Finance 101
Monetary Economics & the Global Economy

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Fall 2010

Finance 101 is an intermediate-level course in macroeconomics, with particular attention to monetary and international economics. The goal of the course is to provide coherent frameworks for analyzing macroeconomic events (e.g. recessions and booms) and macroeconomic policy, and thus the environment in which firms, consumers, governments and financial intermediaries operate. Throughout the course, the analysis is applied to current events, both in the US and abroad.

The core material of the course is divided into two major parts. After reviewing basic national income accounts, the first part of the course focuses on the analysis of efficiently operating labor markets, goods markets, and asset markets. By combining these markets into a single general equilibrium framework, this part of the course examines the long-run determination of key macroeconomic aggregates, such as employment, output, interest rates, investment, national saving, and international flows of goods, services and assets. The material from this part of the course is used to study the sources of long-run economic growth, and the long-run effects of fiscal and monetary policy.

The second part of the course focuses on short-run business cycle analysis. In particular, this part of the course extends the framework introduced in the first part to additionally include imperfections in the short-run adjustment of prices and wages to changing economic conditions. This framework is used to understand the transmission mechanism of aggregate demand and aggregate supply shocks in an open economy context, and study the role of fiscal and monetary policy.

COURSE MATERIALS

Course website
You can access most of the information about this course by using the webCafé room at `https://webcafe.wharton.upenn.edu`. To do this, you will need to have a Wharton account. If you do not have a Wharton account, you can apply online at `http://accounts.wharton.upenn.edu` to acquire one. You are expected to consult the course website regularly and keep current with the announcement board at the bottom of the home page.

Textbook

The required textbook for the course is *Macroeconomics* by Abel, Bernanke, and Croushore [ABC] (Addison-Wesley, 7th edition[1]). It is available in the Bookstore. Even though it is not mandatory, I highly recommend to use the study guide for this textbook.

The textbook covers most, but not all of the material presented in class. It is thus essential that you attend the lectures regularly, and keep current with any mandatory readings posted on the course website. Later during the semester, I may assign chapters from other textbooks available for purchase at `https://www.study.net/default.asp`.

Lecture notes

Any course materials used by me in class will be available for download from webCafé. (Please note that lecture notes are *not* designed to be a substitute for textbook reading or regular lecture attendance.)

Economic News

You are expected to keep current with economic news. A subscription to *The Financial Times*, *The Wall Street Journal*, *The Economist*, or a close substitute is highly recommended. Occasionally, selected articles from these sources may be added to the list of required readings and/or discussed in class. All of these sources are accessible through the Penn library.

GRADES

The final grade for this course will be based on two exams (midterm exam and final exam), 3 in-class quizzes, 4-5 graded homework assignments, and a global analysis project. The weights are as follows: (i) exams 55%, (ii) in class quizzes 15%, (iii) homework assignments 15%, and (iv) global analysis project 15%. In borderline cases, attendance may be taken into account, so please make sure you attend regularly the section you are actually enrolled in.

Exams

There will be on midterm examination and a final examination. **The midterm examination is scheduled for the evening (6pm) of Wed 11/03 (room assignment TBA, check webCafé prior to the exam). The final exam will be given during the official final examination period as scheduled by the registrar office (see registrar's office website).** The weight of the final exam is 35% and the weight of the midterm exam is 20%.

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[1] Because of the financial crisis that is covered in the new edition, I do not recommend the use of the older editions of the textbook.

The final exam can be rescheduled only if required by the University policy, and only during the official make-up period during the first week of the following semester. **To be eligible for a make-up final exam, or official disability accommodations, you must receive an approval at least two weeks before the exam is administered.** In case of a serious illness on the final exam day, you must notify me *before* the exam begins, and provide documentation from a doctor soon afterwards. Under similar extenuating circumstances, there will be a make-up midterm exam one week after the midterm (on 11/10). To be eligible, you must obtain a permission from me before the exam on 11/03 actually takes place.

The exams will be closed-book. **You will need an ID to be admitted to the exam room. Calculators are allowed and highly recommended.** However, **only simple calculators can be used** (no cell phones, computers, or calculators with large screens and/or memory capability). **Please show up at least 5 minutes early to the exam room to help your proctors start the exam on time.**

In-class quizzes

During the semester there will be 3 in-class quizzes. Each quiz will last about 15 min. and include about 10 multiple questions related to the material covered in-class since the last quiz. I will announce each quiz at least one full week in advance. Information about an upcoming quiz will be also posted on the webCafé. There will be no make-up quizzes, but to accommodate any extenuating circumstances that may preclude you from attending all of them, the final score for the course will be based on your two best quizzes. In case you miss more than one quiz, you must provide a valid excuse and obtain my approval to skip another quiz before it takes place. In such case, all weight will be shifted to the quiz you have attended. If you miss all quizzes, your score will be 0.

Homework assignments

There will be 4-5 graded homework assignments. The lowest homework grade will be dropped from your final score to accommodate any extenuating circumstances that did not allow you to complete all the assignments. I strongly encourage you to complete all assignments and use this option only in case of emergency. Assignments will be graded as check plus (outstanding, counts as 100%), check (excellent, counts as 90%), check minus (inadequate, counts as 0%). The homework may be graded entirely or only partially (the answer key will list the parts that were taken into account in grading). You may discuss your homework with other students, but you must complete the assignment individually (without copying from anyone else). Similar assignments will result in zero score for both parties involved in the incident. In addition, on the course website you will find suggested problem sets arranged by textbook chapter. These problem sets will not be graded, but it is recommended that you work through some of them on a regular basis.

Please note that the TAs are responsible to grade your assignments, but they are not

responsible for correcting mistakes. After the homework is returned to you, it is thus important that you review the answer key posted on the course website to identify.

No late assignments will be accepted after the deadline. Any grading complaints must be filed no later than the following week after the graded assignment has been returned to the class (refer also to the section on grading complaints below). Please hold on to all graded assignments until the end of the semester.

Global analysis project

This is a group assignment designed to promote team work. Each group of students (4-5 students each) will give a 15 min in-class presentation applying the course material to analyze the macroeconomic situation of a foreign country. All members will receive the same grade, independent of the individual performance. Detailed guidelines will be posted on the course website later during the semester. During the semester you are responsible to find your team mates, and sign up your team on the webcafe. The topics are subject to my approval.

Final letter grade

To make grades comparable, all raw scores for quizzes will be standardized (i.e. adjusted so that the mean and dispersion measured by standard deviation of all non-zero scores is the same across all exams). This will ensure that grades for quizzes are comparable, and dropping one will minimize its effect on your final grade..

The final letter grade for the course will be based on the ranking implied by the final scores in all my sections according to the following guidelines: (i) not more than 25-30% of top scores in the class are assigned A, 67-70% of top scores in the class are assigned at least B. (Cutoffs for lower grades will be established later.)

Grading complaints

Any requests for regrading of exams or homework assignments must be submitted in writing within a week after the graded exam or assignments has been returned to the class[2]. Exam regrading requests must be accompanied by an official Regrade Request form and Statement of Honesty in Regrade Request form. Both forms are available for download from the course website. In case your request is reject, no further regrades can be submitted for this particular assignment/exam. We retain the right to regrade the entire exam/homework assignment, which may result in a lower overall score. Also, do not mark or make notes on your exams, and do not alter in any way the answers to the questions. Such alterations may be construed as violations of the Code of Academic Integrity and may be referred for disciplinary action.

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[2]In the case of the final exam, within the first week of the following semester.

Academic integrity

All relevant University policies regarding Academic Integrity must be followed strictly. Please review the Code of Academic Integrity at: `http://www.vpul.upenn.edu/osl/acadint.html`.

OFFICE HOURS

My office is in Steinberg Hall - Dietrich Hall 2342. In addition, you can reach me by e-mail at ldrozd@wharton.upenn.edu. Regular office hours for me and my TAs will be announced during the semester and posted on the course website.

TENTATIVE COURSE OUTLINE

Tentative Course Outline

We will cover the following topics. The list is tentative and subject to change:

1. Introduction to macroeconomics (ABC: chapter 1, selected topics from chapter 6 and 8)

2. Measurement and structure of the national economy (ABC: chapter 2)

3. The classical model with applications to growth, business cycles and policy analysis (ABC: chapters 3-7)

4. International capital markets and international capital flows (ABC: selected parts from chapter 10 and 15, and chapters mentioned above)

5. Economy in the short-run: The Keynesian model with applications to business cycles and policy analysis (ABC: chapters 8-9, 13,14)

6. Keynesian model in open economy: Exchange rates and macroeconomic policy in the open economy (ABC: chapters 8-9, 13,14)

7. Monetary policy in a dynamic environment (ABC: chapter 14, additional course materials posted online)

8. Economics of the financial crisis of 2007-10 (additional course materials posted online)