



## **Economics of Global Business (EGB)**

Fall 2021 / Econ-UB 11 - Section 001

NYU Stern School of Business

Classroom: LC 25

Class Time: T/Th 3:30 to 4:45PM

Office Hours: Thursdays 1PM to 3PM or by appointment

Professor Joseph Foudy

[jfoudy@stern.nyu.edu](mailto:jfoudy@stern.nyu.edu)

Office: KMEC 7-66

### **COURSE GOALS**

The objective of this course is to provide future decision-makers with a systematic understanding of critical aspects of the international business environment, especially the basic workings of the macro-economy and the roles of international trade and finance. We also examine how the forces of globalization affect business (and your careers) as well as the challenges of economic development.

### **COURSE STRUCTURE**

The course is divided into three main sections or modules:

I. The first module looks at the economics of international trade in goods and services. International trade is a key driver of global integration. We examine the role of comparative advantage as a determinant of the location of production and compare it to other theories of trade. We look at how trade creates economic winners and losers, government policies with respect to trade, and the impact of those policies.

Students should be able to answer/understand the following questions/concepts:

- What are the economic advantages of trade? (Why do states specialize economically?)
- What are the economic effects and distributive consequences of trade, especially for workers?
- What are the economic arguments for intra-industry trade?
- What are the effects of tariffs and non-tariff barriers to trade?
- What are the economic arguments for and against protectionism?
- What are the political causes of protectionism?

II. The second module looks at issues in the modern macro-economy. Students are introduced to how economists measure the economy and key macroeconomic terms (for example, how we define and measure economic growth, inflation, and unemployment). We examine how the economy grows in the short and long run, the role of productivity and the impact of the business cycle. We also explore the role of money, inflation and banking in particular.

Students should be able to answer/understand the following questions/concepts:

- How are GDP, Unemployment and Inflation measured?
- What are the long-term sources of economic growth and why is productivity so important?
- What causes a recession or recovery?
- What monetary and fiscal policies do countries have to manage the business cycle?
- What is inflation and why does it matter?
- What is money? What is the banking system and how does it influence interest rates?

III. The final module of the course surveys the role of money and finance in the world today. Specifically, we examine the role of foreign exchange in global finance. We show how the foreign exchange market can be used to hedge risk or to speculate and we develop some key principles of international financial investment. We explore what factors affect the value of currencies. We also examine the role of government policies toward the foreign exchange market, including the choice between fixed and floating exchange rates, strategies to keep currencies under or overvalued, and the use of exchange controls to create impediments to currency flows. We also examine different issues in the international business environment, including the nature of financial crises, the impact of globalization, the role of foreign investment and multinational firms and current debates on immigration and outsourcing. Students will also examine the problems of development and the role firms can play in fostering growth. This is both an ethical issue facing business (How can firms help foster development?) as well as a practical issue (as developing markets are likely to be a key source of future profits).

Students should be able to answer/understand the following questions/concepts:

- How do individuals, firms and states buy and sell currencies?
- What are the spot and forward exchange rates? (What are options, swaps and forwards?)
- What determines the value of currencies in the short and long runs? What is PPP?
- What choices do states have in setting their currencies? What tools do they employ?
- Why do financial crises occur? What are the warning signs? How can they be avoided?
- What different strategies for economic development have states pursued?
- What is globalization? How do current trends alter business today and your future career?
- How are automation and other trends driving increases in inequality?

In short, the course provides a survey of big-picture global issues. It also serves as the base for the International Studies Project course. In addition, EGB is a prerequisite for several IB elective courses, including International Business Management, International Financial Management, and International Marketing Management.

**COURSE MATERIALS**     **Both textbooks are available in hard copy or as e-books.**

**Required textbooks:** Custom reader for Thomas Pugel, *International Economics*, 17th edition, Irwin McGraw-Hill, 2020 (Abbreviated *Pugel*)  
Custom reader for Krugman Wells, *Macroeconomics*, 5th edition, Worth, 2017. (Abbreviated *Krugman/Wells*)

Other readings will also be posted on NYU Brightspace!

**TEACHING PHILOSOPHY**

The course has two objectives.

1. The first objective is to teach you many of the fundamental concepts, theories and tools of international economics. Some of the information imparted will be quite specific and exams will test your ability to solve them as the problem sets at the end of the chapters of the textbook demonstrate. However, the true value of the course is in its ability to teach you fundamental concepts about international economics that you can put to use in your future careers. While exams will feature some problems similar to those found in class and in the text, they will also test your ability to explain, defend or criticize theories or concepts. You will find also that many international economic issues are subject to simplification, distortion or misunderstanding in media coverage. As informed observers, this class will equip you with the tools to analyze such issues, dispel myths and make informed decisions.

2. A second and equally important objective is to encourage critical thinking to aid you in your future business careers. Students are expected to dissect many leading debates of the day – Do free trade and offshoring lead to lower wages for workers? Is protectionism economically efficient and if not why do states resort to it? What strategies can countries employ to aid development? How can firms assist states in such endeavors while adding to their profitability? Business leaders maintain their firms' positions by applying their analytical reasoning skills to daily as well as strategic challenges. They are able to question conventional wisdoms other executives take for granted or apply common sense analysis to otherwise intractable problems. Even if students may not use all of the specific tools learned in this or other classes they take as part of their Stern education, the critical thinking skills imparted can last a lifetime.

Before or after lectures, students can test themselves based on the problems at the end of the chapters or those used in the class. In some cases, class discussions will follow readings closely. In others, they will not. While solving these problems is a good test of your preparedness, please note that understanding the fundamental concepts is more important. There will be short reviews prior to each exam. I don't believe in surprises and try to communicate in advance what are the exact expectations for students on the exams.

### **ACADEMIC INTEGRITY AND CONDUCT**

Students are bound by the Stern Undergraduate Code of Conduct. Any act of cheating may lead to an automatic failure for the course. Unprofessional conduct can be subject to a 1 letter grade sanction.

### **AN INCLUSIVE CLASSROOM**

This course strives to support and cultivate diversity of thought, perspectives, and experiences. The intent is to present materials and activities that will challenge your current perspectives with a goal of understanding how others might see situations differently. By participating in this course, it is the expectation that everyone commits to making this an inclusive learning environment for all. Do not hesitate to contact the professor if you ever have a question or a concern.

### **COURSEWORK AND GRADING**

At NYU Stern, we strive to create courses that challenge students intellectually and that meet the Stern standards of academic excellence. To ensure fairness and clarity of grading, the Stern faculty have adopted a grading guideline for core courses with enrollments of more than 25 students in which approximately 35% of students will receive an "A" or "A-" grade. In core classes of less than 25 students, the instructor is at liberty to give whatever grades they think the students deserve, while maintaining rigorous academic standards. The course grade will be based on the following items:

First Exam	30%
Second Exam	30%
Final Exam	30%
Participation	10%

The coverage and dates for the Exams are:

First Exam: Covers Part One, THURSDAY, **September 30th**

Second Exam: Covers Part Two, TUESDAY, **November 4th**

Final Exam: Covers Part Three, TUESDAY, **December 21th (4PM)**

## **PARTICIPATION/ATTENDANCE**

Students are expected to attend class and will be rewarded for participation.

## **WARNING: SYLLABUS SUBJECT TO CHANGE**

Given that the course is taught during Covid, the syllabus is subject to change.

## **PART ONE: INTERNATIONAL TRADE IN GOODS AND SERVICES**

Please note that schedule and reading assignments are subject to change.

<u>Class 1</u> / Sep 2	<b>Introduction – A Global World / OVERVIEW</b> Jeanna Smialek and Madeleine Ngo, “What an Adult Tricycle Says About the World’s Bottleneck Problems,” <i>The New York Times</i> , August 23, 2021
<u>Class 2</u> / Sep 7	<b>The Rationale for Trade – Comparative Advantage</b> <i>Required Reading:</i> Ch. 3 and 4 from Pugel. Steve Sexton, “The Inefficiency of Local Food,” <i>Freakonomics Blog</i> , November 14, 2011
<u>Class 3</u> / Sep 9	<b>The Effects of Trade – Winners and Losers</b> <i>Required Reading:</i> Ch. 5 from Pugel. Claire Cain Miller, “The Long Term Job Killer Is Not China: It’s Automation,” <i>The New York Times</i> , December 21, 2016
<u>Class 4</u> / Sep 14	<b>Alternative Theories of Trade</b> <i>Required Reading:</i> Ch. 6 from Pugel.
<u>Class 5</u> / Sep 16	<b>Trade Policy: Tariffs</b> <i>Required Reading:</i> Ch. 8 from Pugel. Catharine Rampell, “Trump tariffs are already backfiring,” <i>The Washington Post</i> , June 14, 2018
<u>Class 6</u> / Sep 21	<b>Trade Policy: Non-Tariff Barriers</b> <i>Required Reading:</i> Ch. 9 from Pugel.
<u>Class 7</u> / Sep 23	<b>Arguments For and Against Protectionism</b> <i>Required Reading:</i> Ch. 10 from Pugel. Paul Krugman, “Honey, Who Shrunk the World,” <i>The New York Times</i> , August 20, 2021
<u>Class 8</u> / Sep 28	<b>Dumping and Export Subsidies</b> <i>Required Reading:</i> Ch. 11 from Pugel.
<u>Class 9</u> / Sep 30	<b>FIRST EXAM (Classes 1-8 only / Pugel Text and Other Trade Readings)</b>

## **PART TWO: ISSUES IN THE MODERN MACROECONOMY**

- Class 10 / Oct 5      **Introduction and National Income Accounts**  
*Required Reading:* Ch. 6 and 7 from Krugman/Wells.  
Gwynn Guilford, “Why Two Leading Inflation Gauges Show Different Results,”  
*The Wall Street Journal*, July 25, 2021
- Class 11 / Oct 7      **National Income Accounts (Continued), Start of Long Run Growth**  
*Required Reading:* Ch. 8 from Krugman/Wells
- Class 12 / Oct 14      **Long-Run Economic Growth**  
*Required Reading:* Ch. 9 from Krugman/Wells.  
Timothy B. Lee, “The productivity paradox: why we’re getting more  
innovation but less growth,” *Vox*, October 24, 2016
- Class 13 / Oct 19      **Long-Run Growth (Continued), Savings, Investment and the Financial System**  
*Required Reading:* Ch. 10 from Krugman/Wells.  
Zheng Liu, “Is China’s Growth Miracle Over?” *FRBSF Economic Letter*, August  
10, 2015
- Class 14 / Oct 21      **The Economy in the Short Run/Fluctuations**  
*Required Reading:* Ch. 11 from Krugman/Wells.
- Class 15 / Oct 26      **Aggregate Demand and Aggregate Supply / Fiscal Policy and Deficits**  
*Required Reading:* Ch. 12 and 13 from Krugman/Wells.  
Jim Tankersley and Jeanna Smialek, “Big Economic Challenges Await Biden and  
the Fed this Fall,” *The New York Times*, August 3, 2021
- Class 16 / Oct 28      **Money and Banking I**  
*Required Reading:* Ch. 14 from Krugman/Wells.  
Scott Wolla, “Bitcoin: Money or Financial Investment,” *St. Louis Federal Reserve  
Bank Economic Research Note*, March 2018
- Class 17 / Nov 2      **Money and Banking II**  
*Required Reading:* Ch. 15 from Krugman/Wells.
- Class 18 / Nov 4      **SECOND EXAM (COVERS all lectures based on Classes 10-17)**

## **THREE: EXCHANGE RATES, CRISES, DEVELOPMENT AND GLOBALIZATION**

- Class 19 / Nov 7      **Balance of Payments**  
*Required Reading:* Ch. 16 from Pugel.  
Brad Setser, “China’s coming current account deficit?,” *CFR Blog*, April 4, 2019
- Class 20 / Nov 11      **The Foreign Exchange Market**  
*Required Reading:* Ch. 17, 18 from Pugel.  
Ira Iosebashvili, “Dollar Towers Above Rivals,” *The Wall Street Journal*, August 18, 2019
- Class 21 / Nov 16      **The Determination of Exchange Rates and Purchasing Power Parity**  
*Required Reading:* Ch. 19 from Pugel.
- Class 22 / Nov 18      **Exchange Rate Policy Options I**  
*Required Reading:* Ch. 20 from Pugel.  
Chris Giles and Eva Szalay, “Global economy unlikely to benefit from falling dollar,” *The Financial Times*, August 31, 2020
- Class 23 / Nov 23      **Exchange Rate Policy Options II**  
*Required Reading:* ***Part of*** Ch. 25 from Pugel. pp. 650-660 starting with “National Choices” to end of chapter and “What Role for Gold?”, pp. 640-2
- Class 24 / Nov 30      **Financial Crises**  
*Required Reading:* Ch. 21 from Pugel.
- Class 25 / Dec 2      **Financial Crises II and The Challenges of Development**  
*Required Reading:* Ch. 14 from Pugel.
- Class 26 / Dec 7      **Globalization - FDI, Multinational Corporations and Immigration**  
*Required reading:* Ch. 15 from Pugel.
- Class 27 / Dec 9      **Globalization – The Environment**  
*Required Reading:* Ch. 13 from Pugel.  
Catherine Rampell, “Everyone’s got a climate plan. So where’s the carbon tax,” *The Washington Post*, June 6, 2019
- Class 28 / Dec 14      **Globalization – Inequality and Automation**  
Asha Bharadwaj and Maximiliano A Dvorkin, “The Rise of Automation: How Robots May Impact the U.S. Labor Market,” *Federal Reserve Bank of St. Louis Regional Economist*, July 10, 2019

**December 21 (Tuesday)**

**FINAL EXAM / 4PM**

**Good Luck ☺**