

## PGP: Format for Course Outline

- i. **Course title:** World Economy: Business, Government, and Policy (WEBGP)
- ii. **Area to which the course belongs:** Economics
- iii. **Term in which the course is to be offered:** VI
- iv. **Instructors' name:** Prof. Errol D'Souza, Prof. Sanket Mohapatra, Prof. Anindya Chakrabarti and Prof. Abhiman Das
- v. **Course credits:** 1 credit
- vi. **Course Open for:** PGP 2

	PGP-FABM	PGPX	FPM
# of students			

**vii. Introduction:**

Course content: It is a macroeconomics course designed from policy perspectives. The course covers the details of the economic, political, social, and legal environment of 20-25 countries in the present context drawing upon the lessons of the past. It has the following modules:

- A. World Economy and Society
- B. Advanced Economies
- C. The Crack in the BRICS (without India)
- D. Growth and Development
- E. Natural Resources, Policies and Development
- F. Policies and Issues in Other Countries

**viii. Objective:**

To provide the students a detailed macroeconomic analysis of select country performance in the background of their political, social, and legal environment in the present day context. In particular, the course will highlight the rules and policies established by government and other non-business institutions that affect performance in various countries.

**viii. Pedagogy:**

1. Case based discussion
2. Lecture
3. Group exercises

**ix. Evaluation Scheme:**

1. CP – 20%
2. Assignments – 30%
3. Group presentation – 50%

Note:

- i. Weightage for CP should not exceed 20 per cent which includes weightage for attendance not more than 10 per cent.
- ii. The weightage of components related to individual assessment shall not be less than 50%.
- iii. There will be minimum three evaluation components for any core or elective course having credit of 1 or more.

**x. Course Books/Reference Materials:**

Textbook: David A. Moss, *A Concise Guide to Macroeconomics*, Second Edition (Boston: HBS Press, 2014).

Cases are indicated along the class plan

**xi. Session Plan:**

Details are presented in **Annex**

**xii. Pre-requisites & Eligibility:**

PGP 1 Macroeconomics

**xiii. Relationship to other courses:**

This will be a perfect complement and a follow up course after the UGOC exposure.

## A. World Economy and Society

### *Class #1: The Defining Moments of the World Economy*

Case: Perspectives on the Great Depression vis-à-vis 2008 Great Moderation

The Great Depression was, by far, the worst economic contraction in the XXth century and some of the most important ideas about both fiscal and monetary policy in the second part of the century were developed in response to the Depression. What were the basic perspectives on both the causes and possible cures of the Depression? How was it different in 2008?

#### Questions

1. What aspects of Keynes' diagnosis and proposed cures seem most compelling? Most troubling?
2. What aspects of Friedland and Schwartz's analysis seem most compelling? Most troubling?
3. Do Keynes and Roosevelt essentially agree?
4. Juxtapose Great Depression vis-à-vis 2008 Great Moderation

### *Class #2: Population growth, aging, migration, and urbanization*

Case: Demographic Upheaval (Finance and Development March 2016 - IMF),

Humankind is being buffeted by the forces of demographic change. The most prominent changes are rapid population growth in some developing economies and shifting shares of adolescents and young adults in others, increasing longevity and population aging throughout the world, and urbanization and international migration. All pose formidable challenges—threatening economic growth, fiscal stability, environmental quality, and human security and welfare.

#### Questions

1. Ninety-nine percent of projected population growth over the next four decades will occur in countries that are classified as less developed—Africa, Asia (excluding Japan), Latin America and the Caribbean, Melanesia, Micronesia, and Polynesia. How to provide jobs for large numbers of people and give them the human capital (quality education, training, and health) they need to be productive?
2. What are the fiscal consequences of shrinking and aging populations?
3. Where will they live?
4. What are the major policy reforms in the way forward?

## **B. Advanced Economies**

### ***Class #3: Countries with Negative Inflation and Growth***

Case - Japan: Betting on Inflation?

The case describes the "three arrows" of Abenomics, the economic policies of Prime Minister Shinzo Abe, and their implementation in the first year of his administration. The "first arrow" consists of a monetary policy whose aim is to raise the inflation rate to 2%, its "second arrow" involves a short run expansion and longer run contraction of fiscal policy while the "third arrow" is designed to transform the structure of the Japanese economy.

Questions

1. Was Abe right that Japan faced a deflation crisis when he took office?
2. What are the strengths and weaknesses of Governor Kuroda's approach to monetary policy?
3. Should Japan be happy or worried about the low level of JGB yields?
4. Are you optimistic or pessimistic about the future of trade and investment flows in the region?

### ***Class #4: The Growth Illusion: Loose Monetary Policy in the US and Europe***

(Case to be prepared)

### ***Class #5: The Crisis on the Continent: Greece***

Case: The Greek Crisis: Tragedy or Opportunity - How Government Debt Accumulates

After its 2009-10 fiscal crisis shook the euro, could the Greek government's efforts to stabilize debt, avoid default, and stay on the euro succeed? This case looks at the Greek social and political road to fiscal crisis; the economics of that crisis and efforts to recover from it; the danger the crisis posed to the euro; cooperation and conflict among European states, the European Central Bank, and the International Monetary Fund to try to help Greece emerge from crisis; and the role financial markets played in these events.

Questions

1. What do you see as the main sources of the Greek crisis?
2. Evaluate the domestic and international response to the crisis. Did being in the euro help or hurt?
3. How do you judge the scenarios from here? Can Greece make it?

## **C. The Crack in the BRICS (without India)**

### ***Class #6: Waxing and Waning of Brazil***

In the past few years Brazil's economy has disappointed. It grew by 2.2% a year, on average, a slower rate of growth than in most of its neighbours, let alone in places like China or India. Last year GDP shriveled by 3.8%, and is expected to shrink by a similar amount in 2015. Household consumption has registered the first drop, year-on-year, since Ms Rousseff's left-wing Workers' Party (PT) came to power in 2003. At the same time, public spending has surged. In 2014, as Ms Rousseff sought re-election, the budget deficit doubled to 6.75% of GDP; it has since swelled by another four percentage points. This year is likely to be the third in a row when the government fails to set aside any money to pay back creditors: the target for the primary surplus, which excludes interest owed on debt, has been cut from an unambitious 0.5% to basically nought, and the government is trying to leave itself room to post another primary deficit. Brazil's gross government debt of 70% may look piffling compared to Greece's 197% or Japan's 246%. But its high interest rates of around 14% make borrowing costlier to service. Debt payments eat up more than 8% of output. To let businesses and consumers borrow at less exorbitant rates, public banks have increasingly filled the gap, offering cheap, subsidised loans. These went from 40% of all lending in 2010 to 55%.

#### Questions

1. Has Brazil lost out its place in BRICS?
2. Are the policies of President Dilma Rousseff's first term in office in 2011-14 responsible for this dismal performance?
3. What are the policy options?

There is an excellent case material on this subject available in December 1, 2015 Economist: <http://www.economist.com/blogs/graphicdetail/2015/12/economic-backgrounder>

### ***Class #7: 1998 Crisis of Russia and its transformation***

#### Case - Russia: Revolution and Reform

The collapse of central authority in the Soviet Union in 1991 ushered in a period of revolutionary transformations for the states that emerged from the union. The leaders of Russia, the USSR's successor, since then have struggled to reestablish central authority, while at the same time trying to keep the country from further disintegration, establish a democratic polity, and institute a market economy. The case contrasts different approaches adopted by Presidents Boris Yeltsin and Vladimir Putin and concludes with a vision outlined by Russia's third post-Soviet president, Dmitry Medvedev. The case focuses on problems of state authority; fiscal capacity; institutionalization of political parties; relations between the federal center and provincial governments; relations between the state and big business; economic policy; and models of economic development.

#### Questions

1. Compare the crises of 1998 and 2008. How were they similar? How were they different?
2. Is Russia in 2010 still vulnerable to political and economic instability?

### ***Class #8: The Political Economy and Reform in China***

Cases: China: “To Get Rich is Glorious” and The “Chongqing Model” and the Future of China

When Deng Xiaoping acceded to power in 1978, China was exceedingly poor and exhausted by a decade of Cultural Revolution. In less than two decades, however, China’s economy had grown by a factor of 30. Its exports, now 21% of GDP, were beginning to flood world markets. Parts of China’s development strategy had become a model for other, less-developed countries.

1. What was Deng’s development strategy between 1978 and 1997? How well did it work?
2. What are the most serious problems facing Jiang Zemin in 1997?
3. As of 1997, what role did foreign direct investment play in China’s development?

In the wake of the 2008 global financial crisis, dwindling Chinese exports, increasing corruption, and widening inequalities, many in China feared that the model of development that had propelled the country to become the second largest economy in the world was due for adjustment. The Chinese Communist Party, anticipating what they hoped would be the second ever peaceful leadership transition in the fall of 2012, was eager for policies that would maintain economic growth and social stability. At the same time, between 2007 and 2012, the provincial municipality of Chongqing in the southwest became China’s fastest growing city, averaging over 15% GDP growth per annum. Chongqing’s growth was the result of a suite of policies that had been designated as the “Chongqing Model,” a bundle of social and economic reforms that promised public and private sector growth with benefits more equitably shared by all. When the city’s leader, Bo Xilai, was publicly dismissed following a murder scandal, the region’s new leaders—and indeed China’s new leaders—had to decide: should elements of the model be adopted elsewhere, or should Bo’s fall also spell the end of the Chongqing Model?

#### **Questions**

1. How did Chongqing grow so dramatically between 2007 and 2012? Is this sustainable?
2. Does China need a new model? If so, which should they adopt: Guangdong or Chongqing?

### ***Class #9: The Devaluation of Renminbi and Fallout***

*(Case to be prepared)*

### ***Class #10: Health, Unemployment and Growth – Case of South Africa*** ***(Case to be prepared)***

Life expectancy, after falling dramatically from 62 years in 1992 to 53 years in 2010, recovered to 62 years in 2014. The recent recovery was in large part due to the rapid expansion of the antiretroviral treatment programs to fight HIV/AIDS. And it is supported by declines in both adult and infant mortality. The poor are particularly vulnerable, and high HIV and AIDS

infection rates, as well as TB infections, have severely strained the health system, contributing to the poor health indicators

South Africa's growth is stuck in low gear with real GDP growth estimated at 2.0% and the same for 2016 due to a combination of domestic constraints and external headwinds arising from the fall in commodity prices and slowdown of the Chinese economy. The weak growth performance has exacerbated already high unemployment, inequality, and macro vulnerabilities. However, a slight recovery is expected in 2017 with real GDP growth estimated at 2.4% as new electricity supply comes on line.

#### Questions

1. What are the policy options to revive and employment situation in South Africa?
2. How to deal with health related issues primarily coming from HIV/AIDS?

## **D. Growth and Development**

### ***Class #11: Growth and Development: The case of Singapore***

#### Case – Singapore

By 2013, Singapore had recovered nicely from the financial crisis. It's GDP per capital, which had stood at \$427 less than 50 years ago, now exceeded \$51,000, making Singapore one of the world's richest countries. But an array of new challenges at home and abroad, now seemed to engender slower growth and a variety of difficulties to come. Thus, Prime Minister Lee Hsien Loong appointed an Economic Strategies Committee to assess these issues and propose necessary changes. The new strategy is focused on skills development, productivity growth and becoming a hub for Asia. Yet how would Singapore cope with its low fertility rate, aging population and an immigrant population of more than one-third?

#### Questions

1. How did Singapore achieve extremely high economic growth rates after 1965?
2. How has productivity growth been attained, and how can it be sustained?
3. What is your evaluation of Lee Hsien Loong's new strategy? Will it work?

### ***Class #12: The Developmental State Korea***

#### Case - Korea

In the 66 years from its founding in 1948, South Korea transformed itself from an impoverished, agrarian nation into a hypermodern and prosperous society. Authoritarian governmental structures gave way to democracy, even as old-fashioned corporate governance structures persisted. Yet, with an aging population, and the totalitarian North Korean government continuing to pursue its nuclear ambitions, past successes were no guarantee for the future.

#### Questions

1. How did South Korea become rich? What role, if any, did democratization play?
2. Can South Korea continue to grow?
3. Do the chaebols need to be reformed? If so, how? Can they reform themselves?
4. Is reunification with the North inevitable? Is it desirable?

### ***Class #13: Capital and Control***



## Case Malaysia: Capital and Control

On September 1, 1998, the government of Malaysia imposed currency and capital controls in response to the financial crisis that had swept Asia. The controls sparked an enormous controversy in the world of international finance. Some celebrated the controls for insulating the Malaysian economy from the unstable international financial system. Others criticized the controls for trapping investors and allowing the government to protect the interests of "cronies." This debate also raised the central question about the future of the international financial architecture: What is the appropriate balance between financial market freedom and government discretion in the management of the global economy?

### Questions

1. What caused the financial crisis in Malaysia?
2. Why did the Malaysian government impose currency and capital controls? What were the benefits and costs?
3. What are the lessons of Malaysia's experiment with currency and capital controls?

## **E. Natural Resources, Policies and Development**

### ***Class #14: Natural Resources, National Policy and the Global Economy***

#### **Case: Chile's Copper Surplus: The Road Not Taken**

In 2008, Andres Velasco, Chile's Finance Minister, faced mounting criticisms over his fiscal policy. As the world's largest copper producer, Chile was benefitting from the rise in copper prices, which had more than tripled since 2003. Copper revenues translated into greater income for the government as Chile's biggest copper producer, Codelco, was a state-owned enterprise. Velasco had chosen to save the bulk of the copper revenues into two stabilization funds; by the end of August 2008, the collective amount represented more than 20% of Chile's GDP. Several critics wanted the funds to be used to improve the poor public education system, income gap, and other impending social issues. After all, Chile had one of the most unequal distributions of wealth in the world. Productivity was stagnant, and economic growth had slowed down significantly since the 1990s. What should Velasco do amid growing public discontent? Was it really in Chile's best interest to keep saving the copper wealth?

#### **Questions**

1. Why did Chile adopt the stabilization policy?
2. What are the arguments for and against using the stabilization money in 2008 (before the fall of Lehman)?
3. What are the pros and cons for the international financial architecture of having governments establish stabilization funds?

### ***Class #15: Natural Resources and Development***

#### **Case Nigeria: Opportunity in Crisis?**

This case explores Nigeria's economic position and growth strategy in the face of the 2008 global crisis. The principal objectives are to understand why such a resource-rich country has failed to thrive, to examine what the crisis might mean for Nigeria's reforms and efforts to attract outside investment, and to explore the economic and political uncertainty created by the plummeting price of oil, the country's main export.

#### **Questions**

1. What should the Nigerian government do in response to the global financial crisis?
2. How would you rate the NEEDS reforms? What should be done next?
3. What accounts for Nigeria's economic stagnation between 1966 and 2003? What could be done to prevent history from repeating itself?

### ***Class #16: Globalization and Modernization in the Middle East***

(Or *the Politics of Oil* - there is a nice and long case-size article called 'The oil conundrum' in the Economist in Jan 23, 2016)

#### Case - Saudi Arabia: Finding Stability after the Arab Spring

Saudi Arabia's King Abdullah has problems – both domestic and foreign. Domestically, he needs to build the country's economy to accommodate a "youth bulge," balancing between liberals and religious conservatives. And he needs to diversify the economy away from its reliance on oil. Internationally, he must cope with the Arab Spring, with war in Syria, the threat from Iran and continuing friction between Palestinians and Israelis.

#### Questions

1. Has oil been a blessing or a curse for Saudi Arabia?
2. What is Abdullah's strategy for economic development?
3. How is Abdullah coping with the Arab Spring?

## **F. Policies and Issues in Other Countries**

### ***Class #17: Investing in Human Capital: The Case of Sri Lanka***

(There is a nice World Bank 2014 research report on the same – it is better than a case)

Sri Lanka has done well in promoting access to primary and secondary education through a long history of public sector provision. Participation rates are high and equitable among gender, regional and economic categories. Learning outcomes in primary and secondary education have also been increasing, albeit from a low level. The internal efficiency of primary and secondary education is strong, and this has enabled the country to support a high level of participation on a relatively low public education budget. Higher education enrolment has also been rising over time.

#### Questions

1. How has Sri Lanka achieved success in improving educational attainment in the country?
2. What is the role of public and private investment in education in Sri Lanka?
3. What is the return on investment in secondary education and higher education in Sri Lanka?

### ***Class #18: Hyperinflation to Deflation***

*Case: Curious Case of Zimbabwe*

Zimbabwe's decision to scrap the local currency in 2009 helped end hyperinflation as it cut off the government's ability to print money to pay debts. At the same time, it eroded manufacturers' competitiveness by making it cheaper to import everything from food to clothing rather than produce them in a country suffering from a lack of cash, power shortages and high costs. Zimbabwe is caught up in a spiral of stagnating growth, rising unemployment and now, worsening deflation. Consumer prices have fallen every month since March 2014, dropping 2.8 percent in July from a year ago. That's a far cry from the days when prices rose an average of 500 billion percent at their peak in 2008, according to estimates from the International Monetary Fund.

#### Questions

1. Was scrapping the local currency the optimal solution?
2. What are the options available against spiral of slowing growth, rising unemployment and falling prices?
3. How to revive an economy when its capacity utilization in manufacturing drops to 39%?

(A nice case is available at <http://www.bloomberg.com/news/articles/2015-09-02/from-hyperinflation-to-deflation-no-end-to-zimbabwe-s-decline>)

### ***Class #19: Welfare State and the Swedish Model***

(Case: The Swedish Model: Conflict or Consensus? (HÅKAN A BENGTTSSON: International Policy Analysis, November 2013)

Why the Nordic countries prosper despite being high tax states and yet there is business dynamism and innovation. These are also states with labour market regulation and yet they have managed to provide high standards of living. In a world of globalization with corporations shifting headquarters where tax rates are low the survival of the welfare state and issues of fiscal politics is something worth focusing on.

#### Questions

1. Is the Swedish model under stress? Welfare planning to welfare market – Swedish model redefined?
2. Is there labor market polarization or upskilling?
3. The future of the social insurance system - basic security or loss of income?

### ***Class #20: Gains from Trade: Success Story of Bangladesh***

*Case: Bangladesh beats China in Garment exports*

In the past decade, Bangladesh's production share of the world's cheap clothing has skyrocketed. In 2013, Bangladesh exported nearly \$31 billion of goods overall—nearly twice what it did just four years earlier in 2009—according to data [from the International Trade Centre](#). About 90% of that value, some \$28 billion, came from clothes. It is the world's second-largest garment exporter, and its share of the global closet just keeps growing. It is believed that Bangladesh rose to its position largely because of its lack of regulation and the low wages it pays its garment workers, most of whom are women.

#### Questions

1. How Bangladesh became an increasingly attractive place to make clothes on the cheap?
2. Are lax regulations a better alternative to improve export?
3. What are the inherent problems of the Bangladesh's garment export model?

*A nice case is available at: <http://qz.com/389741/the-thing-that-makes-bangladeshs-garment-industry-such-a-huge-success-also-makes-it-deadly/>*