

# **FNCE 615: MACROECONOMICS AND THE GLOBAL ECONOMIC ENVIRONMENT**

THE WHARTON SCHOOL OF THE UNIVERSITY OF PENNSYLVANIA

**PROFESSOR ANDRÉ KURMANN**

SPRING 2014, 4<sup>th</sup> QUARTER

## **COURSE DESCRIPTION**

This is a survey course in macroeconomic analysis with an emphasis on current events and policy applications. The objective of the course is to provide the background needed to understand current global macroeconomic issues. Key topics include national income accounting, long-run economic growth, technological change, the labor market, business cycles, inflation, interest rates, monetary and fiscal policy, international trade and exchange rates. By the end of the course, students should be able to follow analysis of global macroeconomic issues in newspapers such as *The Economist*, *The Wall Street Journal* and *The Financial Times*.

## **COURSE MATERIAL**

### **Canvas**

There is a Canvas site containing the syllabus, lecture notes, quizzes, teaching assistants' office hours, regrade request forms, and other useful information. You will need to have a Wharton account to enter the site. If you do not have a Wharton account, you can apply for one [online](#).

### **Reading Material**

The course material consists of lecture notes, the textbook, and course readings. The lecture notes will be available on Canvas. The textbook is *Macroeconomics* (eight edition) by Andrew B. Abel, Ben S. Bernanke and Dean Croushore (henceforth **ABC**), Addison-Wesley, 2013. Course readings come from *The Economist* and other news publications (hyperlinked in the course outline section of Canvas) as well as chapters of other textbooks (available through the Study.Net tab on Canvas). We will also work through two case studies (available through the Study.Net tab on Canvas).

In addition to the regular course material, you are expected to follow current economic events. While no subscription to a particular journal is required, it is recommended that you regularly read *The Economist*, *The Wall Street Journal* and *The Financial Times*. Other good sources of economic news are economics blogs maintained by these journals as well as podcasts such as NPR's Planet Money.

## GRADING

Grades are based on a final exam (65%), five quizzes (25%), and class participation (10%).

### Final exam

The final exam will cover the entire course material and is closed book, except for one single 8.5" x 11" double-sided sheet of notes. Calculators (that cannot communicate with each other) are permitted. The final exam date is set by the Registrar's Office for **Friday, May 9 from 6:00 to 8:00pm**. Please check with the [Registrar's Office](#) for confirmation of the date before making travel arrangements. Note that I had no influence whatsoever on the final exam date. It can be rescheduled only if required by university policy. For more information, please contact the MBA program office.

### Quizzes

There will be 5 quizzes, administered through Canvas. The quizzes are designed to reinforce key concepts from class and to help you prepare for the final. Due dates will be indicated under the course outline section of the syllabus. They are all due by 9:00am of the due date indicated. 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.

### 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.

### 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 exam 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.

## ACADEMIC INTEGRITY

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

## CONTACT INFORMATION

**Email:** [kurmann@wharton.upenn.edu](mailto:kurmann@wharton.upenn.edu)

**Office Hours:** Thursday, 3:30-5:00pm

**Office:** SHDH 2425

Most information about the course is posted on Canvas. For questions not answered during class, stop by during office hours. There are also three terrific teaching assistants who hold office hours and are happy to help you with the material.

I can also be reached by email. The most efficient way to use email is for short questions about a specific part of the course. On occasion, I will post some of these questions (with answer) on the course webpage. This is an efficient way to disseminate information. Student identifiers will be removed if I post a question. If you do not want your question to be posted, just say so in your email.

## TEACHING ASSISTANTS

Name	Email address	Office hours	Location
Kelechi Agalaba	<a href="mailto:agalabak@wharton.upenn.edu">agalabak@wharton.upenn.edu</a>	Tuesday, 11:30-1:00pm	SHDH 2406
Jessica Jeffers	<a href="mailto:jeffersj@wharton.upenn.edu">jeffersj@wharton.upenn.edu</a>	Friday, 1:30-3:00pm	SHDH 2406
Dan Sha	<a href="mailto:dansha@wharton.upenn.edu">dansha@wharton.upenn.edu</a>	Tuesday, 3:00-4:30pm	SHDH 2004

## COURSE OUTLINE AND READING LIST

### Introduction

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**Tuesday, March 18: 5 Macro Issues every MBA Student should know about**

Readings: ABC Chapter 1

### Macroeconomic Data

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**Thursday, March 20: National Accounting and Economic Performance over Time**

Readings: ABC Chapters 2.1 – 2.3

["The real wealth of nations"](#) *The Economist*, June 30, 2012

Topics: Definition and measurement of Gross Domestic Product (GDP); GDP components; savings and wealth; growth rates; the Rule of 70.

**Tuesday, March 25: Real and nominal GDP, Inflation, and Asset Prices**

Readings: ABC Chapters 2.4 – 2.5

"Stocks, Bonds, and the Flow of Economic Data," by Jeremy Siegel, in: *Stocks for the Long Run* (Chapter 17), 5<sup>th</sup> edition, New York: McGraw Hill (available at Study.Net)

Topics: Real and nominal GDP; price indices and inflation; nominal and real interest rates; the Fisher equation; bonds, stocks and economic news.

Quiz #1: Due on Thursday, March 27 at 9:00am.

## The Long Run

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### Thursday, March 27: Production and Economic Growth

Readings: ABC Chapters 3.1 and 6.1 – 6.2

Topics: Production function; returns to scale; diminishing marginal returns to capital and labor; diminishing marginal returns; Total Factor Productivity (TFP); growth accounting; Solow growth model.

### Tuesday, April 1: The Sources of Economic Growth

Readings: ABC Chapters 6.3 – 6.4

[“Has the ideas machine broken down?”](#) *The Economist*, January 12, 2013.

[“The parable of Argentina”](#) *The Economist*, February 15, 2014

Case study: “The Solow Model Unleashed: Understanding Economic Growth,” by Nicolas Vincent and Pierre Jared, Columbia Business School Case #130304 (available at Study.Net)

Topics: Technological progress; human capital; research and development.

Quiz #2: Due on Thursday, April 3 at 9:00am.

## The Labor Market

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### Thursday, April 3: Labor Demand, Labor Supply and Unemployment

Readings: ABC Chapters 3.2 – 3.5, 12.3

[“The missing millions”](#) *The Economist*, September 28, 2013

Topics: The U.S. labor market; labor demand; labor supply; labor market equilibrium; wages and inequality; frictional vs. structural unemployment; the natural rate of unemployment; labor markets around the world.

## The Short Run

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### Tuesday, April 8: Business Cycles: Facts and Explanations (1)

Readings: ABC Chapters 3.6, 8.1 – 8.4

Topics: Trends and business cycle fluctuations; actual and potential output; Okun's law; international aspects of business cycles; the aggregate demand/aggregate supply (AS/AD) framework.

### Thursday, April 10: Business Cycles: Facts and Explanations (2)

Readings: ABC Chapters 10.1 – 10.3, 11.2 – 11.4, 12.1 – 12.2

["The morning after"](#) *The Economist*, June 24, 2010

Topics: Classical and Keynesian explanations of business cycles; sticky prices and the Phillips curve; expectations and economic activity; the Great Recession viewed through the AS/AD framework; Classical and Keynesian policy implications; the dangers of deflation.

Quiz #3 Due on Tuesday, April 15 at 9:00am.

## Monetary Policy

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### Tuesday, April 15: The Federal Reserve System and Conventional Monetary Policy

Readings: **ABC** Ch. 14.1 – 14.2

“The Risk and Term Structure of Interest Rates,” by Frederic Mishkin, in: Economics of Money, Banking, and Financial Markets (Chapter 6), 10<sup>th</sup> edition, Prentice Hall (available at Study.Net)

“The Tools of Monetary Policy,” by Frederic Mishkin, in: Economics of Money, Banking, and Financial Markets (Chapter 15), 10<sup>th</sup> edition, Prentice Hall (available at Study.Net)

Topics: The Federal Reserve System; fractional reserve banking; money multiplier; the Federal Funds market; open market operations; transmission channels of monetary policy.

### Thursday, April 17: The Financial Crisis of 2008 and Unconventional Monetary Policy

Readings: **ABC** Chapters 14.4 – 14.5 (skip pages 557-560)

“[The Federal Reserve’s unconventional policies](#)”, *Economic Letter*, Federal Reserve Bank of San Francisco, November 13, 2012

Topics: The Financial Crisis and the Great Recession; the Zero-Lower Bound and the limits of conventional monetary policy; unconventional monetary policy; rules versus discretion.

Quiz #4: Due on Tuesday, April 22 at 9:00am.

## The Global Economy

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### Tuesday, April 22: International Trade and Exchange Rates

Readings: **ABC** Chapters 13.1 – 13.2

["Grease-proof taper"](#) *The Economist*, January 25, 2014

Topics: Nominal and real exchange rates; the real exchange rate and net exports; the foreign exchange market; short-run and long-run determinants of exchange rates; the open-economy AS/AD framework.

### Thursday, April 24: The European Debt Crisis and the Future of the Euro

Readings: **ABC** Chapters 13.4 – 13.5

Case study: "Eurozone convergence, divergence, and then what?" by Francis Warnock  
Harvard Business School #UV5691 (available at Study.Net)

Topics: Fixed and flexible exchange rate regimes; currency unions; speculative attacks; the policy trilemma.

Quiz #5 due on Tuesday, April 29 at 9:00am

## Fiscal Policy

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### Tuesday, April 29: Government Spending and Its Financing

Readings: ABC Chapers 15.1 – 15.3

[“Budget Puzzle: You Fix the Budget”](#) The New York Times, November 13, 2010

Topics: U.S. government spending and revenue; fiscal policy and aggregate demand; government debt and deficits; sustainability of public debt; crowding out effect; the American Recovery and Reinvestment Act.

**Final examination:** Friday, May 9 from 6:00 to 8:00pm