

University of Pennsylvania
The Wharton School

**Finance 101:
Monetary Economics & the Global Economy
Syllabus
Spring 2008
Professor Skander J. Van den Heuvel**

1. Overview

Finance 101 is an intermediate-level course in macroeconomics, including topics in international and monetary economics. The goal of the course is to provide coherent framework for analyzing macroeconomic events, such as business cycles, and policy, which govern the environment in which firms, consumers, governments, and financial markets and intermediaries all operate. We apply these frameworks to understanding the US, foreign, and global economies.

Questions addressed include: What causes a nation's economic activity to fluctuate? What role do financial markets play in the macroeconomy? How are they affected by it? What causes prices to rise? How do government policies, in particular monetary and fiscal policy, affect economic performance? Why do some countries experience financial and currency crises? In addressing the questions, special emphasis will be given to the connection between macroeconomics and financial markets.

The first part of the course presents a classical analysis of the central economic markets: the labor market, goods & capital markets, and asset markets. The second part puts these markets together to model simultaneously the entire economy (general equilibrium), with the goal of understanding the interactions between the markets, business cycles and the impact of macroeconomic policy. The final part of the course examines focuses on monetary policy, interest rates, and the financial system; and international trade and exchange rates.

2. Course Materials

Textbook

The required textbook is *Macroeconomics* by **Abel, Bernanke, and Croushore** (Addison-Wesley, **6th edition**, 2008). It is available in the Bookstore.

Lecture Notes

Lecture notes will be made available on the web at <http://finance.wharton.upenn.edu/~vdheuvel/>. This website is updated as the semester progresses. Access to the course website will be password protected. The password will be given in class.

The lecture notes are numbered. The numbering indicates *approximately* which class covers each set of lecture notes. For example, we will cover lecture notes 1 in the first class. However, the numbering is only indicative. In particular, we will frequently finish a set of lecture notes during the next class, for a number of reasons, such as returning exams, discussing any interesting current events, the need to cover certain material more in-depth than anticipated, etc. Therefore, if you bring the notes to class, it is a good idea to bring the previous lecture notes as well.

Handouts may also be distributed in class, for which you may be billed by the bursar. Of course, not everything covered in class will necessarily be in the lecture notes or handouts.

Newspapers

A subscription to the Financial Times (ft.com), the Wall Street Journal (wsj.com), the weekly The Economist (<http://www.economist.com>) or a close substitute is highly recommended.

3. Exams, Assignments, Grading

The course grade will be based on the following components

- exams (75%)
- international analysis project (10%)
- problem sets (15%)

Exams: There will be two midterms and a final. The midterm exams are scheduled for the *evenings* of the following dates:

Midterm 1: Thursday, February 14

Midterm 2: Thursday, March 27

If you have a regularly scheduled class on those evenings, please let me know as soon as possible via email (and at least one week before the first exam). The final exam will be given during the final examination period as scheduled by the registrar.

Each midterm exam counts as one grade. The final counts as two grades. Thus, in effect, you will have four exam grades. Your lowest (de-meant) grade among those four will be dropped automatically. Only the remaining three will count in determining the 75% contribution of the exams to your course grade. The policy of dropping the lowest exam grade provides insurance against having a bad day or against being unable to attend one of the midterm exams. As a result, no requests to reschedule or retake a midterm exam will be entertained, unless specifically required by University policy. If you miss a midterm exam for any reason whatsoever, then you can simply use your insurance policy to drop that exam; your course grade will be based on the other midterm exam and the final exam. The final exam can be rescheduled only if required by University policy, and only during the official make-up period in the beginning of the following semester.

Regrade requests must be submitted using the official regrade form (which will be posted on the course webpage). For the midterm exams, requests must be submitted within one week of the time that the exams are returned (whether or not you actually pick up your exam on that date). We retain the right to regrade an entire exam and to lower an exam's score, should that be the outcome. You may not, of course, alter any of your answers on a submitted exam. Any violations of the Code for Academic Integrity will be referred to appropriate authorities for disciplinary action.

International analysis project: this is a group assignment, promoting teamwork, near the end of the semester. You will be asked to write a short report on the economics of a foreign country and give a short in-class presentation. More details will be given in class and posted on the website.

Problem sets: there will be three or four problem sets which will be graded. These will not be accepted tardy and no regrade requests are entertained. These problem sets are also intended as practice for the exams. There will be frequent additional assignments of problems and exercises from the textbook which are not graded, but which you should do in order to succeed in this course. Past experience suggests that these problems too are necessary for understanding the material and doing well on the exams.

Course letter grades will be in accordance with the recommended distribution. Students must attend the section in which they are officially enrolled.

4. Academic Integrity

All relevant University policies regarding Academic Integrity must be followed. This includes no cheating, no plagiarism and reporting any knowledge thereof. *Violations of the course or University rules may be referred to appropriate authorities for disciplinary action.* Please review the Code of Academic Integrity at:

<http://www.vpul.upenn.edu/osl/acadint.html>

5. Office hours

My office hours and the Teaching Assistants' office hours will be announced in class and on the course website. We prefer to meet during those office hours, but if you cannot see us during office hours, you can contact us for an appointment. My contact information is:

Email: vdheuvel@wharton.upenn.edu

Office: 2328 SH-DH.

Phone: 8-9749

6. Additional information and updates

...will posted on the website <http://finance.wharton.upenn.edu/~vdheuvel/>
You should consult it regularly. Any password protection will be announced in class.

Provisional Outline*

0. Introduction and Economic Statistics – Ch. 8.1-8.3, Ch. 2

I. The Central Markets – Ch. 3, 4, 5 and 7

Production and Productivity
Labor Demand and Labor Supply
Consumption and Saving
Investment and the Capital Market
International Capital Markets
Money, the Price Level and Asset Markets

II. The Aggregate Economy – Ch. 9, 10.1-10.2, 11

The IS/LM/FE Model
Analyzing Business Cycles
The Classical Model of Business Cycles
The Keynesian Model of Business Cycles
Inflation and Unemployment

III. The Monetary System and International Macroeconomics – Ch. 12, 13 and 14

Exchange Rates
International Macroeconomics and Exchange Rate Policy
The Federal Reserve, the Federal Funds Market and Monetary Policy
The Term Structure of Interest Rates

* Note: This outline is subject to changes announced in lecture and posted on the course website. The website contains the definitive list of readings and assignments associated with each topic.