

McGILL UNIVERSITY
DEPARTMENT OF ECONOMICS
ECONOMICS 154-335
CRN 8351
THE JAPANESE ECONOMY

Winter 2011

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Course Prerequisites Economics 154-208 & 209 or 230D or 250D

TR 2.35-3.55

ENGTR 1100

Course Objectives This is a survey course on the Japanese economy. The text, David Flath, The Japanese Economy, Oxford University Press, 2005 is very strongly recommended. It should be available at McGill Book Store located at 3420 McTavish Street. The book focuses on Japan's post war development and the recent difficulties facing the Japanese economy, provides good analytical perspectives on such difficulties, but does not provide a complete summary of Japanese economic institutions. For such a summary, please look for chapters in Takatoshi Ito, The Japanese Economy, MIT Press, 1992. The Ito book predates the economic crisis in Japan and hence is obsolete in dealing with the modern difficulties facing Japan. It is not recommended that you purchase it. Contrasting the Japanese economic structure with those of its major competitors and understanding the role these structures have played in the rapid post-war growth as well as the current difficulties facing the Japanese economy would be the major focus of the course. After a brief introduction to the post War performance of the Japanese economy, a few lectures will give an introduction to Japanese economic history. Thereafter an attempt would be made to explore the institutions and performance of the Japanese Economy. The course will end with an evaluation of how the Japanese economy is coping with the two decade long difficulties. Lectures would cover ground and provide perspectives that are not in the readings. For a discussion of the current policy dilemmas, students are strongly urged to look at the IMF Staff Country Reports Numbers 00/144, 03/282, 07/280, 07/281, 08/252, 08/253, 09/211 and 09/220 (all of which are available at www.imf.org/external/pubs/CAT/scr.html).

Course Evaluation A midterm examination on March 3rd would permit a review and count for 20%, and a final examination in the April examination period would count for the remaining 80%. No supplementary work to change the grade will be permitted. The supplemental in August will count for 100%.

McGill University values academic integrity. Therefore all students must understand the meaning and consequences of cheating, plagiarism and other academic offences under the Code of Student Conduct and Disciplinary Procedures (see <http://mcgill.ca/integrity> for more information). According to Senate regulations, instructors are not permitted to make special arrangements for final examinations. Please consult the Calendar, section 4.7.2.1, General University Information and Regulations at www.mcgill.ca.

In accord with McGill University's Charter of Student Rights, students in this course have the right to submit in English or in French any written work that is to be graded.

COURSE OUTLINE AND SUGGESTED READINGS

(Readings from Flath, Ito and Cargill and Sakamoto are required readings. The rest of the items in the reading list are primarily for those who want to follow up more on the specific areas. Additional required readings related to more recent developments will be assigned as the term proceeds.

I HISTORICAL BACKGROUND

Flath, Chapters 1, 2 and 3.

Ito, Ch. 1 and 2.

D.W. Katzner, "Explaining the Japanese Economic Miracle", Japan and the World Economy, 2001, pp.303-319.[AOL]

II. SAVINGS AND INVESTMENT

Ito, Ch. 9.

Flath, Ch.5.

Fumiyo Hayashi, "Explaining Japan's Savings: A Review of Recent Literature", Monetary and Economic Studies, Bank of Japan, Vol. 10, No.2, November 1992, pp. 63- 78.

III. POSTWAR GROWTH AND FLUCTUATIONS

Flath, Ch.4 & 6

Cargill and Sakamoto, Chs. 1 and 2

Ito, Ch. 3 and 4

Ito, "Japan and East Asian Economies: A Miracle in Transition", Brookings Papers on Economic Activity, No.2, 1996.

Ito, Takatoshi, and Hugh Patrick, "Problems and Prescriptions for the Japanese Economy: An Overview", in Ito, Patrick and Weinstein (eds.), Reviving Japanese Economy, MIT Press, 2005.

Paul Krugman, "Its Baaack: Japan's Slump and the Return of the Liquidity Trap," Brookings Papers on Economic Activity, 2: 137-87. [AOL]

Ito, Takatoshi and Frederic C. Mishkin, "Two Decades of Japanese Monetary Policy and the Deflation Problem", NBER Working Paper No. 10878 [AOL] is an excellent survey of Japanese Monetary Policy and the related theoretical issues for the two decades starting in 1984.

IV. THE LABOUR MARKET

Flath, Ch. 15.

Ito, Ch. 8.

Thomas Cargill and Takayuki Sakamoto, Japan Since 1980, Cambridge, 2008, Chapter 10, pp. 235-279

Hiroshi Ono and Marcus E. Rebeck, "Constraints on the Level and Efficient Use of Labor", in Structural Impediments to Growth in Japan, Bloomstrom, Corbett, Hayashi and Kashyap (eds.), Ch. 8, pp. 225-257.

R. L. Clark and N. Ogawa, "Employment Tenure and Earning Profiles in Japan and United States", American Economic Review, March 1992, pp. 336-354.

V. THE JAPANESE INDUSTRIAL STRUCTURE

Flath, Chs. 9 and 12.

Ito, Ch.7

Yishay Yafeh, "An international Perspective on corporate Groups and Their Prospects", in Structural Impediments to Growth in Japan, Blomstrom, Corbett, Hayashi and Kashyap (eds.), University of Chicago Press, 2003, pp. 259-284.

Yul Sohn, "The Rise and Development of the Japanese Licensing System," in Lonny E. Carlisle and Mark C. Tilton (Eds.), Is Japan Really Changing Its Ways: Regulatory Reform and Japanese Economy, Brookings Institution Press, 1998, Chapter 2, pp. 16-32.

Hideyaki Miyajima, "Corporate Governance and Finance," In Carlisle and Tilton (Eds.), Ch. 3, pp.33-75.

VI. THE FINANCIAL AND TAX SYSTEMS

Cargill and Sakamoto, Chs. 8 and 9

Flath, Chs. 13 and 16

Ito, Ch. 5 and 6

Takatoshi Ito and Frederic S. Mishkin, "Two Decades of Japanese Monetary Policy And the Deflation Problem", NBER Working Paper No. 10878, [AOL]

Takeo Doi and Takeo Hoshi, "Paying for the FILP", in Structural Impediments to Growth in Japan, Magnus Blomstrom, Jennifer Corbett, Fumio Hayashi and Anil Kashyap (eds.), Chapter 2, pp. 37-69.

Takatoshi Ito and Michael Melvin, "Japan's Big Bang and the Transformation of Financial markets", in Magnus Blomstrom, Byron Gangnes and Summer Lacroix, (eds.), Japan's New Economy, Oxford, 2001. Pp. 162-174.

Charles Yuji Horioka, "Japan's Public Pension System in the Twenty-First Century", In Blomstrom, Gangnes *et. al.* (eds.) Pp. 99-119.

Robert Deckle, "The Deteriorating Fiscal Situation and an aging population", in Blomstrom, Corbett, Hayashi and Kashyap (eds.), Structural Impediments to Growth in Japan, Chapter 3, pp. 71-87.

Takeo Hoshi, "The Convoy System for Insolvent Banks: How it Originally Worked and Why it Failed in the 1990's", Japan and the World Economy, Vol. 14(2002), pp.155-180. [AOL]

VII. ASSET PRICES, BUBBLE ECONOMY, THE CRASH AND THE AFTERMATH

Cargill and Sakamoto, Chapters 4, 5 & 6

Ito, Ch. 14.

D. Stone and W. T. Ziemba, "Land and Stock Prices in Japan, Journal of Economic Perspectives, Summer 1993, pp. 149-166.[AOL]

Tim Callen and Martin Muhleisen, "Current Issues Facing the Financial Sector", in Tim Callen and Jonathan Ostry (eds.) Japan's Lost Decade, IMF, 2003.

Christopher Wood, The Bubble Economy, 1992 (M).

VIII. INTERNATIONAL TRADE AND FINANCE

Ito, Chapters 10, 11 and 12.

Flath, Chs. 7 and 8.

Hiroshi Yoshikawa, Japan's Lost Decade, Chapter 3, is an excellent introduction on exchange rates and Purchasing Power Parity issues.

R.Z. Lawrence, "Japan's Different Trade Regime: An Analysis with Particular Reference to Keiretsu", Journal of Economic Perspectives, Summer, 1993, pp. 3-20.

G. Saxonhouse, "What does Japanese Trade Structure tell us about Japanese Trade Policy", Journal of Economic Perspectives, Summer, 1993, pp. 21-44. [AOL]

"Introduction", in Krugman, Trade With Japan.

R. Z. Lawrence, "How Open is Japan?", in Krugman, Trade With Japan. Chicago 1991.

R. C. Marston, "Price Behaviour in Japanese and U. S. Manufacturing", in Krugman, Trade With Japan, pp. 121- 148.

IX. THE DISTRIBUTION SECTOR

Ito, Chapter 13

Flath, Ch. 14.

R. Z. Lawrence, "Efficient or Exclusionist? The Import Behaviour of Japanese Corporate Groups", Brookings Papers on Economic Activity, No.1, 1991, pp. 311-341. [AOL]

M. Itoh, "The Japanese Distribution System and Access to the Japanese market", in Krugman, Trade With Japan, pp. 175-189.

Elizabeth Norville, "Illiberal Roots of Japanese Regulatory Reform," in Lonny Carlile and Mark C. Tilton (Eds.), Is Japan Really Changing Its Ways: Regulatory Reform and Japanese Economy, Chapter 5, pp. 111-142.

X. ENVIRONMENTAL ISSUES.

Flath. Chapter 11 (if time permits)