

University of Pennsylvania
The Wharton School

Finance 101

Monetary Economics and the Global Economy

Syllabus

Professor Borys Grochulski
Spring 2012

Course description

Finance 101 is an intermediate-level course in macroeconomics, with particular attention to monetary and international economics. The course develops the canonical models of the aggregate economy, namely models of the central real and financial markets and their interactions. The goal is to provide coherent frameworks for analyzing macroeconomic events (eg, recessions and booms) and policy (e.g., monetary and fiscal), and thus the environment in which firms, consumers, governments, and financial markets and intermediaries operate. We apply these frameworks to understanding the US, foreign, and global economies.

The first part of the course analyzes individually the central economic markets: the labor market, goods and capital markets, and asset markets. The second part puts these markets together to model simultaneously the entire economy (general equilibrium). The focus is on explaining 1) the behavior and implications of the key economic variables over the business cycle: production and demand (and their components); inflation, interest rates and asset prices; employment, wages and corporate profits; exchange rates and international flows of goods and capital; 2) long-run economic growth, in developed and emerging markets; and 3) how macroeconomic policy affects the economy. The final part of the course examines the global economic system, focusing on monetary policy, interest rates, and the financial system; and on exchange rates, international trade, and policy in the open economy. In all parts of the course the analysis will be applied to recent events and debates, both in the US and abroad, especially the recent financial crisis and recession.

A provisional schedule of topics and readings is attached. Changes to this may be announced during the semester.

Course Study Materials

The required textbook for the course is *Macroeconomics* by Abel, Bernanke, and Croushore ["ABC"], Addison-Wesley, 7th edition (2011). It is available in the Bookstore. There exists a study a study guide for this textbook and an interactive website called MyEconLab. These additional resources are not required for the class.

The required coursepack, containing additional readings, is available from <http://www.study.net> (where you can also order a hard copy from Wharton Reprographics). Study.net course ID for this class is 2012A,FNCE101001,FNCE101002,FNCE101003

The class has a webCafé room that can be accessed through <https://webcafe.wharton.upenn.edu>. You need to have a Wharton account to enter the site. If you do not have a Wharton account, you can apply online at <http://accounts.wharton.upenn.edu>. Additional readings relevant for the course will be posted to our webCafé room.

Most of the class is taught with slides. You will be able to download the slides from webCafé prior to each lecture.

Aside from the regular course material, students are expected to follow current economic events. While no subscription to any particular newspaper or journal is required, you should regularly read any of the following: *The Wall Street Journal*, *The Financial Times*, *The New York Times*, *The Economist*. All of these sources are accessible through the Penn library.

Grading

The course grade is based on the following components: Examinations (75%), Problem Sets (15%), and a Global Analysis Project (10%).

Examinations

There will be two midterm examinations and a final examination. The midterms are scheduled as follows
Midterm 1: Thurs, Feb 9, 2012, evening,
Midterm 2: Thurs, March 22, 2012, evening.

The final will be given during the final examination period as scheduled by the registrar.

All examinations are comprehensive and closed book except for a single 8.5" x 11" sheet of notes. Calculators are permitted, except cell phone calculators.

The final exam will be assigned twice the weight of the midterm exams, yielding effectively four exam grades. The total "examination grade" will be computed as the average of the best three out of the four grades. This formula provides a great deal of insurance against both scheduling conflicts (inability to attend a midterm) and anomalous performance (a bad day). As a result, no requests to reschedule or retake a midterm will be entertained unless specifically mandated by university policy. If you miss one midterm for any reason whatsoever, you can simply use your insurance policy and drop that exam. The final exam, in turn, can be rescheduled only if required by university policy, and only during the official make-up period. Any request for make-up exams as well as notification of disability accommodations must be received at least one week before the final exam (in case of serious illness on the day of the final exam, you must notify me before the exam begins and provide an official doctor's note as soon as possible afterwards).

Regrade requests must be submitted using the official *Regrade Request* form posted on webCafé and must be accompanied by your exam copy. Requests must be submitted within a week from the date the

examination is returned (whether or not you actually pick up the exam on that date). For any request, the entire exam will be automatically regraded. Any alteration of the exam is therefore strictly forbidden and will be considered as a violation to the Code of Academic Integrity.

Problem Sets

There will be about 5 graded problem sets during the semester. These will not be accepted late and no regrade requests will be entertained. You may work on these problem sets together in teams of no more than 4 people. If you work as a team, only turn in one copy per team with the names of all team members clearly marked on the first page.

International Analysis Project

This is a group assignment designed to promote team work. Each group will give an in-class presentation applying the course material to analyze the macroeconomic situation of a foreign country. All members of a group will receive the same grade, independent of individual performance. Details on the project will be provided in class.

Academic Integrity

All relevant University policies regarding Academic Integrity must be followed strictly. Please consult the Code of Academic Integrity for details: <http://www.vpul.upenn.edu/osl/acadint.html>

Office Hours

Office hours with the professor and the TAs will be announced in class and posted on webCafé. If you cannot make it to any of the office hours, contact me for a personal appointment by email.

Contact

Most information, including frequently asked questions and interactive discussions, will be posted on webCafé. For additional information, I can be reached by email at borys@wharton.upenn.edu.

Preliminary Outline

Details of this outline are subject to change, as announced in class and posted on webCafé.

Part 1. Introduction:

1. Macroeconomics and the Global Economy: ABC Ch. 1
2. Macroeconomic Indicators and Asset Prices: ABC Ch. 2, Ch. 8.1-8.3

Part 2. The Central Economic Markets

1. Production and Productivity: ABC Ch. 3
2. Labor Demand and Supply; Labor Market Frictions: ABC Ch. 3
3. Consumption, Savings and Investment: ABC Ch. 4
4. Money, Prices and Asset Markets: ABC Ch. 7

Part 3. The Aggregate Economy

1. The IS-LM / AS-AD general framework: ABC Ch. 9
2. The Classical Model of Business Cycles: ABC Ch. 10
3. The Keynesian Model of Business Cycles: ABC Ch. 11
4. Unemployment and Inflation: ABC Ch. 12

Part 4. International Macroeconomics and Macroeconomic Policies

1. Monetary Policy and the Federal Reserve System: ABC Ch. 14
2. The Fed during the recent Financial Crisis
3. International Capital Markets and Exchange Rates: ABC Ch. 5, Ch. 13
4. Macroeconomic Policy in the Open Economy: ABC Ch.13
5. Economic Growth: ABC Ch. 6