The George Washington University  
The Elliott School of International Affairs  
Department of Economics  

Syllabus  

ECON 295-10  
Policy Options in Response to Macroeconomic Crises  

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Office hours: Monroe 308; Mondays, 4:00 – 5:00 p.m., 7:00 – 8:00 p.m., and by appointment.  

Course description  

This course will provide a practical, quantitative exercise in identifying potential macroeconomic weaknesses/crises and in designing short-run policy responses to them. Each student will select a developing, emerging-market, or transition economy, and a time period; calculate indicators to be used in assessing macroeconomic balance; and recommend a set of policy measures to move the economy toward a desirable outcome. Students will write papers describing their results.  

Class sessions and pre-requisites  

Regular class sessions will be in lecture format, devoted to economic theory and policy applications, and to quantitative and technical aspects of indicators useful for assessing macroeconomic developments. In addition, there will be a number of optional supplementary sessions, similar to group office hours, to provide assistance with the quantitative techniques to be used, to give comments on portions of students’ preliminary drafts of the research paper, to answer questions, and (optional) to accommodate students who wish to present their papers orally for group discussion and critique. As far as possible, the supplementary sessions will meet at a time consistent with the schedules of all those students who might like to attend some of them.1

1Two of the early supplementary sessions had to be scheduled before the first week of classes, at least tentatively, and are set for Friday evenings, Jan. 18 and Feb. 1, from 5:10 to
Economics lectures will focus on relevant economic theory but will emphasize institutional and policy issues, including special features of developing countries, strategies for achieving internal and external balance, the problem of chronic inflation, the use of the exchange rate as a nominal anchor and other strategies intended to influence inflation expectations, capital flows and currency crises, the limits on government borrowing, guidelines for fiscal adjustment, indirect vs. direct monetary instruments, and foreign currency substitution.

Prerequisites are undergraduate macro principles and international finance or an equivalent background, and basic skill in Excel or other spreadsheet software. Intermediate macro theory may be an advantage and obviate attending some or all of the supplementary sessions. Technical portions of the material have been designed to require no math beyond algebra.

Reading

A customized course packet of readings will be available in the GWU bookstore. There is no textbook for this course.

Readings are listed below by major topic. Those listed as "primary" cover essential material and are required reading for this course. For some topics there are also readings marked “supplementary,” which are optional though generally quite useful. Readings not in the

7:00 in Room B1 in Gelman Library. These sessions will deal with retrieving macroeconomic time series from a database, importing the series into an Excel spreadsheet, and deflating nominal series to obtain series in real terms. Detailed instructions for this part of the work are given in the Research Project Notes, also posted in Blackboard and to be handed out in hard-copy form during the first class session. Depending on students’ backgrounds, attendance at the supplementary sessions may be unnecessary for some students, perhaps unnecessary for all.

Students who opt to attend these two sessions in the Gelman computer lab will need to bring some form of external storage medium—a formatted diskette or USB key (memory stick). Students will also need a G1 Account (if they do not already have one). For students who are not enrolled full-time at GWU, you will need to obtain a GWU e-mail account first. (For this, try visiting email.gwu.edu (no w’s), but in case of glitches or administrative delays, do this ASAP, well before the day of the lab. Contact me for help if necessary. WLH)

Once an e-mail account, ID, and password have been established, opening a G1 account is simple: go to my.gwu.edu (no w’s); put “g1” in the blank search box; and click on the right arrow to the right of the blank search box. The first item on the Google results page will indicate where to go.

To search the Aladin Catalog for the list of reserve items for this course and their call numbers, supply only the instructor’s name, not the course number. From the Gelman home page, choose Course Reserves, then Search Aladin Catalog, then (from drop-down menu), GW - Hemphill, William. If you also specify “ECON 295” in addition, Aladin will be unable to find the reserve items list.
course pack will be available in hard-copy format in Gelman Library. Revisions may be made in this reading list during the course of the semester.

Class attendance

The readings and lectures are complements rather than substitutes. The primary readings come from diverse sources, some intended for practitioners of macroeconomic policy and/or for political consumption, and some are more dense and opaque than typical textbook material. Part of the role of the lecturer in this course is to provide clarification and explanation. Students are strongly encouraged to attend all lectures.

The “supplementary” sessions are optional, but some of them may well be important for students with limited background in macroeconomics and quantitative techniques and who aim to attain not less than minimal professional competence in the areas covered by this course. Other supplementary sessions may be helpful in providing students a greater degree of comfort with the material. During the first meeting of the course, an effort will be made to find a weekly time slot convenient to all interested class members, for use in those weeks in which a special session could be useful. However, satisfactory performance in the course will not require attendance at these sessions, at least not for students who have fulfilled the prerequisites of the course (and remember the material).

Toward the end of the semester, optional sessions may also be used to accommodate student presentations and discussion by the class if there are students who decide to present. See also below.

Research project

Students in this course will prepare a quantitative assessment of the macroeconomic performance in a country of their choice in a recent period. They may choose a developing country, an emerging-market economy, or a transition economy, and a time period of around six years in length. The instructor will play an active role in assisting students locate appropriate data and country sources. The overall project, to be written up in the form of a paper, will be comprised of a database, calculated indicators of macroeconomic developments, an assessment of macroeconomic developments and performance in the chosen time period based on the indicators and readings, and the design of a consistent set of policies to achieve specified macroeconomic objectives. The paper may also include tables,
charts, and a bibliography. For a fuller discussion see Research Project Notes, distributed separately.

The text of the final paper must be submitted in electronic form, accompanying the full version in hard-copy form. The e-copy may be used for a “textual similarity review” by computer software and other methods. Students are expected to adhere to the standards of conduct outlined by the GW Code of Academic Integrity, http://www.gwu.edu/~ntegrity/code.html. Students are strongly urged to pay scrupulous attention to the rules for citing work by others, whether published or unpublished, that may be quoted, paraphrased, or used in any way in their papers.

The penalties for plagiarism are very severe. In this course, the policy is to turn over to the Academic Integrity Council all student materials suspected of containing plagiarized passages, including cited and un-cited paraphrased versions of the writings of others. If the Academic Integrity Council determines that a significant breach of academic ethics has occurred, the student will be given a grade of “F” for the course by the instructor in addition to whatever penalties may be imposed by the Council. Further discussion of this important topic will occur during the first class session.

On the other hand, extensive citation of others’ works in a student’s paper may indicate that not much of the content of the paper is the student’s own work. Thus, a student paper characterized by numerous citations, sentence after sentence, while not plagiarism in that no intentional deceit is involved, will not in general receive a passing mark.

Prospective due dates for major submissions are as follows:
  Class 2, Jan. 28: choice of country and time period;
  Class 5, Feb. 25: hard copy and e-file of data base and calculated indicators;
  Class 7, Mar. 10: last date to notify if you decide to present your paper in a class session; see below;
  Class 8, Mar. 24: draft of assessment section; note: this is the first day after the end of Spring Break;
  Class 9, Mar. 31: draft of program section;
  Thursday following Class 10, April 10: final version due; place hard copies in instructor’s Economics Department mailbox, Monroe Hall, by 12:00 noon; send electronic copies by e-mail (preferred) or place diskette in instructor’s mailbox.

Assignments are due at the beginning of class on the specified dates. The schedule of due dates may be revised to accommodate students’ preferences for making oral presentations. The purpose of these submissions of drafts is to allow for instructor comments on work in progress; problems that are eliminated before the final version do not count against a student’s grade. The instructor is not committed to read or comment on work handed in late and in general will not do so. Regarding the due date for the final version of the paper, the penalty for a late submission is one letter grade per time period until the subsequent class meeting, or fraction thereof, and other penalties may apply.
Examinations

There will be a mid-term exam covering readings, lectures, and class discussions during the first half of the session on **March 10**. The final exam, to be given during the period to be set by the Registrar, will be similar in content but may cover material from the entire course and could include questions on aspects of the student’s own paper. Exams will be without books or notes. In general, late exams will not be given, and requests for make-up exams will be resisted strenuously, but if there are compelling circumstances, an exam may be taken early by arrangement with the instructor.

Optional presentations

A student may choose to present her/his country paper in a general session of the class. The objective of the presentation would be to draw together the main elements of the macroeconomic assessment, and of the recommended policy response, and to submit them to a critical discussion by class members and the instructor. If a student selects this option, he/she will receive an extra 1/3 grade point on the grade for her/his paper (a B would become a B+) if the presentation is well done; there must be evidence of additional work on the presentation for this grade increase. However, the presentations will probably have to take place during one of the supplementary sessions since all of the regular sessions are needed to cover the lecture topics mentioned above. Moreover, a student who opts to make a presentation of her/his paper is also obliged to attend presentations (in supplementary sessions) made by other students and to give comments. The deadline for notifying the instructor of a wish to present is the class on March 10 (the date of the mid-term exam).

Grading

The mid-term exam will count 20 percent, the final exam 40 percent, and the paper will count 40 percent.

Program:

Part 1. Orientation

**Primary reading**


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3In case of illness, the supervising physician must explain in writing, and I must have the opportunity to visit the physician’s office to confirm the details (it must be a local physician, and you must waive your right to privacy with respect to the condition that prevented you from taking the exam with the class).
Supplementary


Part 2. Internal balance

Primary reading

Review the discussions of the goals of stabilization policy, equilibrium between money demand and supply, and the income-expenditure model in a textbook for international economics, international finance, or macro theory. The following two will be placed on reserve at Gelman: (1) William J. Baumol and Alan S. Blinder, Economics: Principles and Policy, 8th edition (New York: Harcourt Brace Jovanovich, 2006), Chapters 24 - 27 and 29 - 32; principles text; does not cover IS-LM. (2) Jeffrey D. Sachs and Felipe Larrain B., Macroeconomics in the Global Economy (Englewood Cliffs, New Jersey: Prentice Hall, 1993), Chapters 7 (especially Sections 1, 2, 4-6), 8 (1-3), 9 (1,2,4,5), 12; intermediate text, more technical; does cover IS-LM. A supplementary session will be devoted to surveying the IS-LM analytical construct for those unfamiliar with it.


International Monetary Fund, “Introduction” in International Financial Statistics: Yearbook (Washington: IMF, various years). In the 2005 Yearbook, for example, the Introduction appears on pp. v-xxv. Just skim this material to be aware it is here in case you wish to consult it in connection with calculating your macro indicators. For past years, which can be checked out, the IFS Annual can be found at HG3881.I647 (data volume) and HG3881.I6262 (notes to country data, in this separate volume starting 2003, shelved one shelf above the data volume in Gelman). I will place volumes for 2005 and 2006 on reserve; having the very latest volume (2007) in general is not an important advantage, but it is available in the Reference Section of the Library.

Supplementary


Richard Cooper, “The Political Economy of Stabilization and Adjustment,” Chapter 12 in Little and others, Boom, Crisis, and Adjustment.

Mohsin Khan, “Macroeconomic Adjustment in Developing Countries:  A Policy Perspective,” World Bank Research Observer, January 1987.4


Federal Reserve Bank of Kansas City, Rethinking Stabilization Policy (Kansas City: Federal Reserve Bank, 2002); especially Gordon H. Sellon, Jr., “Introduction,” and

4Some articles in this list may be available electronically from databases rented by Gelman Library. This is not one; the database in Gelman containing this journal begins only with 1989.

While retrieval from these databases is potentially fraught with revisions in website procedures, unannounced changes, and electronic glitches, if you want to try this option, go to the Gelman home page, www.gwu.edu/gelman ; then to the Aladin Research Portal; then to GW e-Journals (or to WRLC e-Journals, the entire consortium).

Using the article by Easterly et al., from near the bottom of the next page, as an example, type the journal title, Economic Policy, into the box provided on the e-Journals screen; choose “exact”; and GO. Click on the title (journal title) in the list (list of only one item) provided. Pick the JSTOR database from the options provided next since it contains issues from 1996, the date of this article. Search this journal using the Article Locator by typing in some title words and month and year. Click on the correct title when it appears on the screen. After you scroll to the bottom of the first page, click on Next Page to read or print further, and so forth.

Your university ID (G + 8 digits) must be activated by the Circulation Desk staff at Gelman (202-994-6840) before you can successfully log in to Aladin. For part-time students, you will need to acquire a GWorld card (it has your Library barcode on the back).

[Personally, I find it enormously frustrating and a waste of time to jump through all these hoops. Hard copies are on reserve at Gelman. Your comments regarding options (Blackboard) are invited. WLH]
Christina D. Romer and David H. Romer, Chapter 5, “The Evolution of Economic Understanding and Postwar Stabilization Policy” (skim). This collection of papers is quite relevant to the issues raised in this course except that the authors are writing about an industrial country, the United States.

Part 3. External balance; the case of currency overvaluation

**Primary reading**

Review the determination of the level of the nominal exchange rate in the context of the demand for and supply of foreign exchange, in an international economics text (not Krugman-Obstfeld). For example, see chapter 24 in Appleyard-Field. Better: Sachs-Larrain, Chapter 10 (especially Sections 1, 6, and 9).


**Supplementary**


Part 4. Inflation; the case of inertial inflation with high inflation expectations

**Primary reading**


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10 In about 2006, the name was changed to “Peterson Institute of International Economics.”

11 Available in the JSTOR database in Gelman/Aladin.


**Supplementary**


\(^{12}\) See preceding footnote.


Part 5. Capital flows and the balance sheet model; the case of currency mismatching, and currency and banking crises

**Primary reading**


**Supplementary**


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5Available on-line in the database Academic Search Premier. Search using the titles of chapters of the Survey: “A Cruel Sea of Capital,” “Catching the Tide,” “Hot and Cold Running Money,” “Sudden Storms,” “Shipbuilding,” and “A Slightly Circuitous Route” are most relevant for this course. (In this database, The Economist is considered a “periodical.”)


Atish Ghosh and others, IMF-Supported Programs in Capital Account Crises, Occasional Paper 210 (Washington, DC: International Monetary Fund, 2002). The assigned reading is the first page, or first-plus-a-fraction pages, of each section of this Paper (the idea being to omit country detail), plus pps. 6 of Section II, p. 21 of III, sub-sections entitled “Output Dynamics” and “Contributions to Growth” (the first paragraph of this sub-section) in Section IV, “Fiscal Policy, External Adjustment, and Output Declines” omitting country details, on pps. 35 - 37 in V, and the sub-section on “Monetary and Exchange Rate Policy, pps. 37 – 40 but excluding Box 5.1, also in V, and Section VI, “Conclusions,” in its entirety.

Part 6. Financing fiscal deficits; the case of fiscal sustainability

Primary reading


Supplementary


Part 7. Practical aspects of the use of monetary and fiscal policy instruments

**Primary readings**


**Supplementary**


Part 8. (Optional) An accounting framework for stabilization policy

**Primary reading**

Supplementary


Part 9. (Optional) Critics of mainstream stabilization theory and policy

Primary readings


Supplementary

Tony Killick and others, “Towards A Real Economy Approach,” chapter 8 in Killick, ed.


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13 Available in the database Academic Search Premier.
14 Available in ProQuest.