

FNCE 613
MACROECONOMICS AND THE GLOBAL ECONOMIC ENVIRONMENT
THE WHARTON SCHOOL OF THE UNIVERSITY OF PENNSYLVANIA

PROFESSOR ANTHONY LANDRY
SPRING 2015

PRELIMINARY

COURSE DESCRIPTION

Macroeconomics and the Global Economic Environment is a course in macroeconomic analysis, with an emphasis on current events and policy applications. The goal of this course is to provide the background needed to recognize and understand the broad economic and financial movements in the global economy. Key topics include national income accounting, production, employment, innovations and economic growth, consumption and saving decisions, investment, the financial markets, the business cycle, monetary and fiscal policy, international trade and investment, international capital flows, exchange rates and international finance. By the end of the course, students will be able to evaluate and discuss the global economic environment in which business and financial decisions are made.

COURSE MATERIAL

Canvas

The Canvas website contains the syllabus, lecture notes, weekly quizzes, teaching assistants' office hours, regrade request forms, and other useful information. You need to have a Wharton account to access the website. If you do not have a Wharton account, you can apply for one [online](#).

Reading Material

The bulk of the course material comes from the lecture notes, the textbook, and course readings. The lecture notes are available on Canvas. The course textbook is *Macroeconomics* (eight edition) from Andrew B. Abel, Ben S. Bernanke and Dean Croushore (referred to as **ABC**), Addison-Wesley, 2014. The study guide that supplements this textbook is a useful aid to students who would benefit from additional explanations and practice with the material. I also recommend *Macroeconomics* (third edition) from Charles I. Jones (referred to as **Jones**), Norton, 2014. Both of these textbooks are on reserve at the library.

Most other course readings come from *The Economist* newspaper and from Federal Reserve Banks publications. They are hyperlinked to web sources from within the syllabus. As such, I suggest you buy a subscription to *The Economist* to access these readings online. If you do not want to buy a subscription to *The Economist*, you can use the Penn library subscription. However, your online access will be limited to Penn computers. Access to Federal Reserve Banks publications is free.

In addition to the regular course material, you are expected to follow current economic events. While no subscription to any particular journal is required, it is recommended that you regularly read *The Wall Street Journal* and *The Financial Times*.

GRADING

Grades are based on two examinations (80%), eight quizzes (10%), and class participation (10%).

Examinations

The midterm evaluation is on Monday, March 2, from 6:00 to 8:00pm. The final examination is on Wednesday, May 6, from 6:00 to 8:00pm. The midterm and the final examinations are comprehensive and closed book, except for one single handwritten 8.5" x 11" double-sided sheet of notes. Calculators are permitted. The final examination is cumulative over the material from the entire course.

The midterm examination counts as one grade and the final examination counts as two grades. The total examination grade is computed as the average of the best two out of three grades. In other words, the lowest grade among these three grades is dropped. This policy of dropping the lowest examination grade provides you insurance against scheduling conflicts (inability to attend the midterm examination) and anomalous performances (a bad day). Because this insurance is being provided to you, *no requests to reschedule or retake the midterm examination will be entertained* unless specifically mandated by university policy. If you miss the midterm examination for any reason, you can simply use your insurance policy and drop that exam. The final examination can be rescheduled only if required by university policy and only during the official make-up period.

Scheduling conflicts

Scheduling conflicts should be resolved according to the [MBA Resource Guide](#). If you find yourself with a conflict due to your career search or recruiting activity, you should work with the MBA Career Management Office to find a resolution. You should never approach your instructor with requests to reschedule exams or to make special accommodations.

Regrade requests

Regrade requests must be submitted using the **regrade request form** and the **statement of honesty** posted on Canvas and must be accompanied by your exam. Requests must be submitted within one week from the date the examination is returned (whether or not you actually pick up the exam on that date). Regrade requests must be very specific. For any request, the entire exam will be automatically regraded; meaning, the grade may stay the same, go up or go down after regrading. Any alteration of the exam is therefore strictly forbidden and will be considered as a violation to the Code of Academic Integrity.

Quizzes

There will be eight (weekly) quizzes available on Canvas. The quizzes are designed to reinforce key concepts from the classes and to help you prepare for the final examination. Your final quiz grade will be the average of your best seven quizzes. In other words, I will drop your lowest quiz grade. Due dates are

indicated in the table below and under the course outline section of this syllabus. The quizzes must be submitted by 9:00am on the due date. *Quizzes will not be accepted late and no regrade requests will be entertained.* Answers to quizzes will be posted on Canvas shortly after the due date.

Quiz schedule

QUIZ #	TOPIC	AVAILABLE ON	DUE BY 9:00am ON
1	National income	Wednesday, January 14	Wednesday, January 21
2	Production and growth	Wednesday, February 4	Monday, February 9
3	The labor market and consumption	Wednesday, February 11	Monday, February 16
4	Money and investment	Wednesday, February 18	Monday, February 23
5	The business cycle	Wednesday, March 18	Monday, March 23
6	Monetary policy	Wednesday, March 25	Monday, March 30
7	International finance	Wednesday, April 8	Monday, April 13
8	Fiscal policy	Wednesday, April 15	Monday, April 20

ACADEMIC INTEGRITY

All relevant University policies regarding Academic Integrity must be followed. Please consult the [Code of Academic Integrity](#) for details.

CONTACT INFORMATION

Email: alandry@wharton.upenn.edu

Office hours: Tuesday, 9:30-10:30am

Office: SHDH 2432

Most information about the course is posted on Canvas. For additional information, I can be reached by email. I will be happy to answer *short questions* on the course material on Canvas. This is an efficient way to disseminate information.

Teaching Assistants

Name	Email address	Office hours	Location
Julianne Bruno			
Peter Daderko			
Edward Nie			

COURSE SCHEDULE

CLASS #	DATE	TOPIC
1	Monday, January 12	National income accounting
2	Wednesday, January 14	Measuring economic changes over time
	Monday, January 19	No class, Martin Luther King Jr. Day
3	Wednesday, January 21	The production function
	Monday, January 26	No class, Focused Recruiting Period
	Wednesday, January 28	No class, Focused Recruiting Period
4	Monday, February 2	Drivers of productivity and global competitiveness
5	Wednesday, February 4	CASE STUDY: The Solow growth model unleashed
6	Monday, February 9	The labor market
7	Wednesday, February 11	Consumption and saving decisions
8	Monday, February 16	Investment and goods market equilibrium
9	Wednesday, February 18	Money and Inflation
10	Monday, February 23	The business cycle and the IS/LM model
	Wednesday, February 25	Review session
	Monday, March 2	Midterm examination from 6:00pm to 8:00pm
	Wednesday, March 4	No class, Core classes do not meet
	Monday, March 9	No class, Spring break
	Wednesday, March 11	No class, Spring break
11	Monday, March 16	Firm pricing behavior
12	Wednesday, March 18	Aggregate demand and aggregate supply
13	Monday, March 23	The Federal Reserve System and U.S. monetary policy 1
14	Wednesday, March 25	The Federal Reserve System and U.S. monetary policy 2
15	Monday, March 30	CASE STUDY: The term structure of interest rates
16	Wednesday, April 1	SPEAKER: TBD
17	Monday, April 6	International trade
18	Wednesday, April 8	Exchange rates and international finance 1
19	Monday, April 13	Exchange rates and international finance 2
20	Wednesday, April 15	The government and the macroeconomy
21	Monday, April 20	The world today and global growth prospect
22	Wednesday, April 22	Review session
	Wednesday, May 6	Final Examination from 6:00pm to 8:00pm

COURSE OUTLINE AND READING LIST

Topic 1: Introduction to Macroeconomic Data

Monday, January 12: National Accounting

Readings: **ABC** Ch. 2.1-2.3

Jones Ch. 2.1-2.2

[Boundary problems](#), *The Economist*, August 2013

Topics: origin of national income accounting, definitions and measurements of Gross Domestic Product (GDP), GDP components, production, income, and expenditure approach of measuring GDP, saving and wealth, GDP and happiness

Wednesday, January 14: Measuring Economic Changes over Time

Readings: **ABC** Ch. 2.4 and 2.5

Jones Ch. 2.3-2.4

[A creeping ascent \(2013 in charts\)](#), *The Economist*, December 2013

[This time is worse](#), *The Economist*, January 2014

Topics: nominal and real GDP, GDP across countries, growth rates, the rule of 70, price indexes and inflation, nominal and real interest rates, the Fisher equation

Quiz #1 due on Wednesday, January 21 by 9:00am

Topic 2: Production and Economic Growth

Monday, January 21: The Production Function

Readings: **ABC** Ch. 3.1 and 6.1

Jones Ch. 4

[Labour pains](#), *The Economist*, November 2013

Topics: production function, return to scale, Cobb-Douglas production function, capital and labor inputs, Total Factor Productivity (TFP or technology), marginal product of capital and labor, diminishing marginal products, capital and labor inputs allocation, production and shocks to labor, capital, or technology, capital and labor income share, sources of economic growth, income differences across countries, growth accounting

Wednesday, February 2: Drivers of Productivity and Global Competitiveness

Readings: **ABC** Ch. 6.2-6.4

Jones Ch. 5

[A reasonable supply](#), *The Economist*, November 2013

Topics: the Solow growth model, endogenous growth theory, innovation and economic growth, government policies and long-run growth

Quiz #2 due on Monday, February 10 by 9:00am

Wednesday, February 4: The Solow Growth Model Unleashed

Case study: "The Solow Growth Model Unleashed," by Nicolas Vincent and Pierre Yared
Columbia Business School ID#130304 on Study.Net

Quiz #2 due on Monday, February 9 by 9:00am

Topic 3: Economic Markets

Monday, February 9: The Labor Market, Wages, and Unemployment

Readings: ABC Ch. 3.2-3.6

Jones Ch. 7

[The price of getting back to work](#), *The Economist*, January 2014

[What is the new normal unemployment rate?](#) *Economic Letter*, Federal Reserve Bank of San Francisco, February 2011

Topics: the U.S. labor market, labor demand, labor supply, income and substitution effects, labor market equilibrium, full-employment output, wages and inequality, labor market measurements, frictional vs. structural unemployment, natural rate of unemployment, labor markets around the world, Okun's law

Wednesday, February 11: Consumption and Saving Decisions

Readings: ABC Ch. 4.1 and appendix 4.A

Jones Ch. 16

Topics: consumption and saving decisions, the intertemporal budget constraint, income and wealth, income and substitution effects, permanent-income hypothesis, Ricardian equivalence, borrowing constraints, empirical evidence on consumption

Quiz #3 due on Monday, February 16 by 9:00am

Monday, February 16: Investment and Goods Market Equilibrium

Readings: ABC Ch. 4.2-4.3

Jones Ch. 17

Topics: firms' investment decisions, the user cost of capital, desired capital stock and investment, the stock market and financial investment, components of physical investment, saving and investment equilibrium and the real interest rate

Wednesday, February 18: Money and Inflation

Readings: ABC Ch. 7

Jones Ch. 8

[Closing the gap](#), *The Economist*, February 2014

Topics: monetary aggregates, portfolio allocation and the demand for assets, money demand, the quantity theory of money, asset market equilibrium, money growth and inflation, the costs of inflation

Quiz #4 due on Monday, February 23 by 9:00am

Topic 4: Business Cycle Models

Monday, February 23: The Business Cycle and the IS/LM Model

Readings: ABC Ch. 8 and 9.1-9.4

[The New IS-LM Model: Language, Logic, and Limits](#), *Economic Quarterly*, Federal Reserve Bank of Richmond, Summer 2000 Read Sections 1 and 2, pp 45-54.

Topics: business cycle trends and fluctuations, actual and potential output, , international aspects of business cycles, overview of the short-run model, equilibrium in the labor, goods, and asset markets, macroeconomic shocks and the IS/LM model

Wednesday, February 25: Review session

Midterm Examination: Monday, March 3, from 6:00-8:00pm

Monday, March 16: Firms Pricing Behavior and the Phillips Curve

Readings: ABC Ch. 11.2 and 12

Jones Ch. 12

Topics: Firms pricing behavior over the business cycle, price adjustment and inflation expectations, unemployment and inflation, the Phillips curve, the role of inflationary expectations

Wednesday, March 18: Aggregate Demand and Aggregate Supply

Readings: ABC Ch. 9.5-9.6

Jones Ch. 13

[The perils of falling inflation](#), *The Economist*, November 2013

[In the danger zone](#), *The Economist*, January 2014

Topics: aggregate demand curve, aggregate supply curve, the AS/AD framework, the liquidity trap, the dangers of deflation, expectations and economic activity

Quiz #5 due on Monday, March 23 by 9:00am

Topic 5: Monetary Policy

Monday, March 23: The Federal Reserve System and U.S. Monetary Policy

Readings: ABC Ch. 14.1-14.3

"Tools of Monetary Policy," Ch. 15 by Frederic Mishkin on Study.Net

[Age shall not weary her](#), *The Economist*, December 2013

[Monetary policy, money, and inflation](#), *Economic Letter*, Federal Reserve Bank of San Francisco, July 2012

Topics: the Federal Reserve System, central banking around the world, the Federal Open Market Committee, money supply creation, conventional monetary policy, open market operations, the federal fund market

Wednesday, March 25: Monetary Policy Rules and Unconventional Monetary Policies

Readings: ABC Ch. 14.4-14.5

[Will unconventional policy be the new normal?](#) *Economic Letter*, Federal Reserve Bank of San Francisco, October 2013

Topics: monetary policy rules, the Taylor rule, the limits of conventional monetary policy, the Great Recession, unconventional monetary policy

Quiz #6 due on Monday, March 30 by 9:00am

Monday, March 30: The Term Structure of Interest Rates and Monetary Policy

Readings: "Term Structure of Interest Rates," Ch. 6 by Frederic Mishkin on Study.Net

Case study: "The yield curve and growth forecasts," by Francis Warnock
Harvard Business School #UV5689 on Study.Net

Wednesday, April 1: **SPEAKER TBD**

Topic 6: The Global Economy

Monday, April 6: International Trade

Readings: Jones Ch. 19

[The U.S. content of "Made in China,"](#) *Economic Letter*, Federal Reserve Bank of San Francisco, August 2011

Topics: facts about international trade, reasons for trade, risk sharing, absolute and comparative advantage, costs and benefits of international trade

Wednesday, April 8: Exchange Rates and International Finance 1

Readings: ABC Ch. 5

Topics: balance of payment accounting, goods market equilibrium in an open economy, saving and investment in an open economy, fiscal policy and the current account, trade and capital flows, twin deficits

Quiz #7 due on Monday, April 13 by 9:00am

Monday, April 13: Exchange Rates and International Finance 2

Readings: ABC Ch. 13

Jones Ch. 20

[Unconventional monetary policy and the Dollar?](#) *Economic Letter*, Federal Reserve Bank of San Francisco, April 2013

Topics: the nominal and real exchange rates, the law of one price, the foreign exchange market, interest rates and exchange rates movements, multinational pricing behavior, the real exchange rate and net exports

Topic 7: Fiscal Policy

Wednesday, April 15: The Government and the Macroeconomy

Readings: ABC Ch. 15.1-15.3

[Fiscal Headwinds: Is the other shoe about to drop?](#) *Economic Letter*, Federal Reserve Bank of San Francisco, June 2013

Topics: U.S. government spending and revenue, fiscal policy and aggregate demand, government debt and deficits, sustainability of public debt, problems of the 21st century

Quiz #8 due on Monday, April 20 by 9:00am

Monday, April 20: The World Today and Global Growth Prospects

Readings: [World Economic Outlook](#), Chapter 1 and 2, April 2015
International Monetary Fund

Wednesday, April 22: Review session

Final examination: Wednesday, May 6, from 6:00 to 8:00pm