

Agnes Scott College
ECO 353-A: International Economic Institutions - Fall 2011
Tuesdays & Thursdays 10:00 – 11:15 a.m.
Dr. Patricia Higinio Schneider

He who knows only his side of the case knows little of that.
John Stuart Mill, *On Liberty*, 1859

1. Course Description & Pre-requisites:

International economic institutions (IEI) are an important feature of the global economy. This course will discuss the role of IEI in ensuring the stability of the international financial system and promoting economic development and international trade. We will focus on three main multilateral institutions: the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IRDB) or World Bank, and the World Trade Organization (WTO, former GATT). Therefore, this course is organized in three main modules that cover each institution respectively. A typical module will follow the basic format described below:

1. Each module starts with 2-3 lectures that provide a brief overview (and/or review) of economic concepts you'll encounter in the required readings.
2. Then, we will discuss the historical and political events that led to the creation of a particular institution. Although this course's focus is on economics, its intersection with history, political science, international relations and even international law needs to be taken into consideration.
3. The next step is to study the original mission, structure and objectives of each institution, as well as how these have changed (or not) over time.
4. As we debate the mission and objectives of each institution, we will illustrate the discussion by using specific case studies and classroom simulations in which students are required to role-play the making of policy decisions by the people in those institutions. In our debates, we use arguments, empirical data, and other forms of evidence.
5. Finally, we will consider whether recent suggestions for reforming these institutions would lead to better economic outcomes.
6. Each module closes with a take-home exam in which you are asked to consolidate (and possibly extend) the knowledge you have acquired in the module.

I will assume that students know the basic principles of economics taught in the *Economic Issues and Policy* (ECO 101) course. However, I understand that students who take this course will come with a variety of backgrounds in economics. Please note that the initial lectures in each module are aimed to give you a basic knowledge of concepts in international finance, development and trade. These lectures are not going to provide you with a very analytical exploration of theories of trade, exchange rate determination, and development as covered in ECO351 (International Trade), ECO352 (International Finance), and ECO334 (Economic Development). If you have taken any of those courses, the initial lectures will be an opportunity for review.

2. Learning Outcomes:

At the end of this course, students are expected to:

- 1) Understand the fundamental economic principles that guide the IMF, the World Bank and the WTO.
- 2) Explain how these guiding principles have evolved over time, in light of political and historical events.
- 3) Engage in active discussion about the course material, being able to offer a critical perspective on whether the international economic institutions studied in this course have fulfilled their stated goals and mission.
- 4) Be able to make connections between the course material and current events.
- 5) Be able to identify the institutional websites and resources, mainly data, statistics, and publications. It is important to note that, besides the managing role of some of these IEI, most of them also provide invaluable analytic information and statistics for the public in general.

3. Course Readings:

There are no required textbooks for the course, but students will need to purchase a course packet containing case studies from the Harvard Business School. The course packet can be purchased online through the following link <http://cb.hbsp.harvard.edu/cb/access/9940800>. All other required and supplemental (optional) readings will be posted on moodle.

I also suggest that you read major news items concerning international institutions, e.g., from the *New York Times*, the *Wall Street Journal*, the *Financial Times*, or the *Economist*.

The following references are not required for this course but can provide you with more theoretical background on relevant concepts in international economics and development:

- Kenneth A. Reinert and Ramkishen S. Rajan (editors), *The Princeton Encyclopedia of the World Economy*, Volumes I and II, Princeton University Press, 2009. Available for consultation at the 1st floor (reference) of McCain library (Call Numbers:HF1373 .P75 2009 v.1 and HF1373 .P75 2009 v.2) or online (Call number: HF1373 .P75 2009eb)
- Thomas Pugel, *International Economics*, 14th edition, McGraw-Hill-Irwin, 2009
- Dominick Salvatore, *International Economics*, 10th edition, Wiley, 2010.
- Michael Todaro and Stephen Smith, *Economic Development*, 10th edition.

4. Professor Contact Information

Office: Buttrick G-29A
Office hours: Mondays and Wednesdays 1:30-3:00 and by appointment; if my door is open, please feel free to come in
Email address: pschneider@agnesscott.edu
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5. Course Requirements and Grading

Grades for this course are based on the following:

Three midterm take-home exams	60% (20% each)
10 Assignments (written & oral)	20% (2% each)
Class participation	20%

Grading Scale:

Numerical Grade	Letter Grade
93-100	A
90-92	A-
87-89	B+
83-86	B
80-82	B-
75-79	C+
65-74	C
60-64	C-
57-59	D+
53-56	D
50-52	D-
Below 50	F

Due dates for the assignments and take-home exams are given below. In addition to the three midterm exams, there will be an optional final paper (in lieu of a final exam) which is due on December 10 by 5 p.m. If a student chooses to turn in this final paper, I will drop the lowest of the three midterm scores. The optional final paper will follow the format of the take-home exams

Weekly assignments:

One required reading is assigned for each class (occasionally two shorter readings). In order for our discussions to be productive, it is crucial that you do the reading for each class in advance. To provide incentives toward this end, you are required to turn in written assignments based on the required readings. These assignments must be submitted online (through moodle) by midnight the night before class in which they are due. You should also bring a hardcopy of your assignment to be used in class.

Students are encouraged to work on the weekly written assignments with classmates. However, simply copying someone else's answers is in violation of the spirit of the college's honor code. Each student must turn in her own answer set and indicate on it which student(s) she worked with, if any. I suggest first trying the questions on your own and then working with a classmate or two. Students are encouraged to visit me for help on those assignments after making a good faith effort on their own.

Occasionally, you will be asked to prepare an oral assignment. This will require you to work individually or in groups to present material or participate in staged discussions with your classmates.

There will be 10 assignments that account for 20% of your grade (2% each). Detailed instructions for all the assignments will be posted on moodle at least one week in advance of the date they are due.

Class participation:

This course will be discussion-based, so regular attendance is mandatory and your grade will be partly (20%) based on class participation. As mentioned before, we read two, sometimes 3, articles or book chapters per week. Come to class prepared to pick the readings apart by reading each item on the required list and taking detailed notes while you read. You will be doing the talking, not me. To help matters I will distribute a list of questions/issues before each class; look this list over as you read and take notes on the materials, and start to develop your own preliminary answers to these questions.

Here are some general guidelines for how I will evaluate class participation (with due credit to Bob Kachelski, former professor in the Psychology Department):

Grades of "F" (0-6 points) mean that a student very rarely contributed to class discussion. Higher scores in this range are awarded for always looking attentive and appearing to be listening and engaged. There are many ways to participate and avoid this category: ask or answer a question, bring up a point from another reading, or get the discussion back on topic if it appears to be off track.

Grades of "D" (6-7 points) mean that a student participated only in a very limited way - maybe only once a class with a brief comment or question. Or a student may have contributed more, but actually hurt the discussion. These low grades are likely for students who rarely speak or whose comments seem irrelevant. Grades in this range are also likely for students who do not listen to or respond respectfully to comments made by others.

Grades of "C" (7-8 points) indicate that a student made one or two valuable contributions per class but was not actively engaged beyond that. To earn a higher grade than this, make sure to do the reading as carefully as you can. Here are some suggestions:

- Do a recap after you've finished the reading(s) and completed your assignment. Make an outline of the readings.
- Try to anticipate issues that might be raised in class. Write down page numbers and underline key passages in the texts related to those issues.

Grades of "B" (8-9 points) mean that a student not only contributed several of her own insights and comments in each class but also responded well to the comments and observations of classmates and helped to keep the discussion moving forward. Comments indicate that a student is not just talking to score points or boost her grade but is truly engaged in the class. To improve upon this grade, make sure that your contributions are as sophisticated as possible, with well-developed logic and an understanding of the complexities of the issues raised in the reading(s) and by other students.

Grades of "A" (9-10 points) mean that a student contributed regularly throughout the semester, gave her full attention to others (listening more than talking), and responded analytically to other comments. Comments were consistently insightful and informed by the reading(s), and a student helped to keep the discussion at the high level expected. Comments indicate that a student read carefully and critically and thought seriously about the issues raised in the reading(s).

Exams:

The first, second and third take-home exams are due on October 04, October 27, and November 29 at the beginning of class respectively. You have to submit a hardcopy (in class or delivered to my office before the due date) as well as an electronic version (submitted through moodle). Both versions should be identical.

As indicated above, there is an optional final paper (in lieu of a final exam) which is due on December 10 by 5 p.m. This final paper will follow the format of the previous take-home exams and will draw on all the material covered in class. As before, you have to submit a hardcopy (delivered to my office) as well as an electronic version of the paper submitted through moodle.

There are no extensions to the above deadlines (unless in cases of extreme medical or family emergencies). You will be deducted 10 points (out of 100) per each day you delay turning in your take-home exams or final paper. Days late will be counted from the time it was due on a 24 hour basis (i.e., a day runs from 10:01 am to 10:00 am the next day) until I receive it, including Saturdays and Sundays.

If you think a mistake was made in grading your exam, please discuss it with me outside of class during office hours or by appointment as soon as possible. Always check that your points were added up correctly. I reserve the right to re-grade your entire exam, not just the question in dispute.

If you require accommodation on exams, please have the Office of Academic Advising let me know as soon as possible.

6. Lateness and Absences

Lateness: Students should make every possible effort to be on time for class. If a student is late, she should come in quietly and sit in the back. She should wait until the end of class to receive any materials that were returned or given out at the beginning of class. The student is responsible for any missed information. I take attendance at the beginning of each class. Students who arrive after that but within the first half of the class period are considered late. Three late arrivals equals one absence.

Absences: Attendance at all class sessions is expected, and attendance will be taken each class. After 3 absences, a student's final grade will be lowered by 5 percent for each additional absence. **A student who misses more than 6 class sessions should expect to fail the course.**

Late Assignments: There are no excuses for late assignments to receive credit. Students who must miss a class when an assignment is due should make sure that they submit it early through moodle.

Missed Exams: If a student does miss a midterm, the make-up exam will be the optional final paper. If a student misses more than one exam without an extraordinary reason, her final grade will be reduced proportionately. There are no make-up tests.

7. Tips and Suggestions

- Courtesy toward your instructor and your fellow students is expected. This includes not disrupting class by being late, having your cell phone go off or talking to other classmates during lecture. Please do not text message or eat during class. Having a beverage is fine.
- I advise against using laptops or tablets during lectures and classroom discussions. Having a laptop or a tablet in front of you will prevent you from actively participating in class discussions.
- For some topics, I have a list of supplemental readings. These readings are not required for you to complete the assignments or engage in classroom discussion. However, they may be helpful in bringing new insights to your take-home exams.
- I strongly encourage you to visit the Writing Center for help with your written assignments and take-home exams.
- Tolerance of different opinions is essential to your learning experience in this course. You are here to consider multiple points of view. We aim for free and easy discussion. You can't understand your own views if you don't understand the opposing views - for that you have to hear them. If you act so that it shows you are listening to other points of view, we will create a good atmosphere for people to express their opinions. Be inviting of other points of views and you will be better at persuading people to your view. Who knows, maybe you will change your own.
- Active participation is considered an integral aspect of the course. Remember: the more you participate, the more you learn!
- Finally, I cannot stress enough how much I support ASC's honor code and frown on cheating on exams and on plagiarism. Doing so will result in my full pursuit of ASC's honor court process. Students should pledge all of the work for this course.

8. Teaching Evaluations: Your feedback on the course is extremely valuable to me, the department, and the administration. In particular, I take your comments very seriously and use them to improve the course the next time I teach it. You are responsible for completing an evaluation of the course at the end of the semester. I will provide more details later.

Course Outline & Readings:

Required and supplemental (optional) readings for each topic are listed below and will be posted on moodle (unless otherwise noticed). These dates & readings are subject to change. Make sure that you check the course's moodle site regularly for updates.

Introduction and Overview (Aug 25 & Aug 30):

“International Economic Institutions and Issues since World War II” in Gerber, James *International Economics*, 5th edition, chapter 2, 2011.

Supplemental (Optional): “International Institutions,” by Lakshmi Gopalan, Harvard Business School Case Study 9-796-116, February 13, 1996. (Course packet)

Module 1: The IMF (Aug 30 – Sep 29)

1.1 What are exchange rates? (Aug 30)

“Some basic concepts: foreign exchange, the foreign exchange rate, payment and settlement systems”, by Sam Y. Cross, *All About...The Foreign Exchange Market in the United States*, Chapter 2, Federal Reserve Bank of New York, 1998.

Assignment 1 is due on Aug 31 by midnight.

1.2 Theories of Exchange Rate Determination (Sep 01)

“The Determination of Exchange Rates”, by Sam Y. Cross, *All About...The Foreign Exchange Market in the United States*, Chapter 11, Federal Reserve Bank of New York, 1998.

The Economist's website on the Big Mac Index:
<http://www.economist.com/markets/Bigmac/index.cfm>

Labor Day is on September 05

1.3 Exchange Rate Regimes (Sep. 06)

“Exchange Rate Regimes”, by Rafael Di Tella & Ingrid Vogel, *Harvard Business School Case Study* 9-704-038, June 02, 2005. (Course packet)

Assignment 2 is due on Sep 07 by midnight.

1.4 Origins of the Bretton Woods System (Sep 08)

“Evolution of the International Monetary System”, by Sam Y. Cross, *All About...The Foreign Exchange Market in the United States*, Chapter 10, Federal Reserve Bank of New York, 1998.

1.5 The IMF: Mission, Structure & Objectives (Sep 13)

“International Institutions”, by Lakshmi Gopalan, *Harvard Business School Case Study* 9-796-116, February 13, 1996. (Course packet)

Supplemental (Optional):

“The IMF at a Glance”, May 30, 2008.

“How the IMF Promotes Global Economic Stability”, April 08, 2008

1.6 Has the IMF succeeded in maintaining the stability of the international monetary system?

Assignment 3 is due on September 14 by midnight.

1.6.1 The collapse of the Bretton Woods System of Exchange Rates (Sep 15)

"The Decline of the Dollar: 1978," by Michael G. Rukstad, *Harvard Business School Case Study* 9-384-116, 1999. (Course packet)

1.6.2 The Asian Financial Crisis (Sep 20, Sep 22)

“Financial Crisis in Asia: 1997-1998 (Abridged)” by Huw Pill, Rafael Di Tella and Jonathan Schlefer, *Harvard Business School Case Study* 9-709-004, 1998. (Course packet)

Movie - "The Crash" (Frontline/PBS): on reserve at the library. Transcripts of full interviews are available at the movie's website: <http://www.pbs.org/wgbh/pages/frontline/shows/crash/>

Assignment 4 is due on September 21 by midnight.

1.6.3 The Great Recession of 2007-2010 (Sep 22, Sep 27)

“The Great Recession, 2007-2010: Causes and Consequences” by Danielle Cadieux and David W. Conklin, *Harvard Business School Case Study* (Course packet)

1.7 Closing arguments (Sep 27)

IMF (2009) *Initial Lessons of the Crisis for the Global Architecture and the IMF*. Strategy, Policy, and Review Department, IMF.

Supplemental (Optional):

A New Bretton Woods: Rethinking International Economic Institutions and Arrangements, by C.R. Neu, RAND Summer Institute, 1993 (Chapter 2).

“Conflicting Demands on the International Monetary Fund”, by Anne O. Krueger, *The American Economic Review*, Vol. 90, No. 2, Papers and Proceedings of the One Hundred Twelfth Annual Meeting of the American Economic Association (May, 2000), pp. 38-42

The first take-home exam is due on October 04 at the beginning of class.

Module 2: The World Bank (Sep 29 – Oct 20)

2.1 A Historical Overview (Sep 29)

“The World Bank in Historical Perspective”, by Michael Gavin, Dani Rodrik, *The American Economic Review*, Vol. 85, No. 2, Papers and Proceedings of the Hundredth and Seventh Annual Meeting of the American Economic Association Washington, DC, January 6-8, 1995 (May, 1995), pp. 329-334

2.2 The World Bank: Mission, Structure & Objectives (Oct 04)

World Bank Group Brochure -

<http://siteresources.worldbank.org/EXTABOUTUS/Resources/wbgroupbrochure-en07.pdf>

2.3 Foreign Aid versus Debt Relief

Assignment 5 is due on October 10 by midnight.

2.3.1 Background (Oct 06, Oct 11)

“Aid Effectiveness – Opening the Black Box” by Bourguignon F. and Sundberg M., World Bank, 2007.

“Can Foreign Aid Buy Growth?” by William Easterly, *The Journal of Economic Perspectives*, Vol. 17, No. 3 (Summer, 2003), pp. 23-48

“Debt Relief” by Arslanalp, Serkan and Henry, Peter Blair. *Journal of Economic Perspectives*, Winter2006, Vol. 20 Issue 1, p207-220

No class on October 13 - Fall Break

Assignment 6 is due on October 17 by midnight.

2.3.2 Case Study/ Classroom Simulation (Oct 18)

“Aid, Debt Relief, and Trade: An Agenda for Fighting World Poverty” by Laura Alfaro, Eric Werker, and Renee Kim – Harvard Business School – Case Study 5-707-049, February 14, 2008. (Parts A and B)

Supplemental (Optional):

“Aid and Growth”, by Steven Radelet, Michael Clemens, and Rikhil Bhavnani, *IMF Finance and Development*, September 2005.

“Aid Policies and Growth” by Craig Burnside and David Dollar. *American Economic Review*, Vol. 90, n.4, 2000, pp. 847-868.

“Aid Policies and Growth: A Comment” by William Easterly, Ross Levine and David Roodman. *American Economic Review*, Vol. 94, n.3, 2004, pp. 774-780.

“Grant versus Loans for Development Banks” by Jeremy Bulow and Kenneth Rogoff. *American Economic Review*, Vol. 95, n.2, 2005, pp. 393-397.

2.4 Concluding Arguments (Oct 20)

“The Future of the IMF and World Bank: Panel Discussion”, by Stanley Fischer, Allan H. Meltzer, Jeffrey D. Sachs and Nicholas Stern, *The American Economic Review*, Vol. 93, No. 2, Papers and Proceedings of the One Hundred Fifteenth Annual Meeting of the American Economic Association, Washington, DC, January 3-5, 2003 (May, 2003), pp. 45-50

The second take-home exam is due on October 27 at the beginning of class.

Module 3: The World Trade Organization

3.1 Why do economists like free trade? (Oct 25, Oct 27)

“Economic Gains from Trade: Comparative Advantage,” by Robert E. Kennedy and Nancy F. Koehn, *Harvard Business School Case Study* 9-796-183, 1996.

“Economic Gains from Trade: Theories of Strategic Trade,” by Robert E. Kennedy, *Harvard Business School Case Study* 9-796-184, 1996.

3.2 Welfare Implications of Trade Restrictions (Nov 01)

"How Costly is Protectionism?", by Robert Feenstra, *Journal of Economic Perspectives*, v.6, n.3, p.159-178, 1992.

Supplemental (Optional):

"International Trade: Why we don't have more of it?" by Edith Ostapik and Kei-Mu Yi, Federal Reserve Bank of Philadelphia *Business Review*, Third Quarter, 2007.

Assignment 7 is due on November 02 by midnight.

3.3 Historical Overview of the GATT/WTO (Nov 03)

“The World Trade Organization”, by David Moss and Nick Bartlett, *HBS Case Study*, 9-703-015, 2002.

Assignment 8 is due on Nov 07 by midnight.

3.4 The WTO: mission, structure and objectives (Nov 08)

“The World Trade Organization,” by R. Blackhurst, in The Princeton Encyclopedia of the World Economy, Vol. II, pp. 1185 -1191, 2009.

Supplemental (Optional):

“Accession to the World Trade Organization,” by R. S.J. Evenett and C.A. Primo Braga, in The Princeton Encyclopedia of the World Economy, Vol. II, pp. 1191 -1196, 2009.

“World Trade Organization, Dispute Settlement” by N.P. Meagher and D. Palmeter, in The Princeton Encyclopedia of the World Economy, Vol. II, pp. 1196 -1202, 2009.

3.5 The Doha Round of Trade Negotiations (Nov 10)

Bhagwati, J.; Sutherland, P.; et al. (2011) *The Doha Round: Setting a Deadline, Defining a Final Deal*. Interim Report, January 2011.

Assignment 9 is due on Nov 14 by midnight.

Assignment 10 is due on Nov 16 by midnight.

3.6 Trade disputes in agricultural goods

3.6.1 Background (Nov 15)

"Agricultural Liberalization and the Developing Countries: Debunking the Fallacies" by Arvind Panagariya. December 20, 2004.

3.6.2 Classroom Simulation (Nov 17)

Collection of news articles compiled by Prof. Schneider (a detailed list with links is available on moodle).

Supplemental (Optional):

Delivering on Doha: Farm Trade and the Poor by Kimberly Ann Elliott, Institute for International Economics, July 2006. (Chapter 1)

“Negotiating Trade Agreements” (chapter 2) in Case Studies in US Trade Negotiation, Vol.1, by Devereaux, Lawrence and Watkins.

“Grain Drain: The Hidden Cost of U.S. Rice Subsidies”, Cato Institute, November 16, 2006.

3.7 Closing Arguments (Nov 22)

"Is there any point to the WTO?" Aug 4th 2005, The Economist print edition.

“The Poor’s Best Hope” by J. Bhagwati, The Economist, June 20th, 2002.

Re-read: Bhagwati, J.; Sutherland, P.; et al. (2011) *The Doha Round: Setting a Deadline, Defining a Final Deal*. Interim Report, January 2011.

Nov 24- 27 - Thanksgiving Break

The third take-home exam is due on November 29 by 5 p.m..

Conclusion (Dec 01)

An optional final paper (in lieu of a final exam) is due on Dec 10 by 5 p.m.