Catalogue

List of Case Studies on Economics - I
(Microeconomics, Macroeconomics, Economic Crises, Fiscal Policy, Monetary Policy)

IBS Case Development Centre
Economic Crises

US Subprime Mortgage Market (C): Global Credit Crunch and Crisis at Northern Rock

This case study on subprime crisis concentrates on liquidity – an asset’s property of being traded quickly and at low cost. Particular attention is devoted to determinants of liquidity, liquidity risk and central bank intervention – all that have arisen due to liquidity problems at Northern Rock, due to the subprime crisis. With the help of this case, students will not only understand the theoretical underpinnings of liquidity, but also analyse the credit market conditions that have led to spread of subprime contagion to UK, resulting in collapse of Northern Rock.

Pedagogical Objectives
This case study helps students to understand and analyse:

- Liquidity and its determinants
- Liquidity risk
- Global inter-bank lending
- Central bank intervention
- Issues in managing liquidity risk.

Keywords
Financial Crisis, Liquidity, Liquidity Risk, Global Inter-bank Lending, Central Bank Intervention, US Subprime Mortgage Market, Finance Case Study, Northern Rock

US Subprime Mortgage Market (B): Crisis and its Aftermath

In 2007, increased foreclosure rates in the US triggered a huge crisis – affecting the whole set of participants in subprime mortgage market. This case study – second in its series – looks into the havoc the crisis created. The focus is on how levels of intermediation, between the borrower and the investor, created huge conflicts of interest and rapid collapse of the subprime mortgage market. Sophisticated investors, including many large investment banks that have invested billions of dollars, fuel subprime mortgage market. By the end of August 2007, substantial amounts of the investors’ equity capital was lost – resulting in a huge credit crisis across the world.

Pedagogical Objectives
This case acts as a trigger for analysing the crisis from various perspectives:

- Microeconomics
- Behavioural Finance
- Derivatives and Risk Management
- Accounting and Control
- Working Capital Management
- Leadership.

Keywords
US Subprime Mortgage Market, Financial Services


In 2007, the sharp rise in foreclosures in US’ subprime mortgage market segment snowballed into a global financial crisis. Such a remarkable event is tracked in a set of three case studies. This set sensitises students to the elements of the subprime crisis. The first in the set, this case study is meant to introduce students to various facets of real estate securitisation from a debt perspective. It primarily emphasises the unique aspects of US subprime mortgage market, a key segment in the fixed income universe. Debt instruments explored include Adjustable Rate Mortgages (ARMs), residential Mortgage Backed Securities (MBS) and Collateralised Debt Obligations (CDOs). Spotlight is actually on how financial engineering works for corporate, as well as, social benefit.

Pedagogical Objectives
Why subprime mortgage market evolved?
- Default risk and risk-based pricing
- Various debt instruments – both in the primary and the secondary subprime mortgage market
- Players and structure of the US subprime mortgage industry
- Benefits and issues surrounding the subprime mortgage market.

Keywords

US Financial Crisis: Is It the Moment for Bretton Woods II?

The case is meant to invoke the reason and the origin behind the Bretton Woods system to provoke a debate as regards its proposed rerun in the context of the US financial crisis (2008), which has begun to engulf the whole of the globalised world and, therefore, cries out for a synchronised global response. Whether the requisite response should come from a Bretton Woods-style concord of yesteryears or from a reformed Bretton Woods system and, whether there is any scope for the Bretton Woods II moment as such can all be known and argued upon as the case unfolds itself to the readers. The case captures the working of gold standard, floating exchange rate, adjustable pegged Bretton Woods system, post-Bretton Woods informal system, the US housing bubble and burst, the credit crunch and finally the financial crisis spilling all over the globe.

Pedagogical Objectives
To understand the reasons for the origin of the Bretton Woods System
To analyse the factors leading to the demise of the Bretton Woods System
To understand the connection between the post-Bretton Woods Informal System and the US Housing Boom
To analyse the process by which the US Housing Boom led to the US and the Global Financial Crisis
To debate over the revival of the Bretton Woods System.

Keywords
US Financial crisis of 2008, Housing Bubble, Subprime Crisis, MBS, Financial Derivatives, Credit Crisis Indicators, Bailout, Deficit Financing, Liquidity Trap, Money Illusion Monetary Policy, Fiscal Policy, Deficit Financing, Paradox of

References
ECC0046
Year of Pub. 2009
Teaching Note Available
Struct. Assign. Available

ECC0044
Year of Pub. 2009
Teaching Note Available
Struct. Assign. Available

ECC0004
Year of Pub. 2008
Teaching Note Available
Struct. Assign. Available

ECC0047
Year of Pub. 2008
Teaching Note Available
Struct. Assign. Available

ECC0048
Year of Pub. 2008
Teaching Note Available
Struct. Assign. Available

www.ibscdc.org
Thrift, Multiplier, Phillips Curve, Tradeoff, Stagflation, Quantity Theory of Money, Supply-Side Economics, Laffer Curve, Broken Window Fallacy, Hangover Theory

US Financial Crisis: South Korea – 1997 South East Asian Financial Crisis vs 2008 Financial Crisis

This case study intends to compare and contrast how South Korea was affected by the 1997 South East Asian Financial Crisis and the 2008 US Financial Crisis. Capturing very insightful observations from the comparison, this case study enables an interesting discussion on, which sectors (industries) of the South Korean economy were affected by 2008 US Financial Crisis in particular and how the economy as a whole fared and responded to the crises. Many argue, based on key and fundamental economic indicators, that the South Korean economy is well equipped to deal with any potential problematic situation amidst the crisis. This case study enables a debate on the efficacy of the few corrective and damage-controlling measures initiated by the government.

Pedagogical Objectives

• To compare and contrast 1997 South East Asian Financial Crisis and 2008 US Financial Crisis from the standpoint of South Korea; based on similarities and dissimilarities, reasons, measures taken, etc.
• To explore (if possible measure) the extent and intensity of US Financial Crisis 2008 on South Korean economy and its key industries
• To understand the corrective measures taken by the South Korean government to control the damage caused by US Financial Crisis 2008 and to debate on the efficacy of these measures.

Industry | Financial Services
Reference | ECC0043
Year of Pub. | 2009
Teaching Note | Available
Struct.Assign. | Available

Keywords

US Financial Crisis, South East Asia, Asian Financial Crisis, 1997 Crisis, South Korea, Chaebols, Current Account Deficit, Fiscal Deficit, Economic Indicators


This case study analyses the pros and cons of financial globalisation and its affects on developing economies. It also helps in debating the need for more regulations in global capital flows. The case study also provides scope for discussion on the kinds of reforms needed to withstand the shocks of financial disturbances and future implications of globalisation on developing economies. Blame it on the greed of the investment bankers or the incomprehensible financial derivatives or the inexplicable housing mortgage market or the laidback regulators or the overenthusiastic administrators, but the real culprit of the US financial crisis (2008) is the obsession of the Americans to live on credit and the federal government’s audacity in breeding colossal deficits. Reasoning is that if the US citizens were prudent enough to discourage excessive lending by banks or had the government kept the deficits at manageable levels, curbing availability of liquidity to deserving levels, the housing bubble would not have built up and the subsequent crisis could have been avoided.

The aforesaid phenomena – Americans living on credit and Federal government encouraging deficits – were fed, for a long time, by surpluses of the Asian economies, especially China. If history is any evidence, this crisis wasn’t the first that was built by capital from across borders. During the late 1970s, petrodollars, from oil exporting countries were siphoned to emerging economies, principally in Latin America through western banks. This ended in the first big crisis of modern times, when Mexico went bankrupt in 1982, bringing the banks of New York and London to their knees. Then again, from 2000, over a trillion dollars were channelled into the subprime mortgage market of the US and rest of it is now a well-reported history. How was enormous money shipping across borders possible at the first place? Were the modern financial deregulations the real cause? Could the crisis have been averted with tighter regulations over capital flows? The case study helps to analyse some of the problem areas of financial globalisation in classroom discussion.

Pedagogical Objectives

• To explore the roots of financial globalisation and persistent changes in currency exchange systems
• To analyse the relation between globalisation of financial markets and development of various economies
• To analyse whether capital inflows of FIIs type are useful or harmful for emerging economies
• To debate the negative face of FIIs and analyse the impact of financial turmoil on emerging economies during a crisis.

Industry | Financial Services
Reference | ECC0042
Year of Pub. | 2009

Teaching Note | Available
Struct.Assign. | Available

Keywords

US Financial Crisis, FIIs, FDIs, Globalisation, Financial Markets, Bretton Woods System, Developing economies, Capital inflows, Mortgage Backed Securities, Global economies, capital flow regulations, Most Financially Integrated Countries, Less Financially Integrated Countries, Degree of Financial Openness, Portfolio flows

US Financial Crisis: Parental Agonies and Kids’ (Untold) Anxieties

This case study gives an overview of the effect on pre-teens and teens, by the foreclosures of subprime crisis and subsequent financial crisis (2008). This case is written to sensitise the participants on how to go beyond the obvious in times of such crises. Someone might argue, what role did kids play in this crisis? Well, they did not play any role, they were mute witnesses to all the happenings to their breadwinners – may it be parents, NGOs, etc. The crisis did affect all these breadwinners in more ways than one. How should this story be narrated to the kids? How would the kids receive this story? What kind of damage control initiatives could have been taken up? The case evaluates the need for imparting value-based education, money management talents and savings habits in children to make them responsible citizens.

The subprime mortgage crisis that incubated in the US housing industry devastated many Wall Street firms, Government-Sponsored Enterprises (GSEs), lenders, borrowers, investors and most surprisingly, many voiceless victims i.e., kids who were never involved in this greed game. The inability of borrowers to repay the high-interest bound subprime home loans triggered huge surge in foreclosures, resulting in about 2 million kids rendered homeless. Moreover, many people lost their jobs due to the crisis. Thus, the crisis victimised kids with frequent anxieties and behavioural problems in kids. This case study helps to analyse some of the problem areas of financial globalisation in classroom discussion.

Pedagogical Objectives

• To understand the reasons for behavioural problems in kids during domestic financial problems
• To analyse the effects of US subprime crisis and the subsequent financial crisis on kids
• To examine the role of parents, educational institutions, government,
Economic Crises

• To discuss the situation of stagflation
• To understand the mechanism of
• To debate on the need of inculcating savings habits and money management in children.

John Maynard Keynes.

Whether Keynesianism suffers from question that the case poses and ponders it is worse than the malady is a stimulating real remedy for the downslide or whether not to the extent that the Marxists leered artillery is government intervention – but Keynes' brilliant insight could detect that present a cogent doctrine to lift the economy from the depth of depression. Keynes' brilliant insight could detect that instability is the name of the game in a capitalist economy; and to fight it, the artillery is government intervention – but not to the extent that the Marxists leered for. Whether Keynesian economics is a real remedy for the downside or whether it is worse than the malady is a stimulating question that the case poses and ponders over. Whether Keynesianism suffers from the 'Broken Window Fallacy' or it breaks free the economies of the world from the shackles of slump are among the aspects discussed to revive the debate about the relevance of the great economist Lord John Maynard Keynes.

Pedagogical Objectives

• To understand the classical macroeconomic view
• To analyse why full employment is not the norm of a capitalist economy
• To understand the mechanism of Keynesian economic strategy
• To discuss the situation of stagflation that Keynesian economic strategy fails to address
• To debate whether Keynesian economics has again come to claim relevance in the context of the US financial crisis (2008).

Industry Financial Services
Reference ECC0041
Year of Pub. 2009
Teaching Note Available
Struct.Assign. Available

Keywords
US Financial crisis, Subprime, Subprime Mortgage Crisis, CDOs, CDSs, Foreclosures, Wall Street, Investment Bonds, Lehman Brothers, AIG

US Financial Crisis: Is Keynesian Economics Still Relevant?

This case was written primarily to debate on the relevance of Keynesian principles in the wake of the US financial crisis (2008). J.M. Keynes in his classic, The General Theory of Employment, Interest and Money, not only demolished many a classical myth such as paradox of thrift, supply creates its own demand, wage cut expands employment and so on, but also presented a cogent doctrine to lift the economy from the depth of depression. Keynes' brilliant insight could detect that instability is the name of the game in a capitalist economy; and to fight it, the artillery is government intervention – but not to the extent that the Marxists leered for. Whether Keynesian economics is a real remedy for the downside or whether it is worse than the malady is a stimulating question that the case poses and ponders over. Whether Keynesianism suffers from the 'Broken Window Fallacy' or it breaks free the economies of the world from the shackles of slump are among the aspects discussed to revive the debate about the relevance of the great economist Lord John Maynard Keynes.

Pedagogical Objectives

• To understand the classical macroeconomic view
• To analyse why full employment is not the norm of a capitalist economy
• To understand the mechanism of Keynesian economic strategy
• To discuss the situation of stagflation that Keynesian economic strategy fails to address
• To debate whether Keynesian economics has again come to claim relevance in the context of the US financial crisis (2008).

Industry Not Applicable
Reference ECC0040
Year of Pub. 2009
Teaching Note Available
Struct.Assign. Available

Keywords
US Financial Crisis, Toxic Assets, Housing Bubble, Credit Crisis Indicators, Bailout Plan, Keynesian Economics, John Maynard Keynes, Great Depression, Liquidity Trap, Money Illusion, Monetary Policy, Deficit Financing, Paradox of Thrift, Phillips Curve, Stagflation, Laffer Curve, Broken Window Fallacy

US Financial Crisis: India Stably Stumbles

This case enables a discussion on how US Financial Crisis (2008), has impacted the Indian economy and what should be the remedial measures. India, in its efforts to be globally integrated, encouraged cross border transactions by easing up the regulations. With US financial crisis (2008) having cascading effects on various economies across the world, India also has a share of its economic cake eaten away by the financial crisis monster. However, while some sectors felt pronounced effects, other sectors were affected relatively less. This case highlights all those sectors that are affected by the US financial crisis, directly and indirectly. Due to stringent regulations, it has not, so far, been into a serious disruption. However, India is witnessing some slowdown. India's export revenues have declined for the first time in the past 5 years. The real estate markets in India have slowed and home prices started falling sharply. As the foreign investors pulled out money, stock market index fell. As there is a panic among investors, there is no room for fresh investments, which started affecting other industries. Moreover, Indian banks started tightening their credits/loans for the industry sector. Government of India along with Reserve Bank of India is taking conventional as well as non-conventional measures to increase liquidity in the financial system. India believes that these measures will reduce panic among investors and help avoid major recession or depression. The intriguing question here is – Are these measures or policies enough for the current scenario?

Pedagogical Objectives

• To understand the background and US financial crisis (2008) and its impact on world economies, including emerging economies like India
• To understand the nature and intensity of US financial crisis (2008) on Indian economy and debate on the likely damage it can cause to various sectors, especially those sectors that are globally integrated
• To debate on the efficacy of steps taken by Government of India and its various regulatory authorities (RBI, SEBI, etc.) and explore further steps to be taken to keep economic growth momentum on.

Industry Not Applicable
Reference ECC0039
Year of Pub. 2009
Teaching Note Available
Struct.Assign. Available

Keywords
US Financial Crisis, BRIC, INDIA, Subprime Mortgage, Financial Services, Stock Exchanges, Derivatives, Foreign Institutional Investors (FII), Foreign Direct Investment (FDI), GDP, Exports, Interest Rate, Banks, Forex


This case study is written primarily to facilitate an interesting debate on, in the wake of US Financial Crisis (2008), whether the financial markets were over deregulated? many wonder if this crisis is a derivative of derivatives? Where are the regulators? This case also prompts a debate on the need and modalities of new mechanism required to ensure smooth functioning of financial markets. Globalisation is the order of the day. With globalisation comes economic liberty, which in turn calls for lesser regulations, which has been the pattern in the global economy since 1970s. The axiom that freedom would breed creativity and risk sharing has driven deregulations in the global financial markets. Surely, financial managers became creative and spread the risk, little knowing that the same virtues would spell doom to the whole world economy. The regulators are contemplating on reformulating and rechristening regulations again, to have a better control on financial transactions and create a balance between exuberance and controlled risk sharing. The wheels for inducing regulations into the financial markets were set in motion with the G20 summit, held in November 2008.

Pedagogical Objectives

• To analyse the impact of deregulations on global financial markets
• To debate on whether the lack of adequate supervision resulted in financial crisis
• To discuss the alternatives to be adopted to rectify the current financial system

Industry Not Applicable
Reference ECC0039
Year of Pub. 2009
Teaching Note Available
Struct.Assign. Available

Keywords
US Financial Crisis, BRIC, INDIA, Subprime Mortgage, Financial Services, Stock Exchanges, Derivatives, Foreign Institutional Investors (FII), Foreign Direct Investment (FDI), GDP, Exports, Interest Rate, Banks, Forex

www.ibscdc.org
• To analyse the expected costs and benefits of the new mechanism.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Financial Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reference</td>
<td>ECC0037</td>
</tr>
<tr>
<td>Year of Pub.</td>
<td>2009</td>
</tr>
<tr>
<td>Teaching Note</td>
<td>Available</td>
</tr>
<tr>
<td>Struct.Assign.</td>
<td>Available</td>
</tr>
</tbody>
</table>

**Keywords**


---

**US Financial Crisis: Decoupling and the Brazilian Economy**

This case study is aimed at an analysis on how various sectors of Brazil were affected due to the US financial crisis and also to validate the relevance of decoupling theory for the Brazilian economy. This case also helps debate on how a singular unintended incidence – the US financial crisis in this case – could put the recovery efforts of an economy in jeopardy.

Brazil, some argue, was blessed in disguise when it was tested with perennial economic crisis throughout the 1990s and global downturn following the September 11 terrorist attacks. The economy not only emerged more resilient, but also grew self-sustainable. 2008 Statistics tell the whole story – imports equal to 9% of the Brazilian GDP and exports about 12%. Just when economists started believing that this country is decoupled from the developments in the US economy, the US financial crisis (2008) struck Brazil off-guard. The global credit dried up, unemployment increased, international investor confidence dwindled and above all, Brazilian real shrunk against the US dollar. Brazilian companies have bet huge amounts on currency derivatives, since 2003, with the assumption that the real would strengthen against the US dollar. What should companies do firstly to avoid an impending bankruptcy and stay afloat in the medium term? What should be government's response?

**Pedagogical Objectives**

• To understand the impact of the US financial crisis on an emerging economy like Brazil

• To analyse whether decoupling theory holds good in today's financially-integrated world

• To highlight the challenges Brazil faces as a result of this crisis.

---

**US Financial Crisis: Would the Bailout Work?**

This case is written primarily to debate and destill the merits and demerits of $700 billion bailout package. The sudden seizure of the US financial sector following the domino effect of the fall of Lehman Brothers in mid-September 2008 has not only sent shockwaves throughout the US economy but rippled across almost all the financial centres of the world. The case probes into various causes – both proximate and remote – that have brought about the mess of distressed financial assets, frozen the credit market and choked the real sector through its impact on both consumption and production. The massive bailout package that was quickly put in place by the US government to rescue the economy is analysed with regard to its efficacies and shortcomings. In the process, the aspects such as role of interest rate in operational distinctiveness between commercial banks and investment banks, debt delinquencies, foreclosures, credit crunch, link between the financial sector and the real sector, moral hazard, claw-back policy, relevance of Keynesianism vs neo-classical liberalism vs statist Marxism have all been brought into discussion. As the case unfolds, one would tend to switch from rooting for the bailout, to dumping it and destill the merits and demerits of $700 billion bailout package.

**Pedagogical Objectives**

• To analyse the causes of US financial crisis

• To explore the relationship between financial sector and real sector

• To debate on the pros and cons of the bailout package.

---

**References**

- **Industry Financial Services**
  - Reference ECC0035
  - Year of Pub. 2008
  - Teaching Note Available
  - Struct.Assign. Available

**Keywords**

US Financial Crisis, Subprime Mortgage, Currency Derivatives, Decoupling Theory, Brazilian Economy, Brazilian real, Sadia, Araezur, Grupo Votorantin, Credit Crunch

---

**Pedagogical Objectives**

• To analyse if the US financial crisis was inevitable

• To debate on whether US financial crisis could have been prevented if some of the US economists were proactive


**Pedagogical Objectives**

- Industry Financial Services Industry
  - Reference ECC0035
  - Year of Pub. 2008
  - Teaching Note Available
  - Struct.Assign. Available

**Keywords**

US Financial Crisis; Subprime Mortgages; Housing Bubble; Toxic Assets; Bailout Plan; TARP; Bear Sterns; AIG; Fannie Mae; Freddie Mac; CDSS; Financial Derivatives; Moral Hazard; Liquidity Crunch; Claw-Back Policy

---

**Keywords**

Financial crisis; Subprime mortgage; Housing; Recession; US debacle; Economists; Paul Krugman; Joseph E. Stiglitz; Nouriel Roubini; Economic forecasts; Economic predictions; Henry Paulson; Alan Greenspan; Paul Volcker

---

**Pedagogical Objectives**

• To understand if the US financial crisis was inevitable

• To debate on whether US financial crisis could have been prevented if some of the US economists were proactive


**Pedagogical Objectives**
US Financial Crisis: US Banking Sector at Crossroads?

This case study's objective is to question and argue out the US banking sector's mega-banking model in the wake of US financial crisis (2008). In 2008, the US financial crisis has tumbled the performance of giant investment banks in the US. The US banking sector had seen the demise of big investment banks like Lehman Brothers, Merrill Lynch and Bear Stearns. Added to this the banking landscape of the US also witnessed conversions of investment banks like Goldman Sachs and Morgan Stanley into bank holding companies. On the other hand, the universal banks were also affected at their worst by the crisis. The one-stop-shop model which proved expensive during Great depression is once again viewed as the same by drawing many criticisms. Under such conditions, the changing status of investment banks, with their risk management skills, strong corporate base, prolific networks, is further increasing the complexities to universal banking model. The competition among the players is intensifying, ultimately affecting the whole US banking sector. This case dwells upon the reasons for the failure of investment banking model and growing significance of universal banking model. It also briefly about the performance of universal banking model at various intervals. It helps in debating on the continuance of universal banking model and the mounting complexities to this model with new entrants.

Pedagogical Objectives

- To debate on the role of universal banks in the US financial crisis
- To debate on the future of universal banks with the new entrants.

Keywords

US Financial Crisis; Investment Banks; Universal banks; Glass-Steagall Act; Gramm-Leach-Bliley Act; Subprime Losses; US Banking Sector; Federal Reserve; Leveraged Business; Great Depression; Goldman Sachs; Morgan Stanley; Bailout; Henry Paulson

US Financial Crisis: The Takeover of Wachovia by Wells Fargo

Fargo In mid-2008, on the Wall Street, events took place at a breath taking pace – the financial institutions that were bidding for other banks dramatically became prey in a matter of days. One such victim was Wachovia Corp. (Wachovia), which in late October 2008 bid to acquire Merrill Lynch, but could not close the deal. By November 2008, however, it could not sustain alone and Wells Fargo gobbled it after a fierce battle with Citigroup. This case study focuses on the circumstances that forced Wachovia to take a decision of selling itself to Wells Fargo. It discusses the success story of Wachovia, which rose from a small financial institution to the third-largest banking chain (based on total deposits and the fifth-largest bank by market capitalisation) in US. The case analyses the internal and external factors that encouraged Wachovia to enter into the mortgage business which victimised the bank through subprime lending. Evaluating the radical measures adopted by Wachovia to save itself from the repercussions of the acquisition of Golden West Financial Corp. and of the credit market disturbances, the case study also helps in debating the alternative strategies that would have saved the bank in the crisis.

Pedagogical Objectives

- To discuss the origin, growth and scope of the activities of Wachovia
- To analyse the internal and external factors that enticed Wachovia to enter into the mortgage business that victimised the bank
- To discuss the measures adopted by Wachovia to save itself from the financial crisis.

Keywords

US Financial Crisis; Subprime Mortgage Business; Mortgage Backed Securities (MBS); Credit Default Swaps (CDS); Collateral Debt Obligations (CDOs); Subprime Mortgage Crisis; Citigroup; Wells Fargo; Wachovia; Golden West Financial Corp; Diversified Financial Services; Pick-A-Payment Loans; Adjustable Rate Mortgages (ARMs); Negative Amortisation; Federal Deposit Insurance Company

US Financial Crisis: The Role of Subprime Mortgages

This case study helps to unravel the subprime mortgage mystery by understanding MBSs and CDOs. This case study provides a backdrop for understanding the US financial crisis (2008). Adam Smith professed it’s not at the benevolence of the butcher or the baker that the common man dines. Long after the Scottish scholar, more glamorous American bankers bestowed a dream home for all the Americans, who deserve one as well as those who don't, based on creditworthiness. Credit to the latter was named as 'subprime' lending, which ultimately doomed the entire banking system – a destiny that an undeserving economic benevolence attracts. The case provides an idea about how the prime and subprime mortgage lending differs with each other and the evolution and growth of Mortgage-Backed Securities (MBS) market during the booming years of US housing industry. The case provides an understanding on how the greed nurtured by the financial institutions to earn hefty profit margins from subprime lending finally led to the meltdown of housing and subprime mortgage markets. It provides the history of development of MBS market and the spread of risks across the firms, by Government Sponsored Enterprises like Fannie Mae and Freddie Mac and leading Wall Street firms like Bear Stearns, Lehman Brothers, Merrill Lynch, etc., and how the collapse of US housing boom resulted in global financial turmoil.

Pedagogical Objectives

- To analyse the reasons that encouraged financial institutions to shift from prime lending to subprime model of lending
- To understand the concept of MBS, promoted by financial institutions and its ill effects that triggered the current crisis
- To understand the recent developments in the US housing and banking industries
- To analyse how the subprime crisis affected the housing and banking organisations.

Keywords

Subprime; Mortgage; MBSs; CDOs; Housing Market; Foreclosures; Bear Stearns; AIG; Merrill Lynch; Financial Derivatives; Financial innovation; Delinquencies; Financial turmoil; US housing bubble

US Financial Crisis: The Fall of Merrill Lynch

The case is structured to resolve two interesting dilemmas: (a) should Merrill Lynch have been saved through a merger with BoA? (b) What is the economic logic behind BoA’s decision to take over Merrill Lynch in the midst of US financial crisis?
The case presents a brief history of Merrill Lynch and discusses the growth of Merrill Lynch, followed by its involvement in subprime mortgage business. It explores the financial history of the firm in relation to mortgage-backed Collateralised Debt Obligations (CDOs). The case presents uncertainty created by declining housing markets and the following credit squeeze. The case describes the final attempts by the firm to survive in the tough financial conditions and the consequences that led Bank of America (BoA) to take over Merrill Lynch.

**Pedagogical Objectives**

- To analyse the factors that led Merrill Lynch to enter into the mortgage business and ultimately into US financial crisis
- To understand the strategies adopted by Merrill Lynch confronting the uncertainty created by crumbling housing and credit markets
- To discuss the conditions that led BoA to takeover Merrill Lynch and what are the alternative strategies the firm could have adopted to survive in the crisis.

**Keywords**

- Financial Crisis
- Subprime Mortgage Business
- Mortgage Backed Securities (MBS)
- Financial Markets
- Merrill Lynch
- Bank of America
- Collateral Debt Obligations (CDOs)
- Credit Default Swaps (CDS)
- Subprime Mortgage Crisis
- Investment Banking
- Asset Management
- Wealth Management
- Charles E. Merrill
- Hedge Funds

---

**US Financial Crisis: The Fall of Lehman Brothers**

Brothers collapse was probably the darkest hour of US financial crisis (2008). Other companies engulfed in the crisis were still allowed to carry on their business with a bailout mask. Many CEOs, analysts, industry experts and observers questioned vehemently why was Lehman Brothers let go? The mighty investment bank, which weathered many storms, surrendered like a lame duck and quit the business in a week's time when it was caught in the financial crisis in mid-2008. After the strenuous efforts, the firm put through the 158 years from its origin as a small dry-goods store to become the fourth-largest investment bank in US, Lehman Brothers was choked to death by losses on financial derivatives. The case study focuses on the involvement of Lehman Brothers in the subprime mortgage business. It exposes the mistakes committed by the investment bank and following repercussions that led the firm to its final demise. The case also explores various reasons behind the fall of Lehman Brothers and helps understand strategies that might sometime produce negative effects.

**Pedagogical Objectives**

- To analyse the factors that enticed Lehman Brothers to enter into the subprime mortgage business and ultimately into the US financial crisis
- To understand strategies adopted by Lehman Brothers during deteriorating mortgage market conditions
- To analyse the factors that led to the bankruptcy of the Lehman Brothers
- To debate on whether Lehman Brothers should have been bailed out rather than allowing it to collapse.

**Keywords**

- Financial Crisis
- Subprime Mortgage Business
- Investment Banking
- Mortgage Backed Securities (MBS)
- Lehman Brothers
- Credit Default Swaps (CDS)
- Collateral Debt Obligations (CDOs)
- Aurora Loan Services
- Asset Management
- Capital Management
- Home loans
- Risk Management
- Alternative-A Loans
- BNC Mortgage
- Subprime Mortgage Crisis

---

**US Financial Crisis: The Bailout of AIG**

The growth of subprime mortgage market resulted in development of numerous financial instruments – meant to diversify the risk – which were grossly incomprehensible. The alphabet soup of financial derivatives is largely blamed for the US Financial Crisis and AIG, for its part insulated all the instruments without even evaluating the risk. The case attempts to explain the concept of Credit Default Swaps (CDS) and examine the role of American International Group (AIG) in the subprime context. The case also describes how these instruments were insured by AIG, making the buyers of the instruments believe that they bear no risk at all. When the disguise was revealed, AIG was forced to pay for all their worth. The risk at AIG resulted into a huge $441 billion worth of CDS, which brought the company to the brink of bankruptcy. The company could not fund all the risk and the bubble built around these instruments burst into a global financial crisis.

**Pedagogical Objectives**

- To analyse the causes of burst of housing bubble and its effect on AIG.
Economic Crises

forms; greed for life, for money, for love, the evolutionary spirit. Greed, in all of its cuts through, and captures the essence of Greed is right, greed works. Greed clarifies, “Greed, for lack of a better word, is good. in the Hollywood movie Wall Street, Remember Gordon Gekko’s signature line senior CDS portfolio

US Financial Crisis: No Limits on Executive Compensation?

Remember Gordon Gekko’s signature line in the Hollywood movie Wall Street, “Greed, for lack of a better word, is good. Greed is right, greed works. Greed clarifies, cuts through, and captures the essence of the evolutionary spirit. Greed, in all of its forms; greed for life, for money, for love, knowledge has marked the upward surge of mankind. And greed, you mark my words, will not only save Teldar Paper, but that other malfunctioning corporation called the USA.” This became the corporate mantra for most of the executives in the US financial services market.

The stock market boom in the 1990s brought in windfalls for financial executives, whose pay was linked to company’s stock price performance. This increase in pay was attributable to the grant date value of stock option grants. Their greed was rewarded with huge incentives even at the cost of their companies’ poor performance.

As predicted by analysts, sky fell on US financial services industry. In 2008, stock market crashed at an all-time low, leading to one of the worst financial crises ever since the Great Depression. The big financial institutions of the world like Merrill Lynch, Morgan Stanley, Goldman Sachs, Citigroup, Wachovia, Washington Mutual, etc., lost their fortunes. Many blamed the CEO compensation as the culprit for the economic fallout. However, few analysts opine that as the US financial corporations have increased in size dramatically over the past decade, the CEOs of these large financial companies became accountable to the shareholders, which in turn forced them to ‘cook the books’. Although the urge to earn more and the need to survive in the competition prompted these executives to resort to malpractices, but does not seem a fair excuse as the corporate governance practices are under threat.

But, few questioned why a CEO’s pay is scrutinised only when companies are doing badly and not when they are doing extremely well? Who should be blamed for the gamble – the CEO or the system?

Pedagogical Objectives
• To examine the role of CEO in ensuring the company’s long-term profits while managing risks and returns

US Financial Crisis: Morgan Stanley as a Universal Bank

In 2008, the US Financial Crisis assumed huge proportions, swallowing one firm after the other, particularly the once glorious investment banks. Morgan Stanley (MS), a successful investment bank since its inception, was no exception. The case study, ‘US Financial Crisis: Morgan Stanley as a Universal Bank’, deals with the status of MS pre- and post-financial crisis. The case examines the involvement of MS in the financial crisis through its business in the subprime market. In the aftermath of the financial crisis, to save itself from bankruptcy and fading into oblivion, the bank decided to convert itself into a bank holding company. The dilemma presented in the case is if MS will be able to continue the tradition of its glorious past even in its new role of a bank holding company.

Pedagogical Objectives
• To understand the major factors responsible for US Financial Crisis (2008)
• To understand and assess different banking business models
• To critically examine Morgan Stanley’s decision to operate as a bank holding company.

Pedagogical Objectives
• To figure out how far CEO’s pay packages inspired the erstwhile investment banks to embrace high risk financial derivatives
• To debate on who should be held responsible for the failure of the financial services institutions in the US.

Pedagogical Objectives
• To debate whether economic downturn of 2008 would slide into depression

Keywords
Financial Crisis; Subprime; AIG; Bailout; CDS; MBS; Investment Bank; Federal Reserve; Insurance; Portfolio; Financial Derivatives; Henry Paulson; AIGFP; Super senior CDS portfolio

US Financial Crisis: Morgan Stanley as a Universal Bank

In 2008, the US Financial Crisis assumed huge proportions, swallowing one firm after the other, particularly the once glorious investment banks. Morgan Stanley (MS), a successful investment bank since its inception, was no exception. The case study, ‘US Financial Crisis: Morgan Stanley as a Universal Bank’, deals with the status of MS pre- and post-financial crisis. The case examines the involvement of MS in the financial crisis through its business in the subprime market. In the aftermath of the financial crisis, to save itself from bankruptcy and fading into oblivion, the bank decided to convert itself into a bank holding company. The dilemma presented in the case is if MS will be able to continue the tradition of its glorious past even in its new role of a bank holding company.

Pedagogical Objectives
• To understand the major factors responsible for US Financial Crisis (2008)
• To understand and assess different banking business models
• To critically examine Morgan Stanley’s decision to operate as a bank holding company.

Pedagogical Objectives
• To understand the various concepts of economic downturn and the methodologies of their measurement
• To analyse how economic downturn is a frequent feature of a capitalist economy
• To explore the causes of the Great Depression of 1929
• To debate whether economic downturn of 2008 would slide into depression

Keywords
Financial Crisis; Subprime Mortgage; Executive pay; CEO; Boards; Governance; Compensation; ESOPs; Sarbanes Oxley; Bailout; Housing Bubble

Keywords
Financial crisis; Subprime Mortgage; Executive pay; CEO; Boards; Governance; Compensation; ESOPs; Sarbanes Oxley; Bailout; Housing Bubble

Pedagogical Objectives
• To debate whether economic downturn of 2008 would slide into depression

Pedagogical Objectives
• To understand the various concepts of economic downturn and the methodologies of their measurement
• To analyse how economic downturn is a frequent feature of a capitalist economy
• To explore the causes of the Great Depression of 1929
• To debate whether economic downturn of 2008 would slide into depression

Keywords
Financial Crisis; Subprime Mortgages; Housing Bubble Depression; Recession; Slowdown; CDOs; CDSs; Keynesian Economics; Keynes; Federal Reserve; Milton Friedman; JK Galbraith; Minsky KindlebergerMoment; Kindleberger

Keywords
Financial Crisis; Subprime Mortgages; Housing Bubble Depression; Recession; Slowdown; CDOs; CDSs; Keynesian Economics; Keynes; Federal Reserve; Milton Friedman; JK Galbraith; Minsky Kindleberger Moment; Kindleberger
US Financial Crisis: Is Credit Card Debacle in the Making?

Is credit card debacle in the making? No one knows, really. Credit Cards, innovated in the mid-20th century, cultivated the culture of 'spend now, pay later' among the US consumers, which was later welcomed and adopted through out the world. Credit card usage increased very rapidly over the years, due to the attractive offers given by the credit card companies (led mostly by banks). Consumer spending is very vital for an economy to grow and the US consumers supported their economy by living beyond their means with the help of credit cards. Over the years the credit card industry largely left unregulated, drove the consumers to borrow excessively resulting in alarming levels of credit card debt. After the financial crisis in 2008, suddenly the credit card debt became unmanageable. Credit card companies are facing huge credit card losses, due to rising credit card defaults. To cover their losses credit card companies have raised the interest rates and to limit the exposure the companies lowered the credit limits. In the wake of massive unemployment due to the financial crisis, consumer confidence touched its ever lowest levels and credit crunch has made it difficult for consumers to carry on with their day to day activities. It is being predicted that the next crisis would be the credit card crisis, if the default rates are not contained in time.

Pedagogical Objectives

• To understand the US consumer spending habits and the role of credit cards in boosting consumer spending
• To debate on the role and usage of credit cards as demand inducing instruments
• To examine the possible repercussions due to the increasing credit card defaults in the US economy.

Keywords

Financial Crisis; Subprime Mortgage; Credit Cards; Credit Bubble; Housing Market; Bank Of America; American Express; Default; Overdraft; Consumer Spending; Revolving Credit; Consumer Spending

US Financial Crisis: Iceland’s Unintended Consequences

The Economist observed, “Iceland’s banking collapse is the biggest, relative to the size of an economy, that any country has ever suffered. There are lessons to be learnt beyond its shores.” Blame it on globalisation – financial structures of many countries collapsed due to the mayhem caused by the recent US Financial Crisis. The fallout of one economy has its repercussions on the operations of other countries across the world as a result of globalisation. Iceland, an otherwise oblivion nation from Europe, got the attention of global media. The case study examines how Iceland was struck by the US Financial Crisis and how as a result it stood on the verge of national bankruptcy. The case also helps to understand the economic history of the country. Finally, it poses two important questions: (1) Was Iceland an unintended consequence of globalisation or was it a case of definite fall out of globalisation? (2) What should Iceland do reconstruct its financial structure and resurrect its economy – both in the short run (the immediate steps to be taken) and in the long run?

Pedagogical Objectives

• To understand the economic history of Iceland and its globalisation journey
• To analyse and reflect on the causes responsible for Iceland’s banking crisis and debate whether it was co-incidental or consequential of US Financial Crisis (2008)
• To suggest short term and long term measures for Iceland’s economy and banking system to be revived
• To debate on Iceland’s banking collapse in the light of globalisation debate.

Keywords

Financial Crisis; Subprime Market; Iceland; Globalisation; IMF; Capital Markets; Offshore Investments; Trade Flows; Surplus Reserves; Arbitrage; Orphan Bank

US Financial Crisis: Goldman Sachs in the New Terrain

For most part of the 21st century, Goldman Sachs epitomised the spirit of investment banking and reigned wealth for the investors. As the financial crisis unfolded, however, the financial derivatives on its balance sheet – dubbed as ‘weapons of financial mass destruction’ by Warren Buffet – rewrote the fate of the company. The case deals with the benefits of organisational culture and growth strategies of Goldman Sachs. The company's pioneering stand in ‘White Knight’ strategy is a classic example of its business strategies. It successfully averted subprime exposure while most of its rivals collapsed due to the financial turmoil. To avoid the fate of others, it converted its status into a stable commercial bank with long-term business goals. The case study attempts to examine the organisational culture and business strategies adopted by the company with a long-term business strategy.

Pedagogical Objectives

• To understand the role and importance of CRAs in assessing a company's financial position
• To debate over the accuracy of the rating system in understanding the methodologies
• To analyse the impact of changes in rating on the operations of the company, which is being rated
• To ascertain the role of CRAs in the US Financial Crisis (2008).

Keywords

Financial Crisis; Subprime Mortgage; Housing Market; Credit Rating; S&P; Moody’s; SEC; NRSRO; CDS; CDO; Credit Worthiness; AAA Rating; A+ Rating; Fitch; Financial Derivative
Economic Crises

Pedagogical Objectives

- To analyse how financial derivative markets rose and fell with subprime mortgage market
- To analyse how organisations can avert the crisis with successful business strategies.

Keywords

- Financial Crisis; Subprime Mortgage; Goldman Sachs; Derivatives; Financial Innovation; CDO; MBS; Investment Banks; Financial Derivatives; Bailout; Risk Management; GSAMP; Organisational culture; Business strategy

US Financial Crisis: Fannie Mae and Freddie Mac at the Core

The mortgage finance giants, Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac), which were actually incorporated to support the US home market after the Great Depression of the 1930s, incurred huge losses and ultimately went into conservatorship. According to many economists, the business model of twin giants is responsible for the failure. Their status as Government Sponsored Enterprise (GSE) proved advantageous to them in terms of high leverage and tax exemptions. Over the years, the companies, under the mask of GSE enjoyed many privileges over other competitors by lobbying the politicians and passing regulations in their favour. However, both the giants, which entered into the subprime lending because of growing political pressure and competition in the 1990s, have by the middle of 2008 become the major holders of mortgage debt. The companies with their mounting losses posed serious threat to US as well as global financial sector. On September 7th, 2008, the Federal government took over the worst wounded twins of subprime mortgage debacle.

This case deals upon the reasons for the bailout of Fannie Mae and Freddie Mac. It briefly analyses the changing operations of twin giants over a period. It helps in debating – 1) Is the business model of giants responsible for failure? 2) Is the decision of bailout wise on part of the federal government, which saved the giants from owning up their mistakes? 3) Should the model be continued after conservatorship?

Pedagogical Objectives

- To analyse how financial derivative markets rose and fell with subprime mortgage market
- To analyse how organisations can avert the crisis with successful business strategies.

US Financial Crisis: Effects on Global Banking

This case, while giving US’ role in pursuing free market philosophy both domestically as well as internationally also highlights how US banking institutions have become harbingers of ‘Mega Banking’ model. The case focuses on the role of global banks in increasing the wealth in the world markets. It brings out the role of these banks in the US Financial Crisis and cites the problems with the US financial system. In the light of US Financial Crisis (2008), what should be the alternate strategies? Does this crisis spell a doomsday for global banking superhouses? Wealth maximisation was the axiom that has been driving all the modern day corporations. To realise this ultimate dream, while some companies have simply invented new products and with that new industries, some other companies stuck to the age-old business models, but expanded to new segments. Banking falls into the latter category. Banks from the developed world, especially those from US, expanded their size and scope aided by globalisation and liberalisation. Sure, they have expanded their size and scope, and with that they also have increased their risk exposure. As evident from the US Financial Crisis, the so called global banks have become vulnerable to changes in any part of the globe.

Pedagogical Objectives

- To analyse the involvement of Fannie Mae and Freddie Mac in the US Financial Crisis
- To analyse the reasons behind the bailout of Fannie Mae and Freddie Mac
- To analyse the flawed business model of Fannie Mae and Freddie Mac.

US Financial Crisis: Crony Capitalism? Privatising Profits and Socialising Losses?

US has been winning accolades for its capitalism till the recent past, with countries world over aspiring to follow the capitalism model of US. The major supporting factor for this model has been increased success recorded by US companies – their valuations, share prices, global reach, etc. However, with some of the big names in that list getting obliterated with some unwarranted business practices, the model was questioned initially and loathed later. What's Crony capitalism, anyway? Was it one of the reasons for US Financial Crisis (2008)? This case study’s information would enable an interesting debate on these two questions and related issues. In this crisis, the fundamental principle of capitalism ‘he who reaps the gains should also bear the losses’ was broken by socialising the losses, through the bailout of the banks, which were responsible for the crisis in the first place, using taxpayers’ money.

Pedagogical Objectives

- To analyse the relationship that existed historically between government and business in the US
- To debate on the connotations of crony capitalism in the US
- To debate on whether the recent financial crisis has anything to do with crony capitalism.

Industry Banking
Reference ECC0019
Year of Pub. 2008
Teaching Note Available
Struct.Assign Available

Keywords

- Financial Crisis; Subprime Mortgage Business; Mortgage Backed Securities (MBS); Credit Default Swaps (CDS); Collateral Debt Obligations (CDOs); Subprime Mortgage Crisis; US Treasury bonds; Fractional Reserve banking; Investment banks; Global Financial Order; UBS; Global Banks; Financial Innovation; Foreign Investments

Industry Financial
Reference ECC0018
Year of Pub. 2008
Teaching Note Available
Struct.Assign Available

Keywords

- Financial Crisis; Subprime Mortgage; Fannie Mae; Freddie Mac; Subprime; Housing; Interest Rates; Leverage; MBS; Credit; Retail Credit; CDOs; Mortgages

Industry US Housing Industry
Reference ECC0902
Year of Pub. 2008
Teaching Note Available
Struct.Assign Available

Acknowledgments

www.ibscdc.org
US Financial Crisis: Bailout, Whose Burden is that Anyway?

This case is written to raise an interesting debate on who has to bear the burden of the bailout package announced to tide over the US Financial Crisis (2008). On October 3rd 2008, the most expensive government intervention in business history – in the form of a $700 billion bailout package – was approved by the US Congress. This intervention is in addition to the bailout that the government extended to Fannie Mae and Freddie Mac, AIG and the Big Three auto companies. The massive package of $1 trillion is being financed using taxpayers’ money to prevent the current crisis from deteriorating further and thereby gradually stabilising the economy. However, it is being argued that, it is unfair towards the heavily burdened US taxpayer to bear the additional burden of bailing out the Wall Street firms. The US Financial Crisis is an outcome of the financial industry’s greed along with irresponsible risk taken by the Wall Street financial wizards, who pocketed tens of millions of dollars while creating the bubble. Thus, the US taxpayers feel that they are being penalised for the greed of the managers of big financial institutions, as when profits were made they were kept private, but losses are being socialised.

Pedagogical Objectives
- To analyse the relation between taxation and economic growth
- To understand the historical perspective of taxation in US and the burden on US taxpayers in the recent times
- To analyse and debate the impact of current financial crisis on the US taxpayer.

Key Words
Financial crisis; Federal Reserve; SEC; Subprime; Mortgage; Interest rate; Housing; CAMEL; Basel; Banking regulations; Financial markets; Deregulation

US Financial Crisis: Effects on UK Banks

This case study was primarily written to raise a debate on whether UK has lost another industry to the unwarranted market forces. Many argue that UK had been losing its preeminence in one industry after another. Starting with the textile industry, many industries in the UK have lost their competitive edge. The US Financial Crisis (2008) along with the subprime crisis (2007) seemed to have delivered a severe blow to UK’s banking sector. In September 2007, Northern Rock sought liquidity support from the government, as it failed to raise capital in the open market. Consequently, Northern Rock was nationalised. Eventually, most of the top banks in Britain, like Royal Bank of Scotland, that were solvent and well-capitalised collapsed suddenly in 2008. As the financial debacle was fast spreading across all the banks the UK government adopted desperate measures to contain the crisis. On April 21st 2008, BoE announced a £50 billion ‘special liquidity scheme’ that focused on transfer of high-quality government debt for high-risk commercial bank mortgage debt. This amount was later increased to £200 billion. The government also guaranteed wholesale liabilities to the tune of £250 billion for a period of 6 months with a possible extension.

Pedagogical Objectives:
- To understand the role of UK banks and their role in international finance and trade
- To assess the impact of the US Financial Crisis on UK banks and problems emerging with it
- To analyse if the steps taken by Gordon Brown’s administration are adequate to save UK banking sector from the fallout.

Reference No. ECC0015
Year of Pub. 2008
Teaching Note Available
Struct. Assign. Available

Keywords
Economic Crisis Case Study; Financial Crisis; Subprime Mortgage Business; Mortgage Backed Securities (MBS); Credit Default Swaps (CDS); Collateral Debt Obligations (CDOs); Global Banking; UK International banking; UK financial system; European banks; Northern Rock; Bradford & Bingley; Royal Bank of Scotland; Gordon Brown

Turkey’s Economy: The Turnaround Miracle

Modern Turkey was founded by Mustafa Kemal, the father of the Turks, after the First World War. Under his leadership, Turkey adopted secularism and democracy, and embraced legal, social and political reforms. After his death in 1938, the predominant feature of Turkey’s politics was the considerable power enjoyed by its military. The military successfully staged three coups (between 1960 and 1980), effectively destabilising Turkey’s political and economic environment. In addition to the unstable political scenario, the country’s growth and development were further hampered by four major crises that hit Turkey, between 1989 and 2002, destroying its financial strength. After the crisis, Turkey borrowed heavily from the International Monetary Fund (IMF), making the country one of the Fund’s largest debtors. In such conditions, the Justice and Development Party came to power in November 2002.
Pedagogical Objectives
• To discuss the turnaround of the Turkish economy by Prime Minister Recep Tayyip Erdogan
• To discuss the challenges Turkey is facing to sustain its growth.

Industry Not Applicable
Reference No. ECC0014
Year of Pub. 2005
Teaching Note Not Available
Struc.Assign. Not Available

Keywords
Republic of Turkey; Turkey’s economy; Political reforms; Justice and Development Party (AKP); Fiscal policy; Labour market reforms; Economic environment; International Monetary Fund (IMF); Banking Regulation and Supervisory Agency (BRSA); Savings Deposit Insurance Fund (SDIF); Economic turnaround; Taxation system; Structural reforms; European Union membership.

Brazil’s Economy: Fixing its Finances
Brazil, despite its rich natural and human resources, had been a social and economic under-achiever, plagued by poverty, debt, high interest rates, high rate of unemployment, crumbling ports and roadways, and horrendous crime. By 2002, the country’s foreign debt stood at 56% of the gross domestic product and the impact of development measures taken in the past years was hardly visible. The Brazilian government under Luiz Inacio ‘Lula’ da Silva, with the assistance of international bodies like the International Monetary Fund and the World Bank, undertook the task of reforming the country’s economy. The reform programme encouraged industries and exports. By 2004, the reform process was showing positive results, although a lot remained to be done.

Pedagogical Objective
• To discuss the various reforms adopted by Brazilian economy in the wake of economic challenges.

Industry Not Applicable
Reference No. ECC00013
Year of Pub. 2005
Teaching Note Not Available
Struc.Assign. Not Available

Keywords
Brazil; Luiz Inacio ‘Lula’ da Silva (Lula); GDP (gross domestic product); Real plan; Social and economic reforms; Economic restructuring; Brazilian Infrastructure Investment Fund; Foreign-currency debt; Pension scheme; VAT (value added tax); Manaus Free Trade Zone; Tax holiday; IMF (International Monetary Fund); China; Mercosur.

Dominican Republic: Leonel Fernandez’s Turnaround Efforts
During the reign of Leonel Fernandez as the President of the Dominican Republic from 1996-2000, the Dominican economy had an impressive growth at the rate of 7%. But, the terrorist attack on September 11th 2001, and the subsequent slow down of the US economy, had a negative impact on the Dominican economy. Added to this, a banking crisis in 2003 further pushed the country into economic distress. In 2004, Leonel Fernandez was elected the new President of the Dominican Republic, amidst expectations that he would revive the Dominican economy. But, he faced grave economic challenges. The country’s foreign debt stood at $7 billion, the inflation rate was 43%, and the Dominican currency, the peso, had depreciated to more than half its value against the dollar since 2000. There was an unsustainable energy crisis, the tourism industry was struggling and exports had plummeted. Added to this, his party had minority representation in the Senate and the Chamber of Deputies.

Pedagogical Objective
• To discuss the turnaround efforts, which were crucial for the future of the country as well as for the political career of Leonel Fernandez.

Industry Not Applicable
Reference No. ECC0012
Year of Pub. 2004
Teaching Note Not Available
Struc.Assign. Not Available

Keywords
Dominican Republic; Caribbean island; Economic crises; Economic restructuring; Fiscal policy; Monetary policy; Tourism; Free trade zones; Debt restructuring; Exchange rate; Leonel Fernandez; International Monetary Fund (IMF); Free Trade Agreement; CARICOM (Caribbean community and Common Market).

Southeast Asian Debt Restructuring Institutions: The Lessons
The Asian crisis of 1997 had a severe impact on the financial condition of South Asian countries. The scale of the financial distress in the Southeast Asian economies was large by any standard. The revival strategies adopted by these countries were similar. As part of their efforts to revitalise the economies, they all focused on setting up debt restructuring institutions. However, by mid-2004, the majority of agencies were either closed or were about to pull their shutters down.

Pedagogical Objective
• To discuss the measures adopted by these institutions for the revival of their banking sector, and their experiences in the restructuring process
• To discuss on the importance of restructuring institutions, their role as a tool for economic revival and, the lessons they have got to offer.

Industry Not Applicable
Reference No. ECC0011
Year of Pub. 2004
Teaching Note Not Available
Struc.Assign. Not Available

Keywords
Southeast Asian debt restructuring institutions; Asian economic crisis; Banks’ debt restructuring; Indonesian Bank Restructuring Agency (IBRA); Asset management; restructuring company; Asset quality; Thailand Asset Management Corporation (TAMC); Financial Institutions Development Fund (FIDF); Financial Restructuring Agency; Bank of Thailand; Non-performing loans (NPLs); Korea Asset Management Corporation (KAMCO); Debt Recovery Agency; Danaharta; National Asset Management Company of Malaysia; Corporate and financial restructuring.

Australia: Managing the Current Account Deficit
The Australian economy had a consistent growth, which was supported by an increase in domestic demand. For many years, the GDP (gross domestic product) growth rate was high, but the country had current account deficit. The Australian government took measures such as floating the Australian dollar, tightening its monetary policy and cutting the tariffs to encourage trade and reduce the gap in the trade balance. The government also implemented structural reforms like introducing a new tax system and the superannuation guarantee scheme. Although these reforms helped to increase the public revenue and encourage savings among the people, the Australian government was unable to manage the current account deficit. The current account deficit followed a cyclical trend, as it reduced in 2001 and widened again in 2003.

Pedagogical Objective
• To discuss the reasons that led to the growing deficits in the current account of Australia and how the Australian government tried to manage it.
Fixed exchange rate system; Current account deficit; Foreign exchange reserves; Short-term dollar indexed debt; Currency pegging; Basket of currencies; Thai baht; Korean won; Indonesian rupiah; Foreign portfolio investment; South Korean chaebols; Inflation rate; Bank of Thailand; Malaysian Central Bank; Monetary Authority of Singapore; Japan export-import bank; Structural reforms; contagion effect.

**Chinese Economy: Structural Problems and Bank Overlending**

The last two decades of the 20th century witnessed rapid economic growth in China with the growth reaching 9.1% in 2003. However, the growth was widely opined to be unbalanced on account of the majority of investments being in a few key sectors. It was apprehended that such huge investments in a few key industries coupled with reckless lending by the major commercial banks might lead to an inflationary situation in the country.

**Pedagogical Objective**

- To discuss the factors that led to the overheating of some sectors of the Chinese economy, the blind investments by the Chinese banks and the steps taken by the Chinese government to usher in a balanced and sustainable economic growth of the nation.

**Keywords**

China; National Bureau of Statistics; State Development and Reform Commission; Blind investments; Broad money (M2); Industrial and Commercial Bank of China; Bank of China; China Construction Bank; Agricultural Bank of China; GD Midea Holding Co; KPMG; China Bank Regulatory Commission (CBRC); General Motors; Volkswagen; Toyota.

**The Brazilian Financial Crisis and After**

Brazil's economy was diversified with well-developed agricultural, mining, manufacturing and service sectors. But during the Great Depression in the 1930s, the prices of Brazil's exports fell. In the later years, Brazil experienced an increase in inflation. To control the inflation, the Minister of Finance, Fernando Henrique Cardoso launched the 'real' plan in January 1994. A new currency, the real, was introduced and it was pegged to the US dollar. Under the 'real' plan, the economy became stable. But the devaluation of the Mexican peso, the Asian crisis and the Russian crisis affected Brazil's economy. There were huge capital outflows and to maintain the exchange rate the government had to use its foreign reserves.

**Pedagogical Objective**

- To discuss the reasons that led to the Russian financial crisis and how the foreign trade of Russia has helped to bring back economic stability in the country.

**Keywords**

Russian financial; economic crisis; Perestroika restructuring programme; Five-year plans; Privatisation; The Russian trading system; Devaluation of the rouble; Exchange rate float; Russian economy; Boris Yeltsin; Russian dollar peg; Market oriented economy; Balance of payments; The Russian rouble; rouble; Russian Central Bank; Union of Soviet Socialist Republics.
The Argentine Financial Crisis

Before World War II, Argentina was one of the most prosperous countries in the world in terms of agricultural and energy resources. Since the 1940s, its economic growth had declined as it changed its financial and trade policies. In 1991, the Convertibility Law was introduced through which the exchange rate of the Argentine peso was fixed at one peso per US dollar. Between 1991 and 1994, Argentina’s economy grew and its deficits decreased. But the devaluation of the Mexican peso in 1994 and the devaluation of the Brazilian real in 1998 shook the confidence of the investors. The government took many measures to control the economic situation, but the country’s deficits continued to increase. In January 2002, the Currency Board arrangement was abandoned and the peso was devalued. During 2002 and 2003, Argentina showed a trade surplus in its balance of payments.

Pedagogical Objective

- To discuss the economic challenges that Argentina is facing, in the light of huge external debts.

Keywords

- Argentine financial crisis; Convertibility Law; Economic stability; Devaluation of the Mexican peso; Currency board; President Eduardo Duhalde; Balance of payments; Import substitution policy; Free Trade Agreement; Financial rescue package; Domingo Cavallo; Inter-American Development Bank; Current account deficits; Zero deficit law.

Deflation in Japan

After the end of the Second World War, Japan began to rebuild its economy. It embarked on a journey of rapid industrialisation with the support of its financial institutions, which became the drivers of its growth. Japan gave birth to the concept of ‘just-in-time inventory’ and other concepts, which have become the pillars of various corporations around the world. At one point in time it seemed that the Japanese economy would surpass that of America and emerge as the economic giant of the world. But after a satisfactory journey of almost three decades, today the Japanese economy is an economy in distress and is officially confirmed to be suffering from deflation, the main culprit that gave us the ‘Great Depression’.

Pedagogical Objectives

- To discuss how the Japanese economy was rebuilt after the end of the Second World War with the help of a highly regulated financial sector
- To discuss the events that led to the gradual deregulation of the financial sector and how the country’s economy transformed into a ‘bubble economy’
- To discuss the bubble that burst in 1991, the collapse of the financial institutions, the policy measures adopted by the Bank of Japan and the subsequent governments and their relevance to the most talked about problem faced by the country – deflation.

Keywords

- Deflation; Liquidity trap; Regulated financial sector; Maastricht criterion; Bubble economy; Asset price bubble; Nikkei; Bank of Japan; Banking crisis; Zaiibatsu; Keiretsu.

Mad Cow Disease and USDA’s Response

In 2003, the US beef industry had a major set back with the outbreak of Bovine Spongiform Encephalopathy (BSE) also called mad cow disease. There was an immediate impact on the US beef industry as there was a ban on the US beef from trade partners. United States Department of Agriculture (USDA), an organisation that was set up to safeguard the interest of the farmers and ranchers, had a tough time in getting back the lost trade. But inspite of the initiatives of the USDA, the prospects of lifting of the ban seemed grim.

Pedagogical Objective

- To discuss the economic implications on the US beef industry after the outbreak of mad cow disease and the measures taken up by the USDA in this regard.

Keywords

- Mad cow disease and USDA; United States Department of Agriculture; United States beef industry; Protectionism; Trade tariffs; World Trade Organisation; Anti-dumping; International beef market; Economic implications of beef ban; The US economy; Beef imports and exports; UN Food and Agricultural Organisation; National Cattlemen’s Beef Association; Ann Veneman; European Union ban on US beef.

Californian Economy: The Challenges Ahead

California, once ranked the fifth largest economy in the world, saw an economic downturn during 1999-2002. The state was considered a global powerhouse of software and services industry in the 1990s. But the economic recession worldwide and particularly its effect on the software industry took its toll on the Californian economy. Certain government policies such as worker’s compensation law, unemployment benefits, power crises and various anti-business laws impaired the corporate performance. This caused soaring budget deficits, unemployment rates and a sinking consumer sentiment index. Eventually it resulted in a recall election in 2003.

Pedagogical Objectives

- To understand the various issues related to the staggering deficit of the state
- To discuss the challenges that lie ahead for the new administration of California.

Keywords

- Californian economy; Budget deficit; Consumer sentiment index; Power crisis in California; Unemployment insurance programme; Workers’ compensation; Paid
family leave; Arnold Schwarzenegger; Gary Davis; Anti-business laws; Recall elections; Gross domestic product; US unemployment rate; California power exchange; Disability benefits.

- **Caribbean Sugar: Implications of European Connection**

The history of sugar in the Caribbean can be traced back to the 17th century when the Dutch introduced sugarcane to these islands in the 1640s. Since then, the sugar industry had been the backbone of the Caribbean economies. In 1965, the Caribbean region, with its ten sugar exporting countries, had a peak annual sugar production of 1.4 million tons. However, in just thirty years, by 1995, the Caribbean sugar production had dropped to 0.8 million tons per annum and the region was left with only six sugar exporting countries.

**Pedagogical Objective**

- To discuss how excessive economic protectionism by the European nations led to inefficiencies in the Caribbean sugar industry and finally crippled the industry in the wake of globalisation that did away with the protectionist policies.

**Industry** Sugar

**Reference No.** ECC0001

**Year of Pub.** 2003

**Teaching Note** Not Available

**Struc.Assign.** Not Available

**Keywords** Sugar in the Caribbean; Sugar production in the Caribbean; Agriculture in the Caribbean region; ACP-EU sugar protocol; Sugar industry in Cuba; Sugar industry in Jamaica; Sugar industry in Trinidad and Tobago; Caroni sugar factory; WTO and Caribbean sugar; Caribbean political maps; Colonial rule in the Caribbean; Cost of sugar production in the Caribbean; European guaranteed price for sugar; Mid-Atlantic colonies; Impacts of globalisation on Caribbean sugar.

---

**Global Inflationary Trends: Rising Pressure on Central Banks**

From the last two decades of the 20th century, as more and more developing nations opened up the economies, their rapid growth and demand for resources has worried major central banks. In the process of feeding these economies with massive resources, global economy has been grappling with inflationary concerns. Business is no more normal for central bankers. They are forced to deal with domestic inflation, whose cause of which is entangled with global trade – riddling enough to engage the central bankers for long. Economists feel that the central banks are exposed to a tricky situation where they are not allowed to alter the direction and pattern of foreign trade – the cause: but will have to come in terms with domestic inflation – the effect. This case study helps analyse the effects of globalisation on inflation in the world economy. The case will also help in debating the alternatives available for central banks to deal with the effects of global inflation on their respective economies.

**Pedagogical Objectives**

- To understand the factors behind the emergence of niche markets
- To analyse the emerging scope of pet products market in US
- To understand the challenges involved in sustaining evolving niche markets.

**Pedagogical Objectives**

- To discuss the effect of globalisation on the decisions of central banks, especially in dealing with inflationary pressures.

**Industry** Not Applicable

**Reference** FCP0022

**Year of Pub.** 2007

**Teaching Note** Available

**Struct.Assign.** Available

**Keywords**

Globalisation; Factors helping the process of Globalisation; Inflation, Real and Nominal Wages; Real and Nominal Interest Rates; General Price Level; Global Trade; Offshoring and Outsourcing; Phases of Globalisation; Government’s Role in a Global Economy; Fiscal Policy Case Study; Inflation and Interest Rate Dynamics; Central Bank’s Role in a Global Inflation; Global Trade in Services; Monetary Policy

---

**Fiscal Policy**

**Pet Economy in US: Will it Sustain for Long?**

From the early 7000-5800 BC pets have been part of human life. Earlier they were used for hunting, guarding etc. However, as the civilisation evolved, the relationship between pets and human beings gradually changed. Pets were increasingly considered as a part of family, companions and many began to flaunt their pets for social status. Pet owners treated pets as their children and spent heavily on their needs. Seeing the potential of this untapped market many companies like Procter & Gamble (PG), Nestlé (NSRGY) and Polo Ralph Lauren (RL) entered the pet product market. Although companies were trying to satisfy the needs of pet owners, increasing demand of pet owners to get the best for their pets has raised an ethical issue. Also how long would the pet economy sustain is a question that needs to be answered?

**Pedagogical Objectives**

- To understand the factors behind the emergence of niche markets
- To analyse the emerging scope of pet products market in US
- To understand the challenges involved in sustaining evolving niche markets.

**Pedagogical Objectives**

- To understand why countries involve in trade and the impact of integrating an economy with global economy

**Industry** Not Applicable

**Reference** FCP0022

**Year of Pub.** 2007

**Teaching Note** Available

**Struct.Assign.** Available

**Keywords**

Indian Economy; Multiplier Effect; Accelerator Effect; Crowding Out Effect; Interest Rates; Fiscal Policy Case Study;
Exchange Rates; Human Development Index; Economic Reforms and Growth; Public and Private Investment; Economic and Social Impacts of Rapid Growth; Five Year Plans; Monetary Policy; Fiscal Policy

Burgeoning Chinese Economy: Signs of Overheating?

Huge foreign and domestic investment – along with high productivity gains – mainly drives China’s economic growth. Massive under-priced savings were poured into huge investment projects, supported by cheap labour. But these very factors – that fuelled China’s growth – are allegedly inching the economy towards overheating. For which the government drew administrative measures and monetary policy, whose effectiveness is doubtful. Moreover, China is dotted by contrasting features. It is the world’s second largest economy on PPP basis; but ranks 81 on the Human Development Index. Its GDP has been growing above 10% consistently since 2003. But it has 18% of the world’s poor – along with naive welfare programmes, red tape and a swelling pollution.

The case study helps analyse how China’s growth drivers are becoming counter-productive. It also helps debate how good is economic growth, at various social costs.

Pedagogical Objectives

• To understand and analyse the process of economic reforms in China
• To analyse these reforms’ effectiveness
• To know how ‘multiplier’ and ‘accelerator’ play out in an economy’s growth rate
• To debate on the desirable growth rate for a country like China.

Industrial Economy
Reference No. FCP0019B
Year of Pub. 2005
Teaching Note Available
Struct.Assign. Available

Keywords
Chinese Economy; Multiplier Effect; Accelerator Effect; Crowding Out Effect, Interest Rates; Exchange Rates; Transformation of Controlled Economy; Fiscal Policy Case Study; Human Development Index; Economic Reforms and Growth; Public and Private Investment; Sectoral and Societal Impacts of Rapid Growth

Foreign Direct Investment in 2005: Shifting towards Services?

In recent years, few things have created such a debate as has the impact of Foreign Direct Investment (FDI) on the country’s economy. While a school of thought argues in favor of greater FDI into the country, another school focuses on the repercussions FDI is likely to have on the domestic industry. While traditionally FDI has flowed into manufacturing, of late a discernible trend is towards FDI in services. The case traces the roots of this movement of FDI in the services and discusses the impact, positive or negative on the country’s economic growth

Pedagogical Objectives

• FDI and country’s development
• Importance of FDI in services
• Factors behind the shift in FDI from manufacturing to services
• Future trends of FDI
• Theories of international trade and FDI inflows.

Industry Economy
Reference No. FCP0019B
Year of Pub. 2005
Teaching Note Available
Struct.Assign. Available

Keywords
Trade Theory; Service Industry; Comparative Cost Theory; Developed countries vs Developing countries; Economic Growth; Government Policy; Developmental Theories; World Investment Report; International Economics; FDI and Society; Developmental Economics.

Rating the Credit-Rating Agencies

Credit rating started in USA in the late 19th century when early rating agencies began publishing financial analyses on railroad companies. Over the years, numerous regulations were created to govern the level of non-investment grade debt that institutional investors (banks, insurance companies and corporate pension funds) could own. But the turn of the 21st century brought a slew of problems for the credit rating agencies (CRAs) as they failed to detect signals of the collapse of companies like Enron Corp. and WorldCom Inc. The creditworthiness of the rating agencies and validity of the processes and methodologies adopted for rating began to be questioned and demands for strengthening regulations began to be made. The Congress began to pressurise the SEC to re-examine the role of credit rating agencies and proposed greater oversight of the rating firms’ anticompetitive practices and conflicts of interest. A debate on whether subjecting rating agencies to substantive monitoring by the SEC and abandoning the NRSRO designation also ensued. A few critics also proposed establishing a separate regulatory set-up to monitor the rating agencies. The major question revolved around the extent of regulatory involvement in ensuring the safety and soundness of the rating process. Experts felt that these regulations would change the very nature of the rating industry in the US.

Pedagogical Objectives

• To discuss what is Credit Rating
• To discuss the credibility of credit rating agencies
• To discuss the effective criteria’s to rate companies, shares and bonds.

Industry Credit Rating
Reference No. FCP0018B
Year of Pub. 2005
Teaching Note Available
Struct.Assign. Available

Keywords
Credit Rating Agencies; Standard & Poor’s; Fitch Rating Services; Moody’s; Enron Scandal; WorldCom Scandal; Sarbanes-Oxley Act; US Credit Rating; History of Credit Rating; NRSRO; Credit rating regulations; Dun & Bradstreet; Credit ratings; Credit rating marketing.

Gold in 2005: Getting Dearer?

For ages gold has fascinated mankind. It has been not only been an adornment but also used as a currency for centuries. Even today, it has continued to baffle economists, policymakers, and laymen alike. The demand for gold in many countries is driven by jewellery. Though gold has ceased to be a currency for long, most central banks continue to issue currencies backed by certain percentage of gold. The lack of co-relation between gold and other economic indicators and currencies has made gold a safe avenue for investment in spite of its volatility.

Pedagogical Objectives

• Gold’s role as monetary unit
• Impact Washington agreement on gold sales and gold leasing market
• Gold market, its structure, working and constituents
• Relation between gold and currencies
• Relation between gold and economic indicators like GDP, inflation, interest rates etc
• Gold as an investment tool.

Industry Gold Industry
Reference No. FCP0017B
Year of Pub. 2005
Teaching Note Available
Struct.Assign. Available
Keywords
Gold markets; Investment management; Bullion markets; Central Bank and Monetary Economics; Portfolio management; International finance; International Economics; Supply and Demand; Risk analysis; Washington Agreement and Gold Leasing; Gold and the Dollar; Reserve currency; Derivative markets; Hedging; Commodity Markets.

Japan Post: Privatisation Woes
In September 2004, Japanese Prime Minister Junichiro Koizumi formally announced his plans to privatise Japan Post, the world’s largest financial institution which manages 330 trillion yen ($3 trillion) in savings and insurance deposits. Privatisation of Japan Post is said to be the most important reform measure, which Koizumi had long planned to undertake when he was appointed the Postal Minister in 1992. Since then, he had been persistently exploring the viability of the privatisation plans through the consensual approach among various groups, viz, a section of people within the party and opposition and industry experts who are against privatising Japan Post. However, Koizumi’s privatisation plans encountered hurdles as many argued that privatisation would result in loss of jobs. Experts believed that it might not give any significant economic benefits as they think that the loan market is already overcrowded and many Japanese companies, which have rich cash flows, are not in need of such huge investments. However, Koizumi was persistent with his plans and on August 8th 2005, he tabled the bill of postal privatisation before the Parliament. The Upper House voted down the bill by 125 to 108 votes. This led Koizumi to dissolve the Parliament and called for fresh elections. When the results were declared, Koizumi’s LDP (Liberal Democratic Party) secured 296 seats out of a total of 480 seats and on October 14th 2005, the Upper House of Japan’s Parliament passed the bill to privatise the Japan Post in phases by 2007, the bill was approved by 134 to 100.

Pedagogical Objectives
• To discuss the problems faced by Prime Minister Junichiro Koizumi in privatizing Japan Post
• To discuss the effect of privatization on the Japanese economy.

Keywords
Japan Post; Koizumi; Japanese economy; United States of America; LDP (Liberal Democratic Party); Public debt; US Treasury Bonds; Fiscal deficit; Post Master; Privatisation; Postal reforms; Financial services. Progressive Tax System vs Flat Tax Regime: Weighing the Options

While most of the nations are under the progressive tax system, in which rich people pay a proportionately greater amount of tax than the poorer sections, the Baltic nations of Estonia, Latvia and Lithuania and others like Russia and Hong Kong seem to be thriving under the flat-rate tax regime. Motivated by the successful implementation of the flat-rate tax system, many countries, like Sweden, Poland, the Czech Republic, and the UK have been deliberating on whether or not to experiment with the newer tax structure and whether it would be as effective in their economies as in the Baltic and other nations.

Pedagogical Objectives
• To compare the progressive and flat tax structures
• To discuss the impact of flat rate of tax on the capitalistic economies like the US and Canada.

Keywords
Progressive rate tax; Flat rate tax; Tax avoidance and tax evasion; Gross Domestic Product (GDP); Foreign investment; Capital gain, dividend and interest earnings; Index of Economic Freedom; Adam Smith’s ‘canons of taxation’; Marginal tax rate; Taxable income; The Laffer curve; Free-market economy; Value-added tax (VAT); Regressive tax.

The Economics of Savings
In any economy, savings provide not only required capital for economic growth but also ensure further demand in the economy. Adam Smith said, ‘...at portion which he annually saves, as for the sake of the profit it is immediately employed as a capital, is consumed in the same manner...but by a different set of people’.

• To discuss how Economic reforms developed Chilean financial system.

Keywords
Chilean model; Copper exports; Growth and Equity Model; Counter-cyclical fiscal policy; Economic reforms.
Restructuring Dilemma of USA’s Medicaid: Politics or Economic?
The US Federal government has proposed to reduce its share in Medicaid expenditure to cut its fiscal deficits and the States are reeling under huge health care budgets that are twice the expenditure on education. Meanwhile, as 40 million baby boomers age in the US, the focus of Medicaid’s funding shifts from medical expenses on poor mothers and children for providing custodial care to the elderly and disabled. With Medicaid estimated to spend $444 billion a year by 2010, its survival is in question.

Pedagogical Objective
• To discuss the various strategies adopted by the US federal government to cut the Medicaid expenditure.

Industry Financial Services
Reference No. FCP0012
Year of Pub. 2004
Teaching Note Not Available
Struc.Assgn. Not Available

Keywords
Medicaid; Medicare; Public health care in the USA; Public health insurance programme in the USA; Crowding out effect; Supplemental security income; Aid to families with dependent children; Public expenditure; Ageing of baby boomers.

Heavily Indebted Poor Countries’ Debt: Should it be Written Off?
The world’s 137 poorest nations owe a total of $2.6 trillion in international debt, and these countries on an average spend 25% of their national budget in repaying the debt, depleting the countries’ resources to invest in infrastructure, education, healthcare and other social programmes. Fearing that debt repayment will rob these countries of their future, a number of policy makers and international activist groups called on the lenders to write off the debt of the poor countries. On the other hand, multilateral lenders like the International Monetary Fund (IMF) and the World Bank cited that debt cancellation was not beneficial for the financial health of the international creditors and it might hurt the poor countries more than helping them. Instead, the Heavily Indebted Poor Countries’ (HIPC) debt initiative was launched with the objective to cut the debt of 38 heavily indebted poor countries to sustainable levels.

Pedagogical Objective
• To discuss the conflict of interests within the EU on the issue of corporate tax
• To discuss the merits and demerits of tax harmonisation and tax competition.

Industry Financial Services
Reference No. FCP0010
Year of Pub. 2004
Teaching Note Not Available
Struc.Assgn. Not Available

Corporate Tax in the European Union: Tax Harmonization vs Tax Competition
The European Union (EU) was the largest single market in the world. The idea of harmonising the corporate tax rate, to further the goal of a single market that provides similar conditions to companies across national borders, has been floated in the EU for sometime now but has not been acceptable to all the countries. As investment conditions within the EU become more homogenous, individual countries like Ireland have used tax competition as a means of differentiating themselves and attracting foreign investment. The expansion of the EU on May 1st 2004 has brought the issue back into the limelight. High tax member states like Germany have strongly argued for tax harmonisation and a minimum corporate tax rate, while low tax member states like Ireland have been acceptable to all the countries. As investment conditions within the EU become more homogenous, individual countries like Ireland have used tax competition as a means of differentiating themselves and attracting foreign investment. The expansion of the EU on May 1st 2004 has brought the issue back into the limelight. High tax member states like Germany have strongly argued for tax harmonisation and a minimum corporate tax rate, while low tax member states like Ireland and the new EU members have opposed any such proposal.

Pedagogical Objective
• To discuss the economies and diseconomies of higher gas taxes in the US.

Industry Financial Services
Reference No. FCP0009
Year of Pub. 2004
Teaching Note Not Available
Struc.Assgn. Not Available

Gas Taxes: USA’s Dilemma
The US imports 11 million barrels of fuel every day, which constitutes 55% of its total consumption. This over dependency makes the US economy vulnerable to the fluctuating international fuel prices as every penny increase in the oil prices sucks out a billion dollars from the economy. Besides, historically any surge in crude oil prices in the international market has pushed the US economy into recession. Although economists have been advocating higher gas taxes for a long time, politicians fearing any move in that direction to be suicidal have not addressed the issue.

Pedagogical Objective
• To discuss the conflict of interests within the EU on the issue of corporate tax
• To discuss the merits and demerits of tax harmonisation and tax competition.

Industry Financial Services
Reference No. FCP0011
Year of Pub. 2005
Teaching Note Not Available
Struc.Assgn. Not Available

Gordon Brown’s Fiscal Management
In the UK, the Chancellor of the Exchequer is considered the driver of the economic engine. Gordon Brown was appointed as the Chancellor in 1997 and was expected to become the longest serving in office. During his seven years in office, Brown was successful in putting an end to the ‘boom’ and ‘bust’ cycle of Britain’s economy. The framework through which the government implemented fiscal policy was set out in the Code of Fiscal Stability, which became an act of law through the 1998 Finance Bill. By adhering to the two rules of the fiscal code, Brown believed that he had achieved the macroeconomic policy objectives of high employment, low inflation, growth and balance of payments/trade equilibrium.
Pedagogical Objectives
• To discuss the changes in fiscal framework and monetary policy shaped by Brown and their consequences on Britain’s economy
• To discuss the relationship between interest rate, inflation, economic growth and how these variables are influenced by monetary and fiscal policy actions.

Industry Financial Services
Reference No. FCP0008
Year of Pub. 2004
Teaching Note Not Available
Struc.Assign. Not Available

Keywords
Gordon Brown’s fiscal management; Chancellor; exchequer; treasury; British economy; budget; Kenneth Clarke; Prudence; prosperity; The Code of Fiscal Stability; Golden rule; sustainable investment rule; Bank of England; Inflation; interest rates; unemployment rates; economic growth; Britain’s manufacturing base; Exports and imports; Retail price inflation; Shadow Chancellor; Taxation; Public spending; government expenditure.

India’s Forex Reserves
After its independence from the British in 1947, India formulated its economic policies to attain self-reliance, encourage productivity and attract foreign investment. For the first fifty years after independence, the Indian government was unable to maintain a comfortable level of foreign exchange reserves and it also faced the problem of increasing external debt. But the economic reforms of the late 1990s helped the country to accumulate forex reserves of $100 billion.

Pedagogical Objectives
• To discuss the position of the Indian forex reserves over the years
• To discuss how the Indian government manages its forex reserves.

Industry Financial Services
Reference No. FCP0007
Year of Pub. 2004
Teaching Note Available
Struc.Assign. Not Available

Keywords
India’s forex reserves; Five-year plan; Industrial policy statement; Foreign Exchange Regulation Act (FERA); Planning Commission; Balance of payment; Liberalisation policy; Monopolies and restrictive trade policies; Cash assistance scheme; Liberalised exchange rate management system; Short-term liabilities; Current account deficit; Management of forex reserves; Foreign Exchange Management Act (FEMA); External debt.

Ireland: Turnaround by Tax Policy
Less than 20 years ago, Ireland was termed as the ‘Sick Man of Europe’ owing to its high unemployment rates, burgeoning public debt, and high levels of emigration. But since 1987 it has made brisk progress by undertaking a series of measures, the most prominent of which was its policy of granting special tax incentives to foreign investment in the manufacturing sector and to financial services companies set up within a special centre in Dublin. This low tax regime was always an apple of discord between Ireland and the European Union. But it helped the country attract a large number of foreign companies seeking low tax jurisdictions for their investments. The result has been a remarkable turnaround in the Irish economy, which has since been dubbed the ‘Celtic Tiger’.

Pedagogical Objective
• To discuss the Irish tax policy and its role in the country’s development.

Industry Financial Services
Reference No. FCP0006
Year of Pub. 2004
Teaching Note Not Available
Struc.Assign. Not Available

Keywords
Ireland turnaround by tax policy; Anglo-Irish Free Trade Agreement; Foreign direct investment; Protectionism; Ireland’s economy; Tax competition; tax arbitrage; Fianna Fail; Supply side economies; European Union’s (EU) tax package; European Single Market; International Financial Services Center (IFSC); European Economic Community; European Union; Collective investment (mutual) fund; Corporate tax rate; tax incentives; Celtic Tiger.

Greenspan’s Economic Policies: Managing Through Booms and Busts
Dr Alan Greenspan is the Chairman of the Federal Reserve of the US and also heads the Federal Open Market Committee (FOMC), the Fed’s principal monetary policymaking body. He has been at the centre of US monetary policy decisions since 1987, when he was first appointed to the board. He took office for a fourth term on June 20th 2000. Over his 17-year stint as Chairman of the Fed, he has led the economy through several booms and busts. Quite a few people regard him as the man who gave the US economy its longest boom in its history since the October 1929 crash. Dr Greenspan was conferred knighthood by Britain’s Queen Elizabeth in 2002, for his contribution to the global economic stability.

Pedagogical Objectives
• To discuss the Fed’s actions, under Dr Greenspan through July 1990-March 1991 recession, the boom of the 1990s, and the recession in 2001
• To discuss the prevalent conditions that could have been the premise on which such decisions were made.

Industry Financial Services
Reference No. FCP0005
Year of Pub. 2004
Teaching Note Not Available
Struc.Assign. Not Available

Keywords
Alan Greenspan; US Monetary Policy; Greenspan’s economic policies; US Federal Reserve Chairman; Booms and busts; 1990-1991 recession; 1990s boom; Recession in 2001; Southeast Asian crisis; Unemployment and inflation; Irrational exuberance; Short-term interest rates; US economy; Gross domestic product; Trade, fiscal, current account deficits.

China’s FDIs in Asia
China has been a recipient of huge overseas investments since 1992, with many multinational companies setting up a base there. In 2003 alone, China received close to $57 billion. While there was a huge inflow of investments into China there was also a huge outflow from the country. China’s foreign direct investments (FDIs) to other countries was mostly concentrated in the Asian sub-continent.

Pedagogical Objective
• To discuss the reasons behind China’s huge investment outflows and the economic and trade implications.

Industry Financial Services
Reference No. FCP0004
Year of Pub. 2004
Teaching Note Not Available
Struc.Assign. Not Available

Keywords
Foreign direct investment in Asia; Chinese investments in Asia; Balance of payments; Foreign trade; Bilateral economic ties; Free Trade Agreement; Haier; Ministry of Foreign Trade and Economic Development; ASEAN countries; China National Petroleum and Natural Gas Commission; China Ocean Shipping
FDI: India vs China

Though India and China enjoy many similarities, China has surged ahead of India in terms of economic progress. While India’s per capita income is $440, China’s per capita income stood at $990. In China, 3% of the population is below the poverty line and in India it is 30-40%. China opened up its economy before India and could therefore attract foreign investment which helped to emerge as a ‘workshop of the world’. Though India is trying to catch up with China in terms of foreign direct investment (FDI), China is way ahead. China received FDI of $52.7 billion in 2002 whereas in the case of India, the figure stood at $4.67 billion. Since the opening up of the economy in 1978, China enjoyed a steady flow of FDI.

Pedagogical Objectives

• To discuss how the Chinese government played a proactive role in encouraging the foreign investments and at the same time protecting the local companies.
• To discuss the differences in approaches that both the countries are adopting to attract FDI and how India can catch up.

Keywords

Foreign direct investment (FDI); India and China; Role of government; Special economic zones; Business environment; Red tape; Infrastructure.

China’s FDI Outflows

Inherent weaknesses in the pay-as-you-go system and political expediencies, which contributed to the problems in the pension system, necessitated pension reforms. In 1981, Chile pioneered the pension reforms. These reforms were radical and had far-reaching consequences. The countries that never reformed their pension systems due to a myriad of problems started emulating the Chilean Pension Model. Since then this model has been attracting lots of interest all over the world. Notwithstanding these restrictions, China had encouraged outward investment since the late 1970s when reforms first began. By the mid-1990s, Chinese companies began using this outflow route seriously. China believed that to excel in foreign trade and to prosper, such foreign operations were mandatory. By 2000, China had invested in 6,298 enterprises in over 160 locations with investments running into $11.36 billion. This move represented one step towards building ‘Brand China’. It also provided China with a plank for the next stage of its structural reforms which was expected to transform it into a full-fledged market economy.

Pedagogical Objective

• To discuss China’s efforts to emerge as a full-fledged market economy and the role of FDI outflows in achieving this objective.

Chinese Pension Model

Inherent weaknesses in the pay-as-you-go system and political expediencies, which contributed to the problems in the pension system, necessitated pension reforms. In 1981, Chile pioneered the pension reforms. These reforms were radical and had far-reaching consequences. The countries that had never reformed their pension systems due to a myriad of problems started emulating the Chilean Pension Model. Since then this model has been attracting lots of interest all over the world.

Pedagogical Objective

• To understand the inherent weaknesses in the pay-as-you-go pension system, the economic implications of pension system and how Chile successfully transformed the existing pension system to emerge as an example for rest of the world.

Keywords

Chilean pension system; Social security system; Pay-as-you-go system; Individual retirement accounts and individual capital accounts; Pension reforms; Administradoras de Fondos de Pensiones; Superintendencia de Administradoras de Fondos de Pensiones; SAFP; Recognition bonds; Privatisation of pension system; General Pinochet; Superintendent of Pension Fund Management Companies; EMPART; Servicio de Seguro Social; CANAEMPU.

Macroobjectives

Bhutan’s Gross National Happiness: An Economic Reality or Wishful Thinking?

In the 18th century, British philosopher and economist Jeremy Bentham advocated that the ultimate goal of state policy ought to be maximisation of happiness of its citizens. But measurement of happiness has remained elusive for the welfare economists and government establishments alike. The shortcomings of Marshallian cardinal measure of well-being and the illegitimacy of interpersonal comparison of well-being led to surrogage measurement of a country’s development in terms of GDP which was believed to be the obvious means of happiness. When disconnect between GDP and happiness became manifest in available data of various countries across space and time, it was realised that GDP is merely one among the many means and loses its relevance in happiness matrix after a certain threshold level. This is because GDP addresses mere physical or material needs of human beings while people do have other important needs as well, such as spiritual and emotional. Confronted with this outward experience and conditioned by its own Buddhist impulse, Bhutan has embarked upon designing a new measure of development, called Gross National Happiness (GNH). Aided and encouraged by the recent progress in happiness research, Bhutan attempts to track happiness directly instead of sticking to the imperfect proxy route of GDP. And in the process, the Bhutanese experiment sparks debates on the issue involving various concepts pertaining to National Income Accounting and Welfare Economics.

This case helps analyse the shortcomings of conventional measures such as GNP, GDP, NNP, NDP and other relevant variants. The case also helps in understanding the difficulties in measuring happiness and also appreciating the
relevance of concepts such as Easterlin’s Paradox, MEW, HDI, externalities, Pareto optimality, aspiration treadmill and relative income hypothesis.

Pedagogical Objectives

- To understand the various concepts of national income and their interconnectedness and to analyse the shortcomings in national income accounting
- To understand the concept of national well-being and debate on its constituents
- To analyse the difficulties in the measurement of a nation’s well-being
- To study the various concepts underpinning income and well-being relationship.

Keywords
gross national product, gross national happiness, wellness matrix, human development index, diener’s happiness formula, income-happiness correlation, aspiration treadmill, relative income hypothesis, paradox of thrift, five pillars of happiness, well-being mandalas, easterlin’s paradox, impossibility theorem

Fidel Castro’s Cuba: Waiting for an Economic Miracle?

Fidel Castro announced handing over Cuba to his younger brother Raul Castro, in 2008. This evoked mixed responses from the economic and political fraternity across the globe. One school professes the change in leadership would prove to be a new dawn for the Cuban economy, which was long curtailed by centralised resource allocation. This outlook was backed by the hope that Raul Castro, now at helm, could convert his murmurs of economic liberalisation into a strong voice. But there’s another school that doubts if the younger Castro can come out of his big brother’s shadow and act independently. This case study helps debate the potential political and economic obstacles to Raul – for changing the course of Cuban economy, should he wish to. The bigger question is would he want to depart from the existing policies. After all, many economic pundits say, he grew up in Fidel Castro’s shadow. Can he break his elder sibling’s iron curtain? Does Raul have that stature? Will Cuban economy adjust to the change? Why did Fidel Castro primarily side with the socialist society? How did his individual interests ruin Cuba’s economic prospects?

Pedagogical Objectives

- To understand Rostow’s economic analysis of countries
- To discuss growth possibilities using Production Possibility Frontier (PPF)
- To estimate Potential GDP of a nation
- To debate over relevant fiscal and monetary policies to be adopted at various times
- To debate on the economic options available to Raul Castro.

Economics and US Presidential Elections

Never mix emotions with economics. This adage does not seem to ring well with the modern-day politicians. Tracking the US presidents, in the post-World War II era, reveals that all of them have tinkered with the budgets for political motives. In one sense, a ruler cannot avoid it. But to what extent can the politicians define the economic state? In a democratic setup, it is the common man who will ultimately answer this. The electoral pattern in the US since 1950s suggests some evidence for this. This case study dwells upon the correlation between US’ economic condition in an election year and the electoral behaviour. Why is it that Republicans ruled longer than Democrats but still were victims of recession, at the ballot battle? Can they reverse the trend in 2008 elections, in the face of news over economic slowdown?

Pedagogical Objectives

- To analyse IS-LM Model
- To understand efficacy of fiscal policy at different equilibrium conditions
- To debate on the recession’s economic and political effects
- To debate whether a nation’s economic agenda can be independent of its political establishment.

UK’s Sterling Appreciation: The External Factors

Is it calm after storm; or calm before storm for the UK’s central bank, the Bank of England (BoE)? The BoE has weathered the aftermath of abandoning the Exchange Rate Mechanism (ERM) in 1992 and subsequent free float of sterling. But it is not yet due for smooth sailing, for another currency crisis seems to be round the corner with sterling rising steeply against dollar. Already the manufacturing sector has taken the brunt and few other pieces of the UK economy are preparing to follow. But the BoE believes that UK economy, which had withstood many trials and tribulations of the world economy through mid 1990s and early 2000s, is flexible enough to counter all variations of sterling against all major world currencies. This case study helps debate whether a currency appreciation arises out of extraneous factors (assuming a stable domestic economy) and not always from country’s economic fundamentals.

Pedagogical Objectives

- To understand the concept of exchange rate equilibrium
- To understand the factors that determine the currency demand
- Impact of interest rate and inflation on the exchange rate
- Effects of a currency’s appreciation/depreciation on the economy
- To analyse how extraneous factors would contribute to a currency’s appreciation.

Keywords

UK’s Sterling Appreciation; Exchange Rate Mechanism; Currency Appreciation; Supply-led Growth; Reserve Currency; Capital Inflows; Consumer Price Inflation;
Price Levels in Japan: A Macroeconomic Conundrum

Not very often is a country’s macro-economic data is foxing, and still seldom is the case when the general cost of living escalates and the central bank is busy dealing with deflation. Authorities at Bank of Japan are at similar logger-heads. The official consumer price index (CPI) indicates a decline, but consumers complain climbing expenses. The Bank acts by the CPI, not based on people’s perceptions, and so neglects consumer woes. Economists maintain that the lower income groups – with less than ¥2 million a year – will be the most affected, with increased cost of living. The case helps analyse if a central bank can depend merely on a set of standard indicators to guide monetary policy; or should the indicators be changed, based on the prevailing economic exigencies. The case also helps discuss if price level indices always reflect the actual cost of living.

Pedagogical Objectives

• To discuss how changes in the general price level of an economy are tracked
• To examine how well price-level indicators – like the CPI – reflect the living costs.

Keywords
Bank of Japan; Japanese Price Levels; Inflation and Deflation; Macroeconomics Case Studies; Consumer Price Index; Price Stability; Trend Inflation; GDP Deflator; Aggregate Price Index; Real and Nominal GDP; Cost of Living; Standard of Living; Statistically Measured Price Movements

Trade Deficits, Current Account Deficits and Exchange Rates in US: The Policy Implications

By 1950s, the US became an economic superpower – exacting trade relations with almost all countries and posted huge trade surplus with all trading partners. This soon gave US dollar universal acceptance and elevated it to the status of world’s single largest reserve currency. However, in the wake of globalisation and the emergence of low-cost manufacturers, US trade surplus took a dent and eventually turned into deficit. The introduction of euro – single currency for 15 European nations – in 2002, challenged the dollar as the reserve currency backed by EU’s trade with rest of the world. Since then, dollar has been weakening – even further after it waged two costly wars, swelling its current account deficits. Aggravated by widespread uncertainty over the US economy, caused by subprime mortgage crisis, the dollar seemed to lose its long-held status as a strong reserve currency. With remote chances of improvement in the country’s balances, dollar’s recovery is far off. This case study helps analyse whether it is possible for the governments or the central banks to control all factors responsible for exchange rate fluctuations.

Pedagogical Objectives

• To understand various types of deficit
• To analyse the factors responsible for exchange rate fluctuation
• To understand how far current account deficit leads to the exchange rate fluctuations.

Keywords
US Dollar; Current Account Deficit; Currency Pegging; Trade Deficit; Marshall Plan; Dollar Depreciation; Capital Inflows; Budget Deficit; Carter Bonds; Macroeconomics Case Studies; Recession; Reserve Currency; Monetary Policy

The Dragon is coming-Chinese M&A’s Outside China

Chinese companies that were earlier known for being a cheap source of manufacturing had been attempting to transform themselves into global companies through the Merger and Acquisition route. With a growing economy, China eyed for channels of growth in order to meet its need for natural resources and raw materials. The case provides a brief on the reasons behind the overseas M&A’s by the Chinese companies and also analyses the level of success in their attempts. The case provides scope for discussion on M&A’s, SWOT analysis on the Chinese companies and the role of the Government in aiding the companies to achieve their global ambitions.

Pedagogical Objectives

• The case helps in understanding how M&A’s make or break a company
• It points out the mistakes that companies make while going for M&A and elaborates on the requirements for a successful merger/acquisition
• Also highlights the importance of the Government’s role in making the companies globally competitive.

Keywords
M&A; Lenovo; IBM; China; Asia; TCL; CNOOC; Haier; Oil; metal; Chinese.

OPEC in 2004

The case talks about the Organization of the Petroleum Exporting Countries (OPEC). OPEC had 11 member nations in 2004 and was one of the most important forces in the world oil market. It controlled 70% of the world’s oil reserves and 35% of gas reserves. OPEC as an oil cartel was most successful in the 1970s. However, since then, there were several events which reduced OPEC’s market share from 63 % in the 1970s to about 38 % in 2004. OPEC faced competition not only from producers such as Russia and Norway, to whom they had lost a majority of their market share but also from the growth of non-oil energy sources. As OPEC’s member nations were primarily dependent on oil for their income, OPEC’s power to control oil prices was of great concern to them. The case talks about the various factors that determined OPEC’s future as a cartel.

Pedagogical Objectives

• Structure and economics of the world oil industry
• How do cartels work and what are the inherent factors that make or break them?
• What is the role of international geopolitics on oil production, supply and pricing?
• How did OPEC’s production and pricing policies affect its market share?
• What should OPEC’s strategy be to regain a part or more of its lost market share?

Keywords
OPEC; Oil Ind; Crude Oil; Pricing oil; Production Quotes; Oil crisis; Oil
Business Confidence? Very High; Consumer Spending? Very Low: How to get the German Consumer to Spend More?

The world’s third largest economy, Germany, witnessed a CAGR of just 1% during the period 1999-2004, which was one of the lowest in the G8 countries. Low consumer spending was cited as the main reason for the dismal economic performance, which had resulted in low domestic demand and high unemployment rates. However, in 2006, Germany’s business confidence index reached a 15-year high, invigorating the economy. Meanwhile, analysts projected it to be a temporary phenomenon, which was the result of the frenzied infrastructure development and business activities in preparation for hosting the 2006 FIFA World Cup.

Pedagogical Objectives

• To understand the relationship between consumption and saving
• To understand the relationship between employment, demand, inflation and GDP
• To discuss whether the rise in business confidence index of Germany is real or is just a temporary phenomenon
• To discuss the economic impact of hosting international events like the FIFA World Cup
• To discuss the reasons for the low consumer spending in Germany
• To discuss measures that would encourage the German consumer to spend more and thus revive the economy.

Keywords

Consumption Savings; Business Confidence; Domestic Demand; Managing Budget Deficits; Monetary Policy Fiscal Policy; Economic Reforms; Managing Inflation; Labour Policy Reforms; Minimum Wage Policy; Economic Impact of Hosting FIFA World Cup.

Singapore: The growth of a small economy

Singapore, an island-state, ranked sixth in the Growth Competitiveness Index (GCI) in the Global Competitiveness Report 2005-2006 by the World Economic Forum (WEF). With a population of 4.3 million, equivalent to a state in the U.S., it was one of the fastest growing economies in Asia. The financial crisis in 1997-98 hit the Asian economies very hard. Before they could recover from it, the 2000-2001 dot.com bust. It impacted Singapore the most as it relied heavily on export to the US, UK and Japan. It continued its growth despite the environmental obstacles. By 2004, it was one of the fastest growing small economies in terms of the growth of Gross Domestic Product (GDP).

In 2005, despite being ranked fifth in the Business Competitiveness by the World Economic Forum it faced challenges. China and India were becoming major markets and consequently threat to Singapore’s export industries. The case describes the strategies and initiatives taken by Singapore since its independence. Singapore leveraged on its geographical competitive advantage by becoming a global entrepôt hub, but with emergence of competition in this industry, it adopted a twin-tier industry structure, pushing manufacturing as much as services industries. Thus, it diversified its dependence to industries like tourism and electronics.

Pedagogical Objectives

• To understand the economical development of a small economy like Singapore
• To discuss the competitive advantages of the nation (porter’s National advantage theory)
• To discuss the initiatives taken by Singapore for becoming the fastest growing small economy 2006
• To debate the threats posed to its economical development with emergence of Asian countries as powerful economies.

Keywords

National Income Accounting: A Case Study of China

After three decades of central planning it was time for China to emerge from isolation and become an important player in the world economy. Economic reforms since 1978 have taken China to a new trajectory of growth. Evolution into an open economy has synchronised the movement of macroeconomic variables like growth rate, inflation, and exchange rate, with the rest of the world. Any policy change in China now has its impact on the world economy.

Pedagogical Objectives

• To understand the evolution of China’s economic growth
• To debate on the inequalities between the geographical regions within China
• To understand macroeconomic concepts using China as an example
• To analyse the movement of economic variables in the background of reforms in China
• To understand the interrelationships between macroeconomic variables like GDP, GNP, potential output, inflation, interest rate and exchange rate.

Microeconomics

OPEC: The Economics of a Cartel (C)

The third and final case, in the three case series, deals with the output and pricing mechanism of oil among OPEC members. OPEC members decided upon output quotas and price levels of oil. In order to achieve higher profits, by crippling supplies in the international markets, they did not expand their outputs – which led to fluctuations in the prices. No increase in supplies made the dealers stock oil and further increase the price and OPEC, through this process, has made enormous profits. They also began to discriminate between their customers by following differential price
mechanism — making OPEC the price leader. On the production side, quota system resulted in differences within the cartel and also with the non-OPEC countries. The strategy that OPEC and its each member followed is always debatable. The case study helps analyse the strategies followed by OPEC and non-OPEC countries using Game Theory. It also helps in discussing the effects of differential pricing mechanism on consumers.

**Pedagogical Objectives**

- To analyse the degrees of price discrimination
- To analyse the effect on producers and consumers using Game Theory
- To understand the pricing and output effects using Hotelling model and Edgeworth model.

**Keywords**

Oil Prices; Oil Supplies; Organisation of Petroleum Exporting Countries (OPEC); Cartel; Oligopoly; Origin and Evolution of OPEC; Crude Oil Production and Prices; Individual and market demand and supply; Elasticity of demand and supply; Consumer's utility; preference and budget constraint; Microeconomics Case Study; Behaviour of OPEC and non-OPEC countries; Game Theory

---

**OPEC: The Economics of a Cartel**

(A)

The second case, in the three part case study series, deals with competitive dynamics of OPEC. In economics some words are considered notorious for their implications – one such word is cartel. Everyone who saw ‘God Father’, would draw parallels to cartel's clandestine motives and actions. After having established the objectives of forming OPEC, this case enables the students to debate on the ways and means adopted to reach its objectives. Even if the OPEC countries produce oil at lower levels than their capacity, they would still have surplus, but the global oil supplies will be strangled. The OPEC members used this strategy to control global oil prices as early as in 1970s. However, by mid-1980s OPEC was unable to withstand the competitive pressures from the non-OPEC countries. Under these circumstances OPEC started to behave more like a cartel and faced many challenges. This case could be used to analyse pricing mechanism of oil and, the effects of cartelisation on supply and demand in the global oil supplies.

**Pedagogical Objectives**

- To analyse the effects of cartelisation on the producers and consumers
- To understand differences in the operations of OPEC and non-OPEC countries in controlling their respective oil supplies.

---

**OPEC: The Effects of a Cartel**

(B)

The basic premise of this three-part case is to let the students derive as many economics concepts as possible from OPEC and the economics of cartel. This would enable them to derive major micro economics concepts – market structure, cost structure, consumer behaviour and related concepts – and can also be linked to Game Theory (as is done in the Case Study (C)). These three cases can be used in managerial/business economics courses and the economics of competition in a strategy module. The first case deals with the intricacies of OPEC; the necessity, the origination and the evolution of the organisation into a cartel. It was argued that since the oil exporters were exploited by the western governments and the multinational corporations, OPEC was created. And the organisation pledged to safeguard members' interests. After having understood the historical foundations of OPEC, the students can analyse OPEC's nature and the interlink ages between oil industry's supply and demand dynamics.

**Pedagogical Objectives**

- To study the negative effects of liberalisation in China
- To study the effects of food crisis on inflation
- To understand the concept of trade surplus – and analyse its impact (if any) on inflation
- To understand the relation between decline in real interest rates and inflation rise.
Natural Gas: The Fuel of the New Century?

The increase in prices of oil had set off a debate among the policy makers, industry analysts and observers over the need to look for alternative sources of energy. Rapid industrialization around the world had led to an energy driven economy. A stage has reached where one cannot imagine life without oil. In this context replacement of oil is even more difficult. Most experts feel that natural gas could be the next big thing. This case tries to examine whether natural gas could play the role the oil played in the twentieth century. The case looks at the demand and supply aspects of gas, seeks to understand the dynamics and geopolitics of natural gas, and examines the environmental impact of gas and the pricing related issues.

Pedagogical Objectives

- Role of Energy in the World Economy
- Need for alternatives to oil
- Role of natural gas as an alternative energy source
- Likelihood of natural gas emerging as an alternative energy source
- Supply and demand patterns of natural gas
- Issues relating to pricing of natural gas
- Environmental issues related to the various energy sources
- Geopolitics of gas.

The Economics of Hosting the Olympics

A fortnight-long extravaganza of sporting events, records, medals and tears, mesmerised audience, spectacular stadiums, floodlit-bathed city centers, folks from across the globe, scintillating structures and breathtaking moments. Thus goes the description of the Olympics for the general audience. However, for the economists, it translates into billions of dollars invested in infrastructure and thereby injecting a growth pill into the economy.

Pedagogical Objective

- To discuss the short and the long-term economic benefits that prompt nations to bid for Olympics despite the colossal investments involved.

Transfer Pricing

Rapid globalisation has seen increasing levels of intra-firm trade between affiliates situated in different countries. Companies frequently shift profits to low tax jurisdictions in order to maximize returns. This is most commonly done through ‘transfer pricing’ of tangibles and intangibles between group companies. However, despite the tightening of transfer pricing litigation around the world, laws are difficult to implement because they involve significant levels of interpretation as to where value is actually created.

Pedagogical Objective

- To discuss the issues relating to tax avoidance/evasion by shifting profits to low tax countries through transfer pricing.

Keywords

Chinese Economy; Food Security; Food Crisis; Household Responsibility System; Interest Rates; Retail and Wholesale Indices; Human Development Index; Economic Reforms in China; Inflation; Microeconomics Case Study; Income-Expenditure Pattern; Five Year Plans; Monetary Policy; Fiscal Policy; Consumer Price Index

Monetary Policy

Currency Reserves in Emerging Economies: Inflationary Pressures

Economic crises in the developing countries – Mexico (1994), the East Asian economies (1997), Russia (1998), Brazil (1999), Turkey (2000), Argentina (2001) and Venezuela (2002) – have taught a lesson or two for the rest of the world. All countries learnt, some the hard way, that shortage in FOREX reserves could cause an irreparable damage to the economy and have begun to amass foreign capital. Also due to increased pace of globalisation, during 2000s, most of the emerging economies have been flooded with foreign reserves. From late 2006, global inflation started to increase due to a host of reasons. Economic pundits were quick to correlate growing FOREX reserves with alarming inflation and profess that excess of foreign currency is equally bad as its dearth. As a result, by 2008, the emerging economies are experimenting with various macroeconomic instruments to control the excess inflow of foreign capital into their economies. This case study helps debate whether there is any correlation between inflation and FOREX reserves. If yes, how are they interlinked? What measures can central banks take to mitigate the ill-effects of FOREX reserves? In what ways can they check the inflow of FOREX reserves? How much foreign capital is desirable and how much is too much?

Pedagogical Objectives

- To understand various facets of FOREX reserves and the implications for an economy
- To analyse the sterilisation policy of a central bank
Inflation Targeting as a Monetary Policy Tool: The Case of Bank of England

Since Adam Smith’s time, stable price level has been a gospel. The assumption – that economic growth, when achieved at a healthy inflation level, will keep diffuse economic turbulences – makes economists and policymakers formulate the right dosage of inflation. Many policies and mechanisms, to hit that right balance, have been professed and implemented in various economies. Their efficiency has been put to litmus test every time the respective economies felt a riffle, notwithstanding the intensity. The latest addition to these mechanisms is inflation targeting. Though New Zealand has been the harbinger of inflation targeting, its success in the UK for a decade and half has won it large fanfare. UK adopted inflation targeting, more out of compulsion than conviction in 1992, when it needed an anchor to induce monetary discipline and guide all other variables. From then on, the new mechanism has been delivering goods till 2007, when for the first time it strayed from its target. Doubters have not refrained from casting shadows over the efficacy of inflation targeting and are preaching new mechanisms. This case study helps discuss the effectiveness of inflation targeting as a monetary policy tool in a globalised environment and also to debate over the central bank’s role in striking a balance between growth and inflation.

Pedagogical Objectives

• To discuss the reasons for inflation and its effect on the economy
• Inflation targeting as a monetary policy tool
• Reasons for adopting inflation targeting.

Global Inflation: Monetary Policy Debate

Right from the last quarter of the past century, as nations opened up their economies, low-cost countries poured cheap imports and cheaper labour into the world economy. This allowed central bankers to stay with aggressive growth targets – relieving their fears of inflation. Yet the growing global economy – at around 5% from 2004 to 2006 that may remain for 2007–2010 – unleashes a resource crunch. Globalisation – that helped high growth rates, with low inflation, for about two decades – is now widely blamed for the panics about inflation. Economists feel that the monetary policies may get tighter to counter the soaring demand, which may halt economic growth.

This case study helps analyse the effects of globalisation on growth and inflation in the new economy. The case will also help in debating the role of emerging economies in fuelling (if at all) global inflation.

Pedagogical Objectives

• To discuss the impact of globalisation on inflation
• To study the relationship between interest rates and inflation
• To realise the role of central banks in a greatly globalised world.
Currency Appreciation; Measures to bring inflation rate to within 1.5% of the average in EMU, the countries would have to fulfill reasonable time-frame. For inclusion in the their currencies with the Euro within a target. The countries would have to replace Monetary Union (EMU) being the final Europe, inclusion to the European Union was the first step in the developments in one sector affect the whole economy. Debates can ensue about how governments should act, when benefits from one sector subvert other sectors.

**Pedagogical Objectives**

- To understand a currency's appreciation, depreciation, revaluation and devaluation
- To examine the economic impact of controlling appreciation
- To debate on various alternatives while controlling appreciation.

**Keywords**

South Korean Economy; Currency Appreciation; Currency Depreciation; Currency Revaluation; Currency Devaluation; Exchange Rate; Real and Nominal Exchange Rates; Monetary Policy Case Study; Hedging; Comparative Cost Advantage; Economic Effects of Currency Appreciation; Measures to Control Currency Appreciation

**Economic Reforms in Poland: A Case of Inflation Targeting**

Poland joined the European Union (EU) in May 2004, together with 9 other European countries. The accession to the European Union was the first step in the economic integration of the countries into Europe, inclusion to the European Monetary Union (EMU) being the final target. The countries would have to replace their currencies with the Euro within a reasonable time-frame. For inclusion in the EMU, the countries would have to fulfill certain criteria, collectively known as the Maastricht Criteria. One of the criteria was that the countries had to bring down annual inflation rate to within 1.5% of the average of three EU countries with the lowest inflation rates. After remaining a command economy under Communist rule from 1945 to 1989, Poland liberalized its economy with the help of the Balcerowicz Plan in 1989. The plan, though largely successful in bringing down inflation to moderate levels (from 70.3% in 1991 to 11.8% in 1998), could not reduce inflation to the levels required for Poland's accession into the EMU. In 1998, Poland adopted 'Inflation Targeting', a mix of monetary and fiscal policies aimed primarily at bringing down inflation to the Maastricht levels. Though such policies were followed by many countries during that period, including Hungary and Czech Republic, Poland was one of the few countries to successfully implement this policy. It currently has one of the lowest inflation rates in the EU (the average inflation rate in Poland between 2001 and 2005 was 2.8%). This case investigates the monetary-fiscal policy mix that enabled Poland to succeed where many others failed. It also analyses the long-term effects of the reforms plan and whether it would help Poland achieve its final goal – the accession to the EMU.

**Pedagogical Objectives**

- To understand the importance of fiscal prudence in shaping an effective monetary policy
- To analyse the pros and cons of inflation targeting monetary policy.

**Keywords**

Poland; Economics; Macroeconomic; Inflation; Reform; Targeting; Stagflation; Interest rate; Exchange rate; Fiscal deficit; European Union (EU); European Monetary Union (EMU); Euro; Monetary Policy Case Study; Transition economy; Policy

**Euro in 2004**

Euro could be considered a unique experiment in the sense that the integration of currencies had not been carried out before. The scale of integration was also immense. The case traces the events leading to the creation of Euro and the impact Euro has had in the first five years. It examines Euro’s performance taking a look at the price stability in Europe, its role as a reserve currency, promotion of trade and its emergence as international currency. Its performance in the international financial markets and the extent of its acceptance as an international currency will shape up its future. The challenges facing it such as the expansion of European Union, the collapse in Growth and Stability Pact, UK staying out of Euro have also been looked into.

**Pedagogical Objectives**

- Role of World Currency
- Euro vs. Dollar
- European integration
- Lessons for other trade blocs. Are they likely to move in similar direction?
- Should UK join Euro?
- European economy after the introduction of Euro
- European Monetary System
- Can be used to explain Mundell’s model.

**Keywords**

Euro; European Economy; European integration; Euro vs. Dollar; Monetary independence; Currency integration; Mundell’s Model; International Finance; International economics; European economics; Growth & stability Pact; Maastricht Treaty; Reserve Currency; European Monetary Union; Vehicle Currency.

**The Power of the US Dollar: The Waning Glory?**

After the end of the Second World War, backed by the powerful US economy, the dollar gained the status of an international currency almost overnight under the Bretton Woods system of international finance. Even after the collapse of the Bretton Woods system in 1971, the usage of dollars for trading oil, the world’s most valuable commodity, continued, resulting in dollar hegemony. In the following years, the dollar established its presence in all aspects of international finance, and at one time, more than 80% of global currency reserves were dollar denominated. The US economy reaped massive seignorage gains and became the ‘Super Power’ of the twentieth century. But the US failed to maintain the value of the dollar. Unchecked spending by successive US administrations resulted in a huge pile of trade and current account deficit that eroded the value of the dollar.
Pedagogical Objectives

- To discuss the importance of the US dollar among the international currencies
- To discuss the future of the international monetary system.

Keywords

Dollar hegemony; International monetary system; Global financial system; International trade; USA's fiscal policy; Foreign exchange reserves; Global economic crisis and recession; USA's current account deficit; Plaza Accord; Net international investment position; Global currency; The gold standard; Bretton Woods system; Alternative global currencies; European Union economic growth.

China: Importing Commodities and Exporting Inflation?

Even after 25 years of economic reform, China presents an enigmatic picture of political and business environment. Unlike the developed economies, China’s economic engine heavily depends on manufacturing and its inexpensive labour resources. Over the years, this reliance led to over-investment and over-capacity in certain sectors such as oil, steel and cement. While this is just one side of the coin, China’s socialist banking approach has added more to the already heated economy. As a result, the country’s scorching economic growth sent inflationary and deflationary reverberations across the world by rising prices of the globally traded commodities like oil, cement, steel and other metals.

Pedagogical Objectives

- To understand the impact of China’s fast-paced economic growth on other countries
- To discuss the proactive steps that China needs to take to cool its economy.

Keywords

China’s overheated economy; Inflation and deflation; Global prices of commodities; Demand for oil, steel and cement; Consumer expenditure and consumption; China’s GDP (gross domestic product); China’s oil production; Daqing oil field; The great leap forward; The policy of self-reliance; Zhou Enlai and the four modernisations; Flawed banking system.

Germany’s Economic Dilemma: To Save or to Spend?

Germany, in common with the rest of continental Europe, has been suffering from a lack of demand, caused in part by the Germans’ high propensity to save. Other European members, subject to similar macro economic constraints, have done far better. What really sets Germany apart from its more successful European neighbours is its structural rigidities, its high wages and non-wage labour costs, and a rigid labour market. Schröder, who came to power promising economic revival, met only partial success. His economic policies could not revive consumers’ confidence, and left them in a state of suspended animation - to spend or to save.

Pedagogical Objectives

- To discuss ‘how the propensity to save’ can have an adverse or favorable impact on a country’s economy
- To discuss the effectiveness of Keynesian economics in reviving European members’ economies within the constraints of the European Union’s ‘stability and growth pact’ and the European Central Bank’s monetary policy decisions.

Keywords

German’s propensity to save; The German economy; Gross domestic product; Private consumption; Gerhard Schroeder; Economic recession; German reunification; European Union (EU); Social market economy; Corporate taxation; Federal budget expenditures; Social security; pension reforms; Unemployment in Germany; Business confidence; Mittlestand companies.

Yuan: To Peg or Not to Peg

The Chinese Yuan is pegged to the US dollar and the exchange rate is maintained by large-scale purchases of the dollar from the open market by the People’s Bank of China. Buoyed by an undervalued Yuan, China has been enjoying large trade surpluses with the US and has built huge foreign exchange reserves. This, coupled with a fall in the US dollar, has increased pressure on China to remove the dollar peg or at least make the Yuan more flexible. But China has been resisting such a move.

Pedagogical Objectives

- To discuss the implications of the Yuan-dollar peg and the impact on the trade between the two countries.

Keywords

Chinese yuan, renminbi; US dollar; Currency pegging; Balance of payments; Reserve currency; Exchange rates; Unemployment; Asian financial crisis; Chinese economy; China’s foreign trade; China’s exports and imports; People’s Bank of China; Inflation rate; Free float; The Big Mac Index.

America’s Dollar Policy: Weak Dollar vs Strong Dollar

The world was on a de facto dollar standard, which meant that the American government’s currency policy had the potential to affect not only international trade but also domestic policies of different countries. Since the Bretton Woods agreement, American currency policy had been alternating from a strong dollar to a weak dollar. But it was under Clinton’s administration that America stated as a matter of policy that a strong dollar was in its interest. But careful analysis of the dollar’s movements and the Federal Reserve’s policies indicated contradictions between policy statements and state intervention. Since George Shultz (1972–1974), nearly every treasury secretary with the notable exception of Robert Rubin, made some effort to depress the value of dollar. However, their actions did not always lead to consequences they desired.

Pedagogical Objectives

- To discuss the intricate relationship between interest rates, purchasing power and exchange rate in determining and following a currency policy namely America’s dollar policy
- To discuss the future implication of the relationships among the said variables.

Keywords

America's dollar policy
Keywords
Strong dollar versus weak dollar; Gold standard; Bretton Woods system; The Great Depression; Exchange rate system; The United States Federal Reserve; US monetary policy; Bank prime lending rate; US fiscal and current account deficits; Balance of payments; US exports and imports; US economy; Reserve currency; Open competitive currency markets; Interest rates.

The Appreciating Canadian Dollar: The Implications for the Canadian Economy

The Canadian dollar, also called the ‘loonie’, had been traditionally based on the floating exchange rate. Based on its purchasing power, it was opined that the loonie’s value was perfect at $0.815. However, the loonie, which was traded at $0.8934 in 1991, continuously fell till 2003, before it again started surging at a rapid pace.

Pedagogical Objective
• To discuss the reasons for the fall of the loonie since 1991, apart from the factors that prompted its sharp rise since January 2003, and its implications for the Canadian economy.

Industry
Reference No. MOP0015
Year of Pub. 2004
Teaching Note Available
Struc.Assign. Available

Currency Pegging
From 1870 to 1914, countries all over the world followed the gold standard system, where all the currencies were linked to gold. After World War II, the Bretton Woods system was introduced, where all the currencies were fixed against the US dollar. In 1971, the Bretton Woods system was abandoned because of wide spread inflation all over the world. Most of the developing countries continued to peg, either to the US dollar or to the French franc. By the late 1970s, many countries had shifted from single currency pegs to pegs defined in terms of basket of currencies. After the Asian crisis of 1997-1998, many countries like Russia, Brazil, Ecuador, Thailand and Korea shifted from a pegged exchange rate system to the floating rate system. Whereas countries like China, Malaysia and Bolivia continued with the pegged system.

Monetary Policy: Hungary vs Poland

Hungary and Poland, two of the fastest growing economies in central Europe, are to join the European Union in May 2004. Since the 1980s, both countries had experienced unfavourable political and economic conditions. Both had a history of hyperinflation, high levels of foreign debt and a poor institutional and economic framework. During the 1990s, these countries went through a transitional phase and intensified their efforts for economic revival. By January 2004, with an efficient monetary policy, Poland had been successful in curbing the inflation and achieving price stability. In contrast, Hungary was struggling with high interest rates.

Pedagogical Objective
• To discuss the relationship between interest rates, inflation and the value of the currency in the background of the policies of two central European countries.

Policy
Reference No. MOP0014
Year of Pub. 2004
Teaching Note Not Available
Struc.Assign. Not Available

Currency Pegging
From 1870 to 1914, countries all over the world followed the gold standard system, where all the currencies were linked to gold. After World War II, the Bretton Woods system was introduced, where all the currencies were fixed against the US dollar. In 1971, the Bretton Woods system was abandoned because of wide spread inflation all over the world. Most of the developing countries continued to peg, either to the US dollar or to the French franc. By the late 1970s, many countries had shifted from single currency pegs to pegs defined in terms of basket of currencies. After the Asian crisis of 1997-1998, many countries like Russia, Brazil, Ecuador, Thailand and Korea shifted from a pegged exchange rate system to the floating rate system. Whereas countries like China, Malaysia and Bolivia continued with the pegged system.

Pedagogical Objective
• To discuss the relationship between interest rates, inflation and the value of the currency in the background of the policies of two central European countries.

Industry
Reference No. MOP0014
Year of Pub. 2004
Teaching Note Not Available
Struc.Assign. Not Available

US Fiscal Deficit

The Congressional Budget Office projected that the US budget would run a deficit of $500 billion for the fiscal year 2005. The US, which had a surplus of $99 billion in 2000, recorded a deficit of $375 billion by the end of 2003. The International Monetary Fund, which had been a strong critic of budget deficits, came out with many reports showcasing the need for controlling the spiraling budget deficit of the US.

Pedagogical Objective
• To discuss the US fiscal deficits and the expected and possible ramifications on the US as well as the world economy.

Industry
Reference No. MOP0012
Year of Pub. 2004
Teaching Note Not Available
Struc.Assign. Not Available

Dollarization and Countries’ Experiences

In the 1800s, the US did not have a domestic currency. The French franc, Spanish dollar, Portuguese escudo and English shilling were all used in the US. Like the US, many other countries had a foreign currency at some point in their history. Most of the Latin American countries had experienced unofficial dollarisation, whereas countries like Ecuador, El Salvador and East Timor had officially dollarized their currencies. Other countries like Bhutan, Namibia and Bahamas had semi-officially dollarized their economies. Dollarization directly linked the economy of the dollarized nation with the economy of the issuing country.

Keywords
Currency pegging; Bretton Woods system; Basket of currencies; Special drawing rights; Pegged exchange rates; Bank Negara; Malaysian dollar ringgit; Convertibility Law; Domingo Cavallo; South American countries; Fiscal deficits; Monetary and fiscal policies; People’s bank of China; World Trade Organisation; Foreign currency reserves.
Pedagogical Objectives
• To discuss the experiences of various dollarised countries
• To discuss the effects of the different types of dollarisation on the economy that adopted any other currency as its domestic currency.

Keywords
Official and unofficial dollarisation; Currency boards; Spanish milled dollar; Foreign currency; Southeast Asian financial crisis; Currency pegging; Bank of Namibia; US dollar; Foreign exchange reserves; Belarus National Bank; South African Reserve Bank; Common monetary area; Central Bank of El Salvador; Central Payment Office; United Nations Transitional Administration in East Timor.

Currency Boards and Countries’ Experiences
The system of currency boards originated in Britain in the 1800s. Soon the concept of currency boards spread among the British colonies in Africa, Asia, the Caribbean and the Pacific Islands. In the 1990s, this system was introduced in those countries, which were troubled by high inflation and financial instability. But gradually, the currency boards were replaced by the central banks. By 2002, 174 countries had established their own central banks. However, other countries like Hong Kong, Estonia and Lithuania continued to have currency boards and they did not permit any monetary policies.

Pedagogical Objectives
• To discuss the mechanism of currency boards of different countries
• To discuss the differences between the central bank and the currency board arrangement.

Keywords
Currency board system; Foreign currency assets; Issue department; Convertibility system; Bank of England; Hong Kong Monetary Authority; Linked exchange rate system; European Union; Current account deficit; Floating exchange rate system; Banking supervision department; Open market operations; Monetary policies; Lender of the last resort; Central bank.

Britain’s Housing Market Pound vs US Dollar Dilemma
Low interest rates were one of the prime reasons for the sustained booms in Britain’s housing market, while a weak dollar was one of the prime reasons for a strengthening pound. The Monetary Policy Committee of the Bank of England was caught in a dilemma whether to contain the booming housing market by increasing interest rates or restrain the appreciating pound by decreasing interest rates. Finally, the Monetary Policy Committee chose to contain the housing market by increasing interest rates with the hope that the pound would not appreciate much. However, the falling dollar did not seem to help them.

Pedagogical Objective
• To discuss the relationship between interest rates, the pound’s exchange rate and the housing market.

US Trade Deficits
By December 2003, the trade deficits of the US reached a record high of $490.8 billion, having major deficits with other countries – China, Japan and Canada. The growing deficit has been a concern for American trade and commerce. The growing trade deficit has often been cited as proof of the unfair trade practices abroad or a lack of competitiveness among US industries. Economists view trade deficits as just a macroeconomic reality of investments flowing from abroad. However, the growing deficit has often been a point of discussion because of its cascading effect on the economy.

Pedagogical Objectives
• To discuss the underlying issues for the growing trade deficit of the US, especially with countries such as Japan and China
• To discuss the consequences of a trade deficit.

Keywords
US trade deficits; Macroeconomics; US trade with China and Japan; US economy; Renminbi peg to the dollar; Yen vs dollar; Yuan vs dollar; Productivity of Chinese labour; The Big Mac index; Current account deficit; Tariff barriers; US gross domestic product; Balance of payments; US imports and exports; Exchange rate.

The 1997 Devaluation of the Thai Baht and After
The abundant natural resources and the agricultural advantage were the major factors that supported Thailand’s economy before the 1970s. Later, as the demand for agricultural products decreased, Thailand started developing an export-oriented manufacturing sector. International trade with the United States and Japan increased. In 1984, Thailand’s currency, baht was pegged to a basket of currencies and 80% of the basket was dollar denominated. During 1996-1997, increase in foreign investment and borrowing, appreciation of the US dollar, and speculation in the currency market led to overvaluation of the baht. In July 1997, Thailand floated the baht, which resulted in a 15% devaluation. This affected the trade and investment sectors of the country. The devaluation helped Thailand to improve its trade with Japan, the US, the European Union and the Association of Southeast Asian Nations (ASEAN).

Pedagogical Objective
• To discuss the reasons that led to the devaluation of the baht and the relationship between the exchange rate and foreign trade of Thailand.

Keywords
Devaluation of the Thai baht; Thailand’s economy; Bank of Thailand; Current
account deficit; Basket of currencies; Monetary targeting regime; Association of Southeast Asian Nations (ASEAN); Speculation in the currency market; Foreign investment; Foreign currency reserves; Memorandum of economic policies; Non-performing loans; Bailout package; Southeast Asian financial crisis; International Monetary Fund

**South Korea’s Currency Crisis in 1997 and After**

The economy of South Korea was based on its labour-intensive industries and a favourable international market. The nominal rate of the Korean currency, the won, was fixed at 484 per dollar. A reduction in the exports, during 1980, led to the devaluation of the won to 580 per dollar. Later, in 1993, South Korea allowed the won to fluctuate within a permitted range of plus or minus 2% against the dollar. In 1997, the Korean banks extensively borrowed foreign capital on a short-term basis and then lent on a long-term basis without proper evaluation of risks. This led to the Korean currency crisis, and affected the foreign trade of the country. After widening the permitted range of the won to 10% for a short period, the Korean government allowed the won to float freely in December 1997. The Korean trade showed improvement by the end of 1999.

**Pedagogical Objective**

- To discuss the reasons that led to the currency crisis in South Korea, and its effects on the foreign trade of the country.

**Keywords**

South Korea’s currency crisis; South Korean economy; Foreign exchange market; Bank of Korea; South Korean chaebol; Korean won; Devaluation of the Korean won; Asian development bank; Long-term investment; Short-term borrowing; Memorandum on economic policies; Non-performing loans; IMF bailout package; South East Asian financial crisis; International Monetary Fund

**The 1994 Devaluation of Mexican Peso and After**

From the 1940s till the mid-1970s, the Mexican economy enjoyed a strong growth. Vast petroleum and oil reserves were discovered in Mexico in the 1970s. The Mexican government expected that the income earned by exporting petroleum would help them balance their spending. But in 1976, Mexico’s balance of payments showed a deficit. The government allowed the peso to float in 1976, which resulted in peso depreciation. Decreased demand and lower prices of petrol made the government devalue the peso in 1983. In 1994, Mexico signed the North America Free Trade Agreement (NAFTA) and expected its foreign trade to increase. But the growing current account deficit and large short-term borrowing led to another devaluation in December 1994. The devaluation of the peso affected trade with the US and other countries. The Mexican government tried to improve its economic conditions by taking advantages under the NAFTA. On January 1st 2004, Mexico ranked eighth in the world among the largest trading countries.

**Pedagogical Objectives**

- To discuss the effect of devaluation on the foreign trade of Mexico
- To discuss the relation between the exchange rate and the exports of Mexico

**Keywords**

Mexican economy; Devaluation of the Mexican peso; North American Free Trade Agreement; Balance of payments; Current account deficit; Foreign exchange reserves; International Monetary Fund; President Ernesto Zedillo; Foreign trade balance; Exchange rate band; World Trade Organisation; Mexican exports; Pegging with the dollar; Free floating currency; Currency depreciation

**UK and the Euro**

The case study throws light on the issues of whether the UK, which is the second largest economy in Europe, would join the Economic and Monetary Union (EMU) of the European Union (EU) and adopt the euro as its currency. UK is a member of the EU but in 1997 it announced five economic tests to judge whether and when it would be in the UK’s interests to join the EMU. Gordon Brown, the Chancellor of the Exchequer, in his address to the Parliament on June 9th 2003, announced the results of the five economic tests, but no concrete results have been derived on this issue yet.

**Pedagogical Objectives**

- To discuss whether it would be beneficial for the country to adopt the euro as its single legal tender.

**Keywords**

UK and the euro; Economic and Monetary Union (EMU); Assessment of the five economic tests; European Union (EU); Convergence criteria of the EMU; Single currency and investments in the UK; Price differentials and macroeconomic stability; Nominal and real interest rates in the UK and the euro area; GDP (gross domestic product) growth rate in the UK and the euro zone; Referendum in the UK; Bank of England; EMU and the UK’s financial services industry; Labour markets in the UK; Maastricht Treaty; Exchange Rate Mechanism.

**US Dollar vs the Yuan**

The US has always favoured a ‘strong dollar policy’. However, China’s currency, the yuan, is pegged to the dollar at about 8.28. The US, through the recent visit of its Treasury Secretary, John Snow, to Beijing, and through the G7 Communiqué, has spelt out the need for market determined exchange rates. US wants the Chinese peg to be replaced by free float, as pegging has resulted in the relocation of production base to China and a trade deficit with China. The currency peg has helped China to increase employment rates. The yuan is undervalued and so adoption of free float would make it stronger against the dollar. The currency peg has helped China to replace some of Japan’s exports to the US. It has also brought more deflation into the already deflated Japanese economy.

**Pedagogical Objectives**

- To discuss the importance of currency pegging and its implications on the exports & imports of an economy
- To discuss the need of market determined exchange rates.

**Keywords**

Yuan; Yen; Renminbi; Dollar; Exchange rate; Interest; Balance of trade; Deficit and surplus; Deflation; Inflation; Current account; Weak; Strong; Imports; Exports
US Dollar vs the Yen

Traditionally, the US has been favouring a 'strong dollar policy'. But the recent remarks of the Treasury Secretary hint at the need for a weak dollar against the Japanese yen. The weakening of the yen against the dollar is resulting in cheaper imports from Japan and costlier exports to Japan. For Japan, a weaker yen will help increase the exports to the US and might also fuel inflation in the Japanese economy. The Bank of Japan has been embarking on currency market interventions to stop the yen from rising. The G7 Communiqué and the US Treasury Secretary’s visit to Japan have increased the pressure on Japan to let the exchange rates be determined purely by the market.

Pedagogical Objectives

• To discuss the currency policy in the wake of globalisation
• To discuss the scope of currencies in determining the imports and exports of an economy.

Industry: Not Available
Reference No.: MOP0002
Year of Pub.: 2003
Teaching Note: Available
Struc.Assign.: Available

Keywords

Yen; Dollar; Exchange rate; Japan; Interest; Surplus; Deficit; Exports; Imports; Deflation; Inflation; G7; Translation; Balance of trade; Current account.

Euro vs the US Dollar

The case study revolves around the impact of the single currency of the European Union (EU), the euro, in the International Monetary System. Various factors that led to the international acceptance of the currency have been considered vis-à-vis the euro.

Pedagogical Objective

• To discuss whether the euro will break the dollar’s hegemony in the world markets.

Industry: Not Applicable
Reference No.: MOP0001
Year of Pub.: 2003
Teaching Note: Not Available
Struc.Assign.: Not Available

Keywords

Euro; Dollar; International Monetary System; Single currency; Denomination currency for oil trade; Reserve currency; European Union; Stability and growth pact; European Monetary System; European Central Bank; Economic and