

# George Washington University

Department of Economics and Sigur Center for Asian Studies,  
Elliot School of International Studies

## **Econ 271: Japan's Economy**

Fall 2007, Professor William Brown

Wednesdays 7:10-9:00, Monroe 353

**Objectives:** This course is designed to give the student an overview of the problems and opportunities that face the contemporary Japanese economy. Students will learn to discriminate between theories that lie behind Japan's unusual boom and bust growth pattern over past decades and the role of government policy. Views of economists will be supplemented by sociologists, historians, political scientists and technology specialists. Japan will be used as a platform from which key microeconomic and macroeconomic principles can be reviewed and tested. These concepts includes growth theory, fiscal and monetary policy, trade theory, balance of payments, and market competition principles. The course will include coverage of current economic indicators and conditions.

**Requirements:** This is a reading (10 hrs/week) and thinking intensive class. Students will be expected to spend considerable time comparing texts that offer sometimes differing views of Japan's economy, and with supplemental articles assigned during the course. Additionally students will be expected to keep up with current developments in the Japanese economy and maintain a journal of readings on an issue of particular interest, posted to the blackboard. This interest area will be discussed with the instructor in the third week of the class. Each student will give an oral brief on one reading assignment.

**Evaluations:** Final exam (comprehensive in-class) 45%; mid-term quiz (25%); in-class and "blackboard" participation (20%); and homework assignments (10%).

**Instructor:** Adjunct professor William B. Brown is Senior Research Fellow in the National Intelligence Council where he is responsible for East Asian analysis. He took an early retirement from the Chief Economist's Office of the US Commerce Department in 2003 where his duties included coverage of current economic conditions in Japan and China. He also served 16 years in CIA's Offices of Economic Research and East Asian Analysis and as Deputy National Intelligence Officer for Economics. Mr. Brown was raised in East Asia, spending many years in Japan and in South Korea and has traveled extensively in China. He also worked as a senior analyst in the US Embassy in Seoul, Korea and has advised Virginia companies on trade and investment strategies with East Asia. As an adjunct professor, Mr. Brown taught international economic courses in George Mason University's graduate School of Public Policy from 1992 to 2005 before coming to George Washington University last year. He received his M.A. in economics and most of his PhD coursework from Washington University in St. Louis and his B.A. in International Studies from Rhodes College in Memphis, TN.

**Required Texts:**

- David Flath, *The Japanese Economy* (2<sup>nd</sup> edition), Oxford, July 2005
- Dick Beason and Dennis Patterson, *The Japan that Never Was: Explaining the Rise and Decline of a Misunderstood Country*, State University of New York Press, 2004.
- Michael Hutchison and Frank Westermann, *Japan's Great Stagnation: Financial and Monetary Policy Lessons for Advanced Economies*, MIT 2006
- Yoshiro Miwa and Mark Ramseyer, *The Fable of the Keiretsu: Urban Legends of the Japanese Economy*, Chicago, 2006
- Takatoshi Ito, Hugh Patrick, David Weinstein, *Reviving Japan's Economy: Problems and Prescriptions*, MIT 2005

**Reserve Texts:**

- Arthur Alexander, "*In the Shadow of the Miracle*" Lexington Books, 2002
- Richard Koo, "*Balance Sheet Recession: Japan's Struggle with Uncharted Economics and its Global Implications*", John Wiley & Sons (Asia), 2003.
- Edward Lincoln, "*Arthritic Japan: The slow pace of economic reform*", Brookings, 2001
- Richard Katz, "*Japan: The System that Soured*", M.E. Sharpe, 1998
- Francis Fukuyama, *Trust and the Creation of Social Capital*, Free Press, 1995
- Kazuo Sato, *The Transformation of the Japanese Economy*, ME Sharp, 1999
- Lawrence Harrison, Samuel Huntington, *Culture Matters*, Persues Books, 2000
- Ronald McKinnon, *Exchange Rates Under the East Asia Dollar Standard*, MIT 2005
- Glenn Hook ed., *Japan's International Relations*, 2<sup>nd</sup> edition, Routedledge, 2005.

**Key Links****World Bank**

<http://devdata.worldbank.org/external/CPProfile.asp?SelectedCountry=JPN&CCODE=JP&CNAME=Japan&PTYPE=CP>

**OECD**

<http://www.oecd.org/dataoecd/45/48/20431842.pdf>  
<http://stats.oecd.org/wbos/viewhtml.aspx?queryname=321&querytype=view&lang=en>  
[http://www.oecd.org/document/36/0,2340,en\\_2649\\_201185\\_37127588\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/36/0,2340,en_2649_201185_37127588_1_1_1_1,00.html)

**IMF: April 2007 WEO**

<http://www.imf.org/external/pubs/ft/weo/2007/01/pdf/c2.pdf> \*\*\*  
<http://www.imf.org/external/country/jpn/index.htm?type=9998>  
[http://www.imf.org/external/pubs/ft/weo/2007/01/c2/FIG2\\_5.pdf](http://www.imf.org/external/pubs/ft/weo/2007/01/c2/FIG2_5.pdf)

**Bank of Japan Financial and Economics Data**

<http://www.boj.or.jp/en/index.htm>

**Japan Cabinet Office (GDP data)**

<http://www.esri.cao.go.jp/index-e.html> ]  
<http://www.esri.cao.go.jp/en/sna/qe072/pointe.pdf>

Monthly Report: <http://www5.cao.go.jp/keizai3/getsurei-e/index-e.html> \*\*\*

**Ministry of Economy and International Trade (Industrial production data)**

<http://www.meti.go.jp/english/statistics/index.html>

**Ministry of Finance (International trade data)**

[http://www.customs.go.jp/toukei/info/index\\_e.htm](http://www.customs.go.jp/toukei/info/index_e.htm)

**SYLLABUS**  
**ECON 271 JAPAN'S ECONOMY**  
Fall 2007, Brown

Class 1 Wed. Sept 5, 2007 Introduction

- Class/Course Introduction
- Japan as a parallel universe
- Japan as a model for developing and developed economies

*Assignment for this class and next: Flath pp. 1-42; Beason pp. 2-27; Ito pp. 1-35; Sato pp. 1-63; Miwa pp. 1-5; study World Bank Link, Japan data sheet from April 2007 World Development Indicators. Optional background: Alexander pp. 1-18, 255-271, pp. -316; Lincoln pp. 1-15.*

Class 2: Wed. Sept 12 Current Economic Conditions in Japan

- Using current indicators [will review above data links]
- NIPA (GDP) data
- Balance of Payments data
- Market data—interest and exchange rates, stock prices

*Assignment for this class:* Read July 2006 OECD Report (link) ; peruse Japanese government statistics websites; IMF WEO (link). Study *Economist* datasheet (handouts).

Class 3: Wed Sept 19 History of Japan's Economic Development

American pundits: From “*Trading Places*”, “*Trading Fortunes*” and “*Japan is Number One*” to “*System That Soured*”, “*Arthritic Japan*” and “*The Japan That Never Was*”.

- A bit of history
  - Accepting the challenge (Meiji)
  - Fixed and undervalued yen (sound familiar?)
  - Dual economy—big exporter, weak importer (sound familiar?)
  - Convergence ?
- Input Oriented Outputs--saving at home, investing abroad
- A bubble/bust and “Balance Sheet Recession”
- Modest but sustained revival

*Assignment for this class: Flath pp.43-93; Hutchison 1-32; Beason 30-77.*

Class 4: Wed Sept 26 Overview: Accounting for Japan's past and future growth

- A labor force collapse
- A saturated capital stock
- Needed--Continued Technology and Efficiency Gains

*Assignment for this class: Flath 336-344; Beason 79-84; Lincoln 16-93; Alexander pp. 57-91. Sato 55-65, 239-266;*

Class 5: Wed Oct 3 Japan's Government—can it drive an efficiency gain?

- Abe administration
- Fiscal Policy
- Monetary Policy

*Assignment for this class: Flath 214-226; Beason pp. 30-51 Hutchison pp. 157-179; 211-235 (especially the conclusion paragraphs); Ito 39-73, 107-143; OECD Link: [http://www.oecd.org/document/15/0,2340,en\\_33873108\\_33873539\\_34287887\\_1\\_1\\_1\\_1\\_00.html](http://www.oecd.org/document/15/0,2340,en_33873108_33873539_34287887_1_1_1_1_00.html)*

Class 6: Wed Oct 10 Competition, Collaboration and Collusion in Japanese society

- Deregulation and Reform
- Organizing to compete.
- Game theory
- The Keiretsu System
  - Vertical
  - Horizontal

*Assignment for this class: Flath 238-258; Miwa 6-160; Fukuyama 149-207,*

Class 7: Wed Oct 17 Mid-Term Quiz

**Mid-Term Quiz** ( A short answer quiz that focuses on factual information).

*Assignment for this class: Study for Quiz*

Class 8: Wed Oct 24 Markets for domestic and foreign good and services

- Domestic distribution channels
- Foreign trade, open or not?
  - Imports
  - Exports

*Assignment for this class: Flath, 155-183, 295-31 Sato 115-170;*

Class 9: Wed Oct 31 Labor Markets—How Japanese work

- Top tier—“lifetime employment”
- Bottom tier
- Male/Female tiers
- Pension, health care in an aging population

*Assignment for this class: Flath pp. 309-333; Ito 341-379; Beason 53-78; Sato pp. 173-271; Study Japan demographic data on US Census Bureau Link*

<http://www.oecd.org/dataoecd/27/23/38797332.pdf>

<http://www.census.gov/ipc/www/idbnew.html>;

Bank of Japan paper.

<http://www.boj.or.jp/en/ronbun/04/data/wp04e06.pdf>

Class 10: Wed Nov 7 Land and Capital Markets—How Japanese trade land and money

- Real Estate markets
- Banking System
- Direct Capital Markets
  - Stocks
  - Bonds
- Capital Account Balances
  - FDI in and out

*Assignment for this class: Flath 94-104, 260-293; 138-154; Ito 147-193, 275-310;h 239-256*

*Alexander 163-186; Sato 267-290*

*BOJ Data: <http://www.boj.or.jp/en/type/ronbun/ron/research07/data/ron0708b.pdf>*

Class 11: Wed Nov 14 Financial Boom and Bust-- the problem with exchange rates, interest rates and the financial markets that make them.

*Assignment for this class: Flath 105-138; 33-98; 211-237; McKinnon, 77-156;*

[Nov. 13<sup>th</sup> check Third Quarter GDP release at:

<http://www.esri.cao.go.jp/index-e.html> ]

Class 12: Wed Nov 21 Economic Relations with East Asia

- Trade Patterns
- Investment Patterns
- China: Rival or Compliment?
- Regional currency issues—residue of Asian Financial Crisis

*Assignment for this class: Hook pp. 230-248; Ito 385-418; McKinnon pp 199-249;*

McKinnon 199-249. METI White Paper see pp 31-63

<http://www.meti.go.jp/english/report/downloadfiles/gWP2005s.pdf>

*Homework project for this class::* Using latest Japanese trade release, (c Nov 11<sup>th</sup>) create a graphic and draft a one-page newspaper article that discusses Japanese economic growth.

Class 13: Wed. Nov. 28 Economic Relations with the United States

*Assignment for this class: Hook pp. 119-141; Lincoln pp. 201-222;*

Data comparisons with US

<http://www.esri.cao.go.jp/en/stat/data/menu1.html>

Class 14: Dec 5 Outlook for Japan/Review

*Assignment for this class:*

**Dec 19 Final Exam**

## Examples of Possible Blackboard Discussion Topics

Japan and economic growth theory  
Bubble/Bust economics  
Oligopoly competition—keiretsu  
Industrial policy—yes or no  
Declining Labor Force Economics  
Women and the Labor Force  
Japan and China's economic rise  
Kyoto Treaty and Japan's environment  
Japanese wave software, games, art  
Yen, yuan, dollar issues  
Trade opportunities with aging population  
Strategic technology and Japan  
Buy or Sell Yen  
Buy or Sell Nikkei  
Carry Trade