

Public Policy 731
Macroeconomics and Policy Assessment

Professor Jack High
Spring Semester 2003
ARL 219, Th, 7:20p.m.–10:00 p.m.
Office Hours: Th, 4:☺– 6:☺ p.m. and by appointment

Arlington, Commerce Hall, Rm 261
Tel: 703 993-1864 office
703 392-3505 home
E-mail: highdj@mindspring.com

Course Objective: To understand the macroeconomic theories and policies that guide modern decision making. We will devote considerable time to analyzing economic problems as seen through the eyes of responsible decision makers. Although many of the cases are set in the U.S., we will also spend time examining

Texts: Michael Ruckstad, *Macroeconomic Decision Making in the World Economy* and various case studies as enumerated below.

Pedagogy: Instruction will be a combination of lectures and discussions of policy cases. Case discussions require everyone to come to each class fully prepared to discuss the issues raised by the assigned readings. The quality of learning depends in large measure on everyone’s preparation for and participation in the case discussions.

Examinations: There will be one mid-term and one final examination.

Grading: Grades will depend on contributions to case discussions (30%), the mid-term examination(30%), and the final examination (40%).

Schedule:*

Date	#	Subject	Reading
1/23	1	Introduction	M.Ruckstad, Chapter 1; Economics, Reading Data Exhibits
1/30	2	National Accounting, Analysis	R. Kennedy, Income Accounts; Chile: Latin America Tiger
2/6	3	Money & Monetary Policy	M. Ruckstad, Chapter 2 & Data Exhibits
2/13	4	Fiscal Policy	M. Ruckstad, Chapter 8, Kennedy Tax Cut & Data Exhibit
2/20	5	Supply Side Policies	M. Ruckstad, Chapter 9, Reagan Plan
2/27	6	Balance of Payments	M. Ruckstad, Chapter 14, Kennedy and BOP
3/6	7	Mid-term Examination	
3/13		Spring Break	
3/20	8	Exchange Rates	M. Ruckstad, Chapter 16; Carter and Declining Dollar
3/27	9	International Financial System	R. Kennedy, Currency Crises: Bretton Woods to Asia
4/3	10	Domestic Financial System	R. Vietor, Japan “Free, Fair, Global”
4/10	11	Economic Growth	F. Reinhart, Singapore, Productivity Growth
4/17	12	Social Security Reform	R. Kennedy, Social Security Reform
4/24	13	Environmental Policy	F. Reinhart, Forest Policy in Malaysia
5/1	14	Review	
5/8	15	Final Exam	

*subject to revision

Assigned Readings and Questions:

Class #1:

Ruckstad, **An Introduction to Economics**, pp. 5-21

Ruckstad, **How to Read Data Exhibits**, pp. 22-36

Class #2:

Robert Kennedy, **National Income Accounting**, 9-797-075 Introduction to the basic accounts.

Robert Kennedy, **Chile: The Latin American Tiger?** 9-798-092 Following a military coup in 1973, Chile pursued a distinctive economic strategy that led to its status as a star of Latin American economies. In 1997, President Ruiz-Tagle considers whether joining a regional free-trade group would continue Chile's progress.

1. What was Chile's development strategy after 1973? How did it differ from the strategies advocated by the IMF?
2. Was Chile under Pinochet a success story?
3. Should other countries follow Chile's example?
4. Should Chile join a regional trade group? Why or why not?

Class #3

Ruckstad, **U.S. Financial Crisis of 1931**, pp. 38-48

Ruckstad, **Note: Money and the Determination of Income**, pp. 49-63.

Ruckstad, **Data on U.S. Economy through 1941**, pp. 600-632

These materials introduce the underlying economic concepts of the money creation process, the banking system, and how the money supply affects aggregate demand. We also explore the monetary policies, tools, and role of the Federal Reserve System, and its performance during the early years of the Great Depression.

1. What is money?
2. How is money created?
3. Evaluate the goals of the Federal Reserve in the 1920s and in the 1930s.
4. How did the money supply change between 1929 and 1933 and why? Did the Fed's actions create the Depression?
5. What actions might you yourself have taken as a member of the Fed? When? Why?

Class #4

Kennedy, **Fiscal Policy: Managing Aggregate Demand**, 9-797-076

Ruckstad, **The Tax Cut of 1964**, pp. 236-256

Ruckstad, **Data on U.S. Economy (through 1970s)**, pp. 632-674

In this session we learn the Keynesian principles of managing aggregate demand. We use these ideas to examine the intellectual, political, and economic underpinnings of the landmark tax legislation begun by President John F. Kennedy and carried through Congress by his successor, Lyndon B. Johnson. Our aim is to understand the economic thinking that grew out of the Great Depression and reached its climax in the 1964 legislation.

1. What are the assumptions of Kennedy, Heller, Keyserling, and other players regarding the proposed acts to cut individual and corporate income taxes?
2. How well did Kennedy manage the political process required for passing his proposal?
3. Evaluate the tax cut package actually passed in 1964. By what criteria should its success be measured? (Use the exhibits to support your conclusion.)

Class #5

Ruckstad, **The Reagan Plan**, pp. 268-300

In 1981 President Reagan is a new manager confronting a set of problems that seem more intractable than ever. This case allows for an analysis of Reagan's program, and especially the economic assumptions that underlie particular policy measures. We also introduce concepts in supply-side economics.

1. Evaluate the situation facing President Reagan in February 1981.
2. How was the Reagan strategy supposed to work, in theory? Does it address the causes of U.S. economic problems?

3. What assumptions -- economic, social, political and international -- did the President make in his speech? To what extent are they valid?

Class #6

Ruckstad, **Kennedy and the Balance of Payments**, pp. 460-482

Ruckstad, **Note: An Introduction to the Balance of Payments**, pp. 483-49

Our objective in this session is to introduce balance of payments analysis, an important tool in for understanding international trade and policy. A technical note and exercise provide analytical tools. The case setting is the Kennedy Administration's attempt to achieve satisfactory tradeoffs among the competing goals of world political and military leadership, commercial and industrial supremacy, and avoidance of balance of payments deficits.

1. Calculate and analyze the U.S. payment balances for 1960 using the work sheet and Exhibits 1 and 2 on pp. 475-479.
2. What are Kennedy's balance of payments problems and how are they reflected in the statistics?
3. What policy options are available to Kennedy?

Class #7

Mid-Term Examination

Class #8

Kennedy, **Exchange Rate Terminology and Analytics**, 9-701-121

Kennedy, **Exchange Rate Exercise**, 9-701-122

Ruckstad, **The Decline of the Dollar**, pp. 508-528

In this session we examine factors that affect the exchange rate for a nation's currency. What is an exchange rate? A real exchange rate? What determines the value of one currency against another? What is the meaning of a strong or weak currency? What should governmental policy towards exchange rates be? All these questions confront President Carter in 1978, as he tries to decide whether to strengthen the dollar by more active intervention.

1. What were the primary forces accounting for the decline of the dollar during 1977 and 1978? How flexible was the exchange rate system during this period?
2. Why did the Carter administration face an "inescapable dilemma" between a strong dollar and a "robust economy," while Germany and Japan had both a strong economy and a strong currency?
3. As an adviser to the Carter administration, be prepared to evaluate the strengths and weaknesses of the options available to the President for dealing with decline of the dollar in late October of 1978.

Class #9

Kennedy, **Currency Crises**, 9-799-088

Kennedy, **Note on Currency Crises**, 9-799-089

This case explores why currency crises occur and why they are so difficult to predict. The case reviews the onset of six historical crises, then describes and presents data on five unidentified countries, three of which experienced a crisis and two of which did not. The note presents several theories about the causes of crises.

1. Which of the five unidentified countries described in the case are on the verge of a crisis? Why?
2. What factors make a currency crisis more likely to occur? Why?
3. Why was Argentina able to survive 1995 in the wake of Mexico's currency crisis?
4. Why are crises so difficult to predict?

Class #10

Japan: "Free, Fair, Global?" 9-798-083 This case examines the economic performance of Japan between 1971 and the spring of 1998, especially the long period of stagnation that began in 1991. The case dwells on the institutional rigidities that have developed in the Japanese polity and Prime Minister Hashimoto's strategy for restoring growth to Japan.

1. How did Japan perform between 1971 and 1991? How do you explain this performance?
2. Why has Japan stagnated since 1991? Why have monetary policy and fiscal policy failed?
3. Is Hashimoto's plan likely to help?

Class #11

Forest Reinhart, **Singapore**, 9-793-096

Reinhart, **Accounting for Productivity Growth**, 9-794-051

Understanding the causes of economic growth, and implementing policies that achieve growth, are two of the most difficult issues in economics. The note on productivity growth defines some basic terms and explains how growth and productivity are measured. The case on Singapore describes how that country has achieved an almost unprecedented rate of economic growth over a twenty five year period. Governed closely by Lee Kuan Yew, Singapore benefited from an unusual mix of macroeconomic and microeconomic policies. However, in the early 1990s the island nation, under new leadership, faces diminishing returns to its policies and new social issues.

1. How do you explain Singapore's performance since 1965? Why has it outperformed most other developing countries?
2. What is the role of savings and investment in Singapore's development? How has productivity growth been attained, and how has it contributed?
3. In August 1992, should the Singaporean government be changing its strategy? If so, why and how? If not, why not?

Class #12

Kennedy, **Social Security Reform**, 9-799-011

The reform of government pension systems has been a pressing policy issue for many governments during the past decade. This case examines the economics and politics of reform in the United States.

1. Does the public pension system in the U.S. work well?
2. Should the U.S. reform its social security system. If so, which reforms should it adopt?
3. Assuming that the U.S. moves toward a forward funded system
 - a. how should the cost of transition be financed?
 - b. who should control the funds accumulated? Why?
4. If aggressive reforms were implemented, who would win and lose? What are the likely political and economic effects of aggressive reform?

Class #13

Reinhart, **Forest Policy in Malaysia**, 9-792-099

This case examines the sustainability of resource-based growth, especially where it involves a global "public good." Mahathir bin Mohamed, Malaysia's prime minister, is under intense pressure to stop timber cutting in the rain forest. But domestic political and economic pressures and institutions have made this difficult.

1. How would you rate Malaysia's economic and political performance over the past decade? What accounts for its successes and failures?
2. What role have natural resources played in the country's development? What role will they play over the next ten to twenty years?
3. What is happening in the Malaysian forest products sector, and why is it happening?
4. Is forest loss a problem in Sarawak, from the perspective of (a) the Sarawak Chief Minister, (b) Mahathir bin Mohamed, (c) Bill Clinton, (d) the head of a western environmental group? If you were each of those people, what changes in forest regulation, property rights, international trade laws, or other governmental policies would you like to see in Sarawak? Is it likely that those changes will occur?

Class #14

Review

Class #15

Final Examination