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Business, Government and the Global Economy

DOTT. GIORGIO CAPURRI

OVERVIEW

Area: Business

Dates: 26 November / 6 December (2 weeks)

Campus: Milan

Course Number: IB /EC 320

Term: Winter Program 2018/19

Credits: 6 ECTS

COURSE DESCRIPTION

The aim of this course is to analyze the key factors that affect the competitive position of a nation by investigating the economic forces that drive trade integration and how globalization is changing the macroeconomic scenario. The course will give some answers to the most important questions related to the international economy. What drives the competitiveness of nations? How can poorer countries be sustained in achieving better standard of life? How the world can address the challenge posed by climate change? What is the role played by multinationals and financial institutions in the global economy? Are we ahead of a protectionist era? What are the causes of the European debt problem? What are the likely consequences? The course will provide answers to these and other questions by mixing economic theory with facts and case studies, describing what is globalization from a historical perspective. A strong emphasis will be placed on the role of governments and international institutions in regulating trade and financial flows.

PREREQUISITES

Principles of economics

METHOD OF TEACHING

Lecture, group work and in-class discussion

LEARNING OUTCOMES

By the end of the course students are expected to be able to

- Analyze the determinants of competitiveness of nations
- Understand the functioning of the global financial markets
- Understand the dynamics of globalization and market integration
- Understand the different viewpoints on the European debt crisis

COURSE REQUIREMENTS

Students are expected to comply with the following requirements:

- Regularly attend classes and actively participate to the discussions and debates



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- Study in advance the assigned course readings
- Present a group work on a course related subject (group project and presentation)
- Take a final written exam

EVALUATION

Description	Share of the final mark	Timing
Midterm assessment	50%	Beginning of week 2
Final exam	50%	End of week 2

DETAILED DESCRIPTION OF ASSIGNMENTS

- **The mid-term assessment** will be based on the first 3 units: world trade, production in the global market and trade policies. Students will be required to choose a topic from a selection and to form groups for each topic on which they will be asked to give a presentation. Therefore, students will have to negotiate among themselves in order to ensure equal distribution of students per topic. The assignment will begin only once the students have agreed on the composition of the groups. Essays will have to be sent via mail ahead of the presentation.
- **The final exam** will be a written exam composed of two parts: part a) 10 multiple choice questions, part b) 2 essay question to be chosen among 3 questions. The weights on the two parts of the final exam are 40% part a and 60% part b

READINGS

There is not a formal textbook. The instructor will make available the slides at the end of each class. However, a more in-depth review of the topics covered can be found in the following textbooks (the textbooks are substitutes):

1. *[KOM] Krugman, Obstfeld, and Melitz International Economics: Theory and Policy*. 9th ed. Addison-Wesley [KO].
2. *Caves, Frankel & Jones. World Trade and Payments*. 10th ed. Addison-Wesley.

The syllabus below reports as reference the chapter of the first textbook for each topic.

Additional readings are reported subsequently for every topic

UNIT 1: OVERVIEW OF WORLD TRADE AND THE COMPETITIVENESS OF NATIONS

Key topics:

Presentation of the course: aims, organization and overview of the syllabus. Assignments and evaluations: presentation and suggestions. A historical perspective of world trade, what and why we trade. Benefits of world trade, winners and losers. The determinants of comparative advantages: technological differences and differences in factor endowment.

Readings:

- lecture notes/slides, KO Ch. 1, 2, 3, 4
- World Economic Outlook Update January 2018, IMF



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- Rodrik 2011, The future of Economic Convergence, mimeo.
- Rodrik: Structural Change, Fundamentals and Growth, an Overview, mimeo, Princeton university

UNIT 2: PRODUCTION AND DISTRIBUTION IN THE GLOBAL ECONOMY

Key topics: this lecture will analyze the first obvious determinant of comparative advantages: technological differences and differences in factor endowment. We will build a framework with which we can ask what are the factors underlying trade between advanced countries that are on the technological frontier (i.e. the US) and poor countries (i.e. Africa)

Readings: lecture notes/slides, KO Ch. 7, 8

UNIT 3: INTERNATIONAL TRADE POLICIES

Key topics: Analysis of the policies that governments adopt toward international trade, policies that involve a number of different actions. These actions include taxes on some international transactions, subsidies for other transactions, legal limits on the value or volume of particular imports, and many other measures. We will see how in recent years the international framework is changing.

Readings:

- Lecture notes/slides, KOP Ch.9, 10, 11 and 12.

UNIT 4: GLOBAL FINANCIAL MARKETS

Key topics: During this unit we will understand National Accounts and the balance of payments, and links with exchange rate, money and interest rates. We will then give an overview of global financial institutions and the public debt market, with a description of alternative monetary policies. We will also see how technology is affecting demand for money and eventually monetary policy itself. Finally a basic understanding of market dynamics in practice will prepare the first site visit at UniCredit.

Readings:

- lecture notes/slides, KOP Ch. 13, 14, 15, 16, 17, 18
- Dong He, Monetary Policy in the digital age, IMF 2018

UNIT 5: GLOBAL FINANCIAL STABILITY

Key topics: In this lecture we will understand what is the global financial governance framework, a historical perspective will lead us to understand the rationale behind the Basel Agreements. We will learn what is a systemic important financial institution and what are the rules on systemic risk mitigation and the relevance for international trade. We will also review the financial turmoil of 2008. The lecture will be a key element for the second visit at UniCredit.

Readings:

- lecture notes/slides, KOP Ch 19, 21,
- Global Financial Stability Report, IMF April 2018

UNIT 6: SOVEREIGN CREDIT RISK



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Key topics: This lecture addresses one of the most controversial and up to date debate, the long term relations between public debt and growth. We will review the basic concepts and analyze the famous Rogof Reinhart paper and its critics. Then, after a review of European Union history, we will focus on the EU Banking Union pillars and authorities. This lecture will give the final input to prepare the second visit.

Readings

- lecture notes/slides, KOP Ch. 20
- Reinhart, Rogoff 2010, Growth in a time of debt
- Herndon, Ash, Pollin 2013, Does High Public Debt Consistently Stifle Economic Growth? A Critique of Reinhart and Rogoff

TOPIC 7: GLOBAL SYSTEMIC RISKS

Key topics: The final lecture will explore the most significant risks assessed by the World Economic Forum. Among these we will spotlight climate change and environmental risks in a broader sense, as potential systemic disruptive risk. We will see how climate change presents risk for the global economy and what is climate finance. We will finally study a different perspective in the understanding of the long term causes of debt, notably one that relates natural resources depletion to trade imbalances.

Readings:

- lecture notes/slides,
- WEF Global Risk Report 2018
- UNEP FI, Demystifying private climate finance, Dec 2014
- Carbon Tracker Initiative, Unburnable carbon 2013
- E Risk Phase 1, UNEP FI

RULES OF CONDUCT

Attendance: Attendance is mandatory and no absence/s will be excused. Unexcused absences will prevent students from being admitted to the final exam. In case of health issues, students will need to inform both UCSC International Office (at international.advisor@unicatt.it) and the professor and provide a medical certificate.

Exam Date: The exam date cannot be re-scheduled. Unexcused absences will result in a failing grade. In cases of unforeseeable circumstances such as illness or injury on the day of the exams, the student must submit a medical certificate and communicate his/her absence to the Professor and UCSC International Office via email prior to the exam. If the student does not justify his/her absence through sufficient documentation and with adequate notice before the final test, the student will receive an automatic Failed.

BIO OF INSTRUCTOR

Giorgio Capurri is environmental management representative of UniCredit SpA. He holds a degree in Economics and Banking at the University of Siena and a Master in Natural Resources Management at the University Bicocca in Milano. His career spans from capital markets and interest rate derivative trading to environmental



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management and sustainability issues. He has served as UNEP FI Climate Change Advisory Group member and he is currently member of the Natural Capital Finance Alliance Steering Committee. For the past ten years he has regularly been guest lecturer at the Università Cattolica del Sacro Cuore in Milano on green management and sustainable business within the Master in Corporate Communication, the course in Business Communication, and the UCSC International Winter Program on Global Business Communication. He has also been guest speaker in other Italian Universities on similar topics, like Università Commerciale Luigi Bocconi, Università Bicocca, Politecnico Milano, Università Federico II in Naples. Finally, he designed and delivered a course on climate finance for business professionals on behalf of Adecco.