

Finance 101: Monetary Economics & the Global Economy

Preliminary Syllabus

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Course Description

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

The first part of the course analyzes the central components of the economy: The markets for labor, goods and capital. The second part combines these markets to model the entire economy all at once (general equilibrium and disequilibrium). The focus is on explaining:

- The behavior and implications of key economic variables over the business cycle: production and demand; inflation, interest rates and asset prices; employment, wages and corporate profits; exchange rates and international flows of goods and capital
- Long-run economic growth, in both developed and emerging markets
- How macroeconomic policy affects the economy

The final part of the course focuses on the global economic and monetary system, including

- Exchange rates and competitiveness, international trade and borrowing/lending, and policy in the open economy
- Central banks and their effects on banks, money markets and the rest of the financial system (e.g., unconventional policies to combat the Great Recession).

The goals of the course are to help students:

- Understand the workings of the economy, and be able to monitor business conditions (This knowledge is necessary even just to follow media like the WSJ, Economist, or CNBC. Many students find it helpful right away during spring interviews and summer internships.)
- Anticipate and respond to significant macro events, such as recessions and financial crises at home or abroad
- Understand the global economy, along many dimensions: 1) important recent economic issues abroad (especially in China, Europe, and Japan); 2) how economies interact, especially via trade and capital flows; and 3) exchange rates and their impacts on firms' competitiveness and foreign profits. (Note: One can't understand the global economy in which economies interact, without first understanding the workings of an individual economy. Throughout the course we try to pair US examples with foreign examples.)

- Understand the global monetary system, especially the role of central banks (e.g., ‘Fed-watching’)
- Understand the origins, impacts, and lessons of the recent financial crisis and Great Recession
- Promote teamwork and communication skills via the Global Analysis Project (below)

A provisional schedule of topics, applications (in italics), and readings follows below. Changes to this will be announced during the semester in the lecture notes. Finance 101 emphasizes both theory and applications. Theory (models) will continue to guide students after graduation as business conditions (the facts) continue to evolve. But most students learn best by seeing theory applied to concrete examples. We will end most lectures with a substantial application to an important recent macro topic in the US or abroad.

Course Materials

- The required textbook is *Macroeconomics* by **Abel, Bernanke, and Croushore** [“ABC”] (Addison-Wesley, **8th edition**, 2013). It is available in the Bookstore and online. (Students using the 7th edition will be responsible for the updated material in the 8th edition.)
- The required coursepack, containing **additional book readings**, is available from <http://www.study.net>. (A hard copy can be ordered from Wharton Reprographics).
- The **lecture notes** and other course material (e.g., **problem sets** and **shorter readings**) will be available on the course’s **Canvas website**: <https://wharton.instructure.com>. (Students without access to Canvas can apply for a Wharton account online at: <http://accounts.wharton.upenn.edu>.)
 - The lecture notes should be brought to each lecture. They also contain the definitive list of readings and assignments associated with each topic.
 - Students are expected to consult the Canvas website regularly and keep current with the material posted there.

Students should also follow related current events on their own. This will become much easier as the course progresses. The following are good sources: the Wall Street Journal, the New York Times, the Financial Times, or the Economist (weekly). (Most of these are available from the library – no subscriptions needed)

Examinations

There will be two midterm exams and a final exam. The midterms are tentatively scheduled as follows:

- Thursday, **February 19**, 6-8pm
- Thursday, **March 26**, 6-8pm

The registrar will schedule the final during the final examination period. (You can check the schedule here: <http://www.upenn.edu/registrar/finals/index.html>. Make sure to look up the “common” exam times on the final page.)

The final exam will be assigned twice the weight of the midterm exams, yielding in effect four exam grades. The lowest of these four will be dropped. This provides students with a great deal of insurance against both scheduling conflicts and an anomalous performance. As a result, no requests to reschedule or retake a midterm exam 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 can be rescheduled only if

required by University policy, and only during the official make-up period during the first week of the following semester.

Any request for a required make-up exam or for disability accommodations must be made at least one week before the exam. (In case of serious illness on the final exam day, you should notify the professor *before* the exam begins, assuming that's possible, and provide your advisor with official documentation from a doctor as soon as possible afterwards.)

The exams will be closed-book, except that you may bring along a single 8.5"x11" sheet of notes to midterm #1, two sheets to midterm #2, and three sheets to the final. These notes may not include reproductions of large sections of the text, class notes, or coursepack. You may use a calculator, but only if it cannot communicate with other devices (e.g., no cellphone calculators). You must bring your Penn ID to be admitted into the exam room.

Regrade requests must be submitted using the official Regrade Request form (on the website) along with your entire exam. For the midterms, requests must be made within one week from the date the exam is returned (whether or not you actually pick up your exam on that day). For the final exam, requests must be made within one week from the first day of classes the following semester. We retain the right to regrade the entire exam. Any alteration of the exam is strictly forbidden and will be considered a violation of the Code of Academic Integrity.

Grading

The course grade will be based on the following: Exams 75%, Problem Sets 15%, Global Analysis Project 10%.

There will be 5-7 graded **problem sets**, which must be turned in at the start of lecture on the due date. Unless explicitly instructed otherwise, each student must individually complete and submit his/her own solutions. (E.g., you cannot substantially copy or just tweak another student's solutions, though you may compare answers. Prior experience shows that working through the problems sets on your own will greatly help you learn the material and do better on the exams.) These assignments will not be accepted tardy and no regrade requests will be accepted. Ungraded sample problems will also be provided for most topics.

The **Global Analysis Project** is a capstone group assignment promoting teamwork and communication, at the end of the semester. Each group will give an in-class presentation applying the course material to analyze the macroeconomic situation of a foreign country. All students in a team will receive the same team grade. Details will be provided in class.

In case of "ties," class attendance and participation may also be given marginal weight. Hence, students must attend the course section in which they are officially enrolled.

Violations of the course or University rules will be referred to appropriate authorities for disciplinary action. Please review the Code of Academic Integrity at:

http://www.upenn.edu/academicintegrity/ai_codeofacademicintegrity.html.

Office Hours

We will offer numerous office hours with the professor and the TAs. The schedule will be announced in lecture and posted on the website. We prefer to meet at these times, but if you cannot make it to any of the office hours you may make an appointment by email.

Provisional Outline¹

<i>Topic and Application</i>	<i>Readings</i> (chapter: section in ABC)
0. Introduction and Economic Statistics	2
Overview: GDP, Inflation, Nominal vs Real Interest Rts <i>Application: Great Recession vs Great Depression</i> <i>Recent Global Economic Trends</i>	
Economic Indicators and Financial Market Response <i>Long-Run Returns to Capital</i>	Siegel readings (on studynet)
I. The Structure of the Economy (Key Markets)	
Productivity and Labor Demand <i>Technology Waves</i> <i>Distribution of Income</i>	3:1-2, 6:1
Labor Supply and Labor Market Equilibrium <i>Jobless Recoveries</i> <i>Global Labor Markets</i>	3:3-6, 12:2
Consumption and Saving <i>Life-Cycle Model and Beyond</i> <i>CCAPM and Asset Prices</i>	4:1, Appendix 4.A, 15:3
Firms Investment and Capital Market Equilibrium <i>The Flow of Funds</i>	4:2-3
International Capital and Goods Markets <i>Comparative Advantage</i> <i>Pros and Cons of External Debt, eg the Asian Crisis</i> <i>Emerging Markets and Decoupling</i>	5
Money, Inflation, Asset Market Equilibrium <i>Monetarism</i> <i>Inflation-Indexed Bonds</i>	7, 12:3
II. The Aggregate Economy	
Impacts of Business Cycles <i>Corporate Earnings</i> <i>Financial Crises</i>	8
General Equilibrium and Disequilibrium IS-LM-FE Model Foundations of AS-AD Model <i>Energy Renaissance and Other Productivity ‘Shocks’</i> <i>Monetary and Fiscal Policy</i>	9:1-5, Appendix 9A/B, 10:1, 9:6
Business Cycle Theories & Stabilization Policy <i>The 2009 Stimulus</i>	10:2-3, 11, 15:2, 12:1

¹ **Note:** This outline is subject to change. The lecture notes contain the definitive list of readings and assignments. Substantial applications in italics.

<i>Lessons from Japan's Lost Decades</i>	
Long-Term Economic Growth	6
<i>Emerging Asia and Other EM (eg, China vs the Tigers)</i>	
III. The Global Economic and Monetary System	
Monetary Policy in the US and Abroad	14
<i>The Fed, the ECB and Other Central Banks</i>	
Central Banks and the Financial System	Hubbard readings
<i>The Fed Funds Market and Term Structure</i>	
<i>Central Banks and the Great Recession</i>	
<i>Forward Rates and Hedging Interest Costs</i>	
The Housing and Financial Crises	Mankiw reading
Fiscal Policy	15:1, 15:3
<i>The Sovereign Debt Crisis</i>	
<i>Social Security Crisis</i>	
Exchange Rates and International Trade	13:1-2
<i>Real Exchange Rates and Firms' Competitiveness</i>	
<i>Currency Crises</i>	
Open Economy IS-LM-FE	13:3-4
Exchange Rate Policy	13:5
<i>The Euro, ECB and EMU</i>	
<i>The Yuan and China's Exports and FX Reserves</i>	
Global Analysis Project	