
- What is the incidence of the corporate income tax?
Class 9: April 9  
Janet Yellen and the Bernanke Fed (2015) HBS Case # 714030

The unelected Federal Reserve Chairman exerts exceptional influence over the U.S., in fact global, economy. As Janet Yellen prepared to take over the position, she would look back on Chairman Bernanke’s tenure during the Great Recession. During that time, Bernanke was attacked by critics from both the left and the right for guiding monetary policy into dangerous territory. Their criticisms echoed arguments Bernanke himself had made regarding past downturns in Japan and Europe.

Study questions:
- What market failures is the Federal Reserve intended to address?
- What are the costs of having a system like the Federal Reserve?

Class 10: April 11  
Japan: Betting on Inflation? (2014) HBS Case #714040

Japan is the first developed country in the postwar era to fall into the combination of low growth, stable prices, massive debt buildup, and zero nominal interest rates. As a result, the Bank of Japan was the first major central bank driven to unconventional monetary policies.

The case focuses on the challenges still confronting Prime Minister Shinzo Abe at the end of 2013, a year after he has been in office. During his first year in office, Abe introduced three sets of policies designed both to reverse the deflation that had plagued Japan since around 2000 and to increase the Japanese growth rate. The first of this three-pronged approach consisted of appointing a central bank governor committed to raising the inflation rate, a fiscal policy plan whose initial thrust was expansionary, and a series of microeconomic reforms aimed at expanding GDP and labor productivity.

Study questions:
- How well has the Japanese economy performed over the last two decades? What are its prospects?
- How would you evaluate the Bank of Japan’s monetary policy prior to the appointment of Governor Kuroda in March 2013?
- What are the risks of the Bank of Japan’s policy under Governor Kuroda?
- Are Abe’s three arrows well designed to address Japan’s problems?
Class 11: April 16
Brooksley Born & the OTC Derivatives Market (2010) HBS Case #9311044

On the eve of the 2007-09 financial crisis, more than $400 trillion in gross notional value of over-the-counter derivatives was outstanding. This included $57 trillion in outstanding credit default swaps. This huge and essentially unregulated market played a significant role in the crisis.

Ten years earlier, in May 1998, the U.S. Commodity Futures Trading Commission (CFTC) issued a “Concept Release” inviting public comment on the strength and appropriateness of existing OTC derivatives market regulation. The Concept Release received immediate negative reaction and widespread disapproval from a broad array of powerful officials elsewhere in the government. By the end of the year, the Congress had passed legislation limiting the CFTC’s authority to regulate the OTC derivatives market.

Study questions:
- What went wrong in 1998?
- Why was there no one in the financial services industry suggesting regulation of OTC derivatives in 1998?
- With hindsight, it appears that Born was right. Why might thoughtful political and regulatory leaders have reasonably resisted regulating the market in 1998?
- You are the CEO of a systemically important financial firm and are approached by a key staff person from a respected and influential member of Congress asking you and your firm to join with others to mount an effort to repeal Dodd-Frank. What would you do?
- How can policymakers and regulators avoid being captured or co-opted by industry?

Class 12: April 18
Deferred Tax Assets in Basel III: Lessons from Japan (2011) HBS Case #9111076

In the wake of the 2007-09 crisis, the Basel Committee on Banking Supervision set out to revise international capital standards for banks. These new rules, known as Basel III, dramatically tightened standards, in part through a more rigorous definition of capital. The government in Japan, encouraged by its influential but chronically ill banking sector, opposed parts of the new Basel III rules. In particular, they took issue with the elimination of deferred tax assets as a constituent part of Tier 1 capital.

Study questions:
- What is the purpose behind defining Tier 1 Capital? What are the qualities of those bank assets you would consider as contributing to a “high quality asset base?”
- Why do you think that IFRS and US GAAP require the recognition of deferred tax assets and liabilities in audited financial statements?
- What are the lessons from the Japanese banking crisis for accounting standard setters, capital market regulators, banking regulators, politicians, and those that set auditing standards?
- How would you recommend that Basel III treat deferred tax assets in the definition of Tier 1 Capital?
Class 13: April 23

*Iceland (AJ) (2010) HBS Case # 709011*

In May of 2008, a team of sovereign debt analysts at Moody’s had to decide whether to downgrade the country’s sovereign long-term debt from Aaa to Aa1 or lower. Investor sentiment toward Iceland had changed radically in March, and the Moody’s team was fearful that the situation could spiral out of control. The Moody’s team knew that carry traders increased Iceland’s vulnerability to a confidence crisis because they were quick to liquidate their holdings at the first sign of distress. The plunge in the Icelandic Krona since the beginning of 2008 also forced the Icelandic people to confront a decision: would joining the European Union (EU) protect Iceland from capricious swings in investor sentiment? What, if anything, should Iceland do to avoid a future crisis?

Study questions:
- If you were a Moody’s analyst in May of 2008, would you recommend that Moody’s downgrade Iceland’s Aaa sovereign-debt rating? Why? Why not?
- What is most worrisome in Iceland’s balance of payments? What is most encouraging? Why were investors concerned about Iceland’s net international investment position in May of 2008?
- Should Iceland seek to join the European Union? Are there other actions the Icelandic government and business community could pursue in order to avoid a crisis of confidence?