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An analysis of current issues in applied international economics – an elective course for non-economists

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Can the cure be worse than the disease itself? The radical economic policies pursued by most of the world's advanced economies in recent years are an experiment in which we are all participating. Ironically, it could be that Russia is one of the few major economies still implementing a relatively classic policy approach. The central question addressed in the course is how to explain the fragility of the global economy some 11 years after the beginning of the great recession and what have we learned about macroeconomic policy.

We will try to determine whether the global economy is experiencing a bubble of historic proportions, an astute exercise in financial repression or something else. The mini-series of classes will explore the above question over six consecutive Mondays from 20 January-24 February 2020. The class will be convened by Prof. Martin Gilman and active student participation is expected. The classes and readings are in English. The precise timing and room of the class at Myasnitskaya will be announced later. Required and optional reading will be posted on the class webpage well in advance.

Purpose and summary

This mini-course presents a challenge to HSE students interested in studying economic issues as to how to apply their theoretical training to one of the most difficult, practical set of issues facing the economics profession today. It may come as some relief to know that nobody seems to know the answer to the question. In a series of six thematic sessions, the class will explore theoretical, historical, and empirical aspects of the issues.

There is a significant probability that the world economy is about to stumble into a period of financial dislocation. The unwillingness and/or inability of the major economic powers to confront the imbalances that led to the financial crisis of 2007-8 have laid the basis for a historical repetition. It is arguably only a question of time. The danger is that the confluence of slow real growth, low productivity increases, inflated asset prices (notably bonds, equities, and real estate) and higher public debt in many of the major G20 economies cannot be sustained much longer. So despite efforts to strengthen global governance over these past 11 years, the economic foundation has little resilience. Ironically, Russia is one of the few exceptions. The

Bank for International Settlements, among others, has been expressing its concerns that collectively we have been unable to constrain the build-up of financial imbalances, leading to a progressive narrowing of policy options.

Not only are financial imbalances now even worse than in 2008 but the concentration and power of large banks is more entrenched, shadow banking is more pervasive, and there has been a massive misallocation of capital owing to mispricing, which has exacerbated income inequality via financial repression and productivity-sapping bailouts to crippled firms. These seem to have the side effect of perpetuating unsustainable asset bubbles. It hardly seems surprising that that de-globalization has become a factor in the internal politics of too many countries.

Assessment

Attendance will be taken and the grade will depend primarily upon class participation. For those students who wish to be considered for a higher than average mark for attendance and participation alone, I would be prepared to agree on a topic for a research paper in line with the themes of the course (see below). To be eligible, please submit your research proposal no later than the second meeting of the class on 27 January. For credit, the first draft of papers should be submitted by the time of the last meeting of the class on February 24, and final drafts by 6 March 2020. And for those students who might later request a letter of recommendation in the context of applying to a foreign graduate school, a good paper is required.

Outline of the classes (preliminary)

I. Systemic issues

- International monetary system – more than 7 decades after Bretton Woods
- Revisiting the Triffin trilemma
- Advanced and emerging market economies
- Fear of secular stagnation
- The limitations of traditional macroeconomic policy
- Financial repression – a historical overview

II. Crisis prevention

- What happened in 2007-8? What did we do?
- The elusive goal of financial stability, masking real instability
- Unintended consequences
- Balance sheet risks in the global economy
- Financial mania and panics – Minsky et al
- Is the debt bubble sustainable?

III. Evolution of economic relations

- 11 years after the beginning of the Great Recession
- The age of central bankers
- What are US markets for short-term funds signaling?
- What models to use?
- Global economic coordination – China
- Sanctions and economic weapons

IV. Growth dilemma

- A historical and international perspective
- Real and nominal values: example of the determinants of GDP growth
- The productivity paradox – a worldwide phenomenon
- Growing inequality and the political economy dimension
- The problem with debt – is a debt jubilee possible?
- De-globalization as a reversion to the mean

V. Crisis Resolution

- Savings dilemma
- QEs and helicopter money
- Modern Monetary Theory
- NIRP, the Japanese experience and Sweden, Switzerland, etc.
- Public pensions, private retirement accounts, insurance
- Underfunded liabilities and fiscal unsustainability

VI. The future of international finance

- Correlation between markets
- Changing trade relations
- International capital flows and exchange rate regimes
- Economic globalization is hard to reverse
- Globalization and the rise of economic nationalism in many countries
- The changing role of shadow banking
- FinTech, cryto-currencies and alternative assets
- Policy dilemmas
- What next?