

Wharton

Finance 613: Global Economic Environment

Preliminary Syllabus

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Course Description

FNCE 613 is an introductory course in global economics for managers with the primary goal of providing applied tools to optimize business in the global economy. The course is motivated by the following simple observation: both general and leading managers in all fields and firms need a solid understanding of both country-level and global trends in order to formulate successful operation-, marketing-, strategy-, and finance-related decisions. For this reason, the whole course (readings, applications, and slide deck) is designed to provide strong connections to most of the other core courses. These connections build a unified framework and provide strong foundations for many subsequent elective courses.

Each topic relates to a crucial aspect of the macro-economy that affects firms, consumers, and policy making. Business leaders are asked to (i) choose effective responses to the external environment; (ii) anticipate global economic challenges and opportunities; and (iii) shape business environment and policy making. To do so, knowledge of management and leadership on a macro scale is required. We will study not only how firms should respond to policy variables, but also how economic policies are determined. These policies are relevant because they affect millions of consumers, workers, entrepreneurs, and intermediaries. Managers that understand these policies create a strong advantage for their firms, as they better determine short and long-term international investments.

MBA graduates use what they learned in this course differently at different points in their careers. Many students immediately use what they learned about interest rates, exchange rates, fiscal policy and balance of payments. Most graduates use this knowledge as they progress in their career and become prominent business figures. Their opinions on international economic dynamics become increasingly in demand in several venues, not only on the job place.

Below, I list some of the topics addressed during the course and their related relevant questions.

1. Economic Performance

1.1. Broad measures of economic performance

- What is Gross Domestic Product (GDP) and how it is measured?
- The main limitations of our common GDP measures
- Main components of GDP (Consumption, Investment, Government Expenditure, and Net Exports)
- GDP across sectors (services vs manufacturing)

- GDP across countries
- GDP data: implications for consumers (demand) and firms (supply) behavior
- What is inflation? Why excessive inflation is a source of concern?
- What is deflation? Why is it a source of concern?
- Global drivers of local economic performance

1.2. Macroeconomic uncertainty

- What is a recession? How frequently do we get a recession? How long lasting recessions are?
- Consumers and producers behavior during recessions
- Consumers and producers behavior during slow recoveries with excessive debt
- Recovering while deleveraging: implications for consumers and businesses
- Economic data during recoveries: news and stock market reactions
- Great Recessions: what is concerning about them?
- Recessions as times of opportunities: innovation and the macro economy

2. Labor market slack

- Hiring, firing and quitting decisions over time.
- Labor dynamics and global factors: outsourcing trends and re-routing
- What is unemployment? What is underemployment? How do we measure them?
- Monthly employment reports: what they mean for business decisions
- Monthly production costs reports: what they mean for future hiring
- Why do we have unemployment? Why is long-term unemployment a major concern? Implications for income, products demand, and monetary policy.
- Employment: where is job creation coming from? Business innovation and productivity.
- Employment: where are skilled workers coming from? Education and the challenge of growing student loans. Minimum wage or minimum education?
- Unemployment outlook and lessons for general managers

3. Interest rates: implications for global demand and supply

- What is a nominal interest rate? What is a real interest rate? Which one drives economic decisions?
- How do we measure a risk-free interest rate? Pros and Cons of using government bonds
- Deflation in a market with zero nominal interest rate: implications for both consumers (demand) and producers (supply)
- Business investment outlook in an economy with zero short-term interest rates and substantial uncertainty
- Business investment in an economy with big public deficits
- Business investment depressed in economies with policy uncertainty
- The role of interest rates across industries (labor/capital intensive) and countries (Developed/Emerging).

4. Understanding and anticipating Central Banks

4.1. Conventional Monetary Policy

- What is money and how it is measured?
- Is Bitcoin (electronic currency) money?
- How does a central bank inject money in the economy? Purchases of financial assets

- How does a central bank withdraw money from the economy? Implications for the private financial markets.
- How can money injections reduce the interest rates? How does the interest rate affect consumer and producers? Is there a difference across sectors?
- What is the mandate of the US central bank?
- What are the rules of thumb of monetary policy? When should we expect higher rates?
- How does monetary policy respond to excessive inflation?
- How does policy respond to deflation? What are the limitations of conventional monetary policy?

4.2. Quantitative Easing

- What is Quantitative Easing (QE)?
- What does it mean to reduce long-term rates? Why should it matter?
- What is the difference between QE1, QE2, QE3? What do these policies do? What could happen to GDP once these policies are terminated?
- Consumers and producers reactions to quantitative easing
- Consumers and producers reactions to the exit strategy from quantitative easing
- Japan: will QE ever work? US: was QE effective?
- Should the US monetary policy globally coordinated?
- How has QE affected demand for equity vs. long-bonds by investors/savers? What are the implications for consumer credit and firms that sell products and financing in a package?

5. Global Economy and External Imbalances

- What is the balance of payment?
- What is the current account? How is it related to net exports? How do we measure net exports?
- What is the capital and financial account? How do we measure capital flows?
- What does it mean to have a current account deficit?
- What does it mean to have a capital account deficit?
- How do we measure the net external debt of a country? What prevents excessive international leverage?
- Can external imbalances be permanent? If not, when do countries change their net exports policy?
- What does this all mean for international producers? What does it mean for international consumers?
- What are the implications of changing capital flows for firms, whether they sell domestically or have substantial export exposure?

6. Exchange Rates

- What is a nominal exchange rate and how is it measured?
- What is a real exchange rate? How should we interpret it? Why is it relevant for business decision?
- Why should an international producer care about exchange rates?
- Why should a domestic consumer care about exchange rates? CPI and imported inflation.
- What is a fixed exchange rate regime? How do we control exchange rates?

- What are the benefits and costs of a fixed exchange rate regime?
- Is there an optimal exchange rate level?
- How does the exchange rate affect international bond investments?
- How does the exchange rate affect international trade of goods and services?
- How do currencies respond to QE? Is monetary policy uncertainty a driver of currencies?
- How do exporters think about selling in the domestic vs. overseas markets as a function of exchange rate changes and central bank decisions? What are the implications for staffing of firms (since overseas sales typically rely on local not US staff)?

7. **Fiscal Stimulus vs Austerity: effects on economic activity**

- Why does more government expenditure expand output?
- Why does lowering taxes expand output?
- Are fiscal stimulus sustainable forever? What is the best financing strategy for public debt?
- Are fiscal stimulus able to stimulate the economy forever? Is there a long-run cost?
- Austerity: reducing excessive public debt. What are the pros and cons for producers and consumers?
- Should fiscal policy coordinate with monetary policy? What are the best practices? Should we inflate away public debt?
- Should fiscal policy be coordinated across countries to be effective?
- Is public debt threatening long-term growth? The EU perspective and the US concerns.

Goals of the Course

Knowledge-oriented goal. This course provides a simple and coherent framework for analyzing macroeconomic events (e.g. recessions and booms) and macroeconomic policies (e.g. monetary and fiscal policy). Step by step, we will patiently build a workhorse economic framework used by general managers. Our model is designed to develop strong analytical thinking about the economy without requiring any special calculus skills, so that most of the focus will be on the 'big picture', not on the math. Learning this framework will provide what I call “macroeconomic knowledge for the long-run”, i.e., a tool which students can use for the rest of their life.

Skills-oriented goal. Students will be trained to develop the ability to prepare short briefings on macroeconomic conditions. Specifically, discussions in class will require daily reading of articles related to current economic issues and the ability to summarize the main economic takeaway.

Lecture Structure

My lectures will typically, but not always, have the following format:

- 1) Short review of previous lecture and connection with current topic
- 2) Current topic and clarifying questions
- 3) Application:

- a. Economic Indicators; and/or
- b. Current economic events in the US and abroad; and/or
- c. Case study.

The time allocation tends to be balanced, but I will always retain the option of having a 100% 'theory'-based class if we fall behind with the analysis of our economic framework, or a more 'application-based' lecture if a sudden and relevant current event should happen.

Policy about questions in class. By default, FNCE 613 is a very challenging course since it is extremely concentrated. In less than four months we will need to cover topics that tend to have a large breath. This implies that I will need to be very selective with questions. In order to keep our course efficient and focused on the essential, I anticipate that I may often postpone interesting and legitimate questions for my office hours. If one of your questions is postponed, keep in mind that there is nothing personal about it. It is my way to optimally manage common class time.

Grading

The course grade is based on the following components:

TABLE 1

| | Category | Due Date | Relative Weight |
|------------------------------|--------------------------|--------------------|---|
| Take-home quizzes | Individual tests | See Canvas | 1% per quiz (# of quizzes TBA) |
| In-class midterm | Individual test | 02/29/2016* | 30% or 0% |
| Final Exam | Individual exam | 05/02/2016* | 40% or 70% |
| In-Class Discussion | Group-based assignment | -- | 15% |
| Group peer evaluation | Group-based penalization | 05/02/2016* | 0 to -5% (depending on severity) |
| Participation | Individual | -- | TBA |

NOTE: should you notice a discrepancy between this schedule and the one on our Canvas webpage, please let me know ASAP. During the term, I may slightly change these dates to promote a better coordination with other core courses/events/speaker visits, ... Changes (if any) will be announced in advance to be predictable and fair for everybody. Dates marked with a '*' are tentative.

Take-home Quizzes. These quizzes are provided on Canvas and are automatically graded. They are based on what has been done in class and are similar to the practice quizzes I provide in class. Each quiz gets a weight of just 1%, a weight small enough so that you are not penalized for your mistakes during your learning process, but large enough to give you an incentive to regularly review our topics.

Midterm and Final exam. The midterm refers to the first part of our course. The final exam focuses on the second part. Keep in mind that, the second part of the course builds on the topics seen in the first part. Both midterm and the final exam will be 'open book'. Feel free to bring with you a paper copy of

whatever source you think will be useful. Laptops and flat devices are allowed, but internet has to be OFF at all times. Honor code applies. All examinations will be based on what is done in class and their structure will be consistent with the practice final exam that I will give you during the course. Based on previous years, you should expect an average of 80—85 out of 100 for my final exam.

Insurance Policy on Examinations. The final grade depends on both your group performance (discussions count overall for 15%) and your individual performance (quizzes, midterm, final exam, and participation count for the remaining 85%). The score of your individual performance will be computed as follows:

- If your relative performance on the midterm is better than your relative performance in the final exam, I will assign 30% to the Quiz and 40% to your final;
- If your relative performance in the final exam is better than your relative performance in the Quiz, I will assign a weight of 70% to your final and 0% to your Quiz.

This formula provides a great deal of insurance against both scheduling conflicts (inability to come to class for the Quiz) and anomalous performance (a bad day either for the Quiz or the Final exam). As a result, no requests to reschedule or retake the Quiz will be entertained unless specifically mandated by university policy.

Group work. Group work is very beneficial when it comes to promoting economic discussion and analysis. The overall weight on group work is 15%. To be totally fair, students will receive anonymous peer evaluations within their study group on the day of the final exam. Poor evaluations could result in a penalization as high as 5%, depending on the gravity of the case. Randomly, I will ask your group to introduce the readings of the day or of the previous lecture. I have no fix policy about this: some days I may call nobody; other days I may call multiple groups. I give more credits to groups in which each member says something about the topic of the day.

Class Participation. Students are expected to attend classes, to arrive on time, and to stay for the duration of the class. Your peers will make your learning experience easier, more pleasant, and, most importantly, more complete. Class participation will be encouraged, but only when it is a contribution. High-quality comments will increase your class participation score, and they will make the discussion more valuable for your classmates.

Regrading of Exams

Any requests for regrading of exams must be submitted in writing within one week from the date that exams are returned in class, and must be accompanied by the Regrade Request form and Statement of Honesty in Regrade Request form, which are available on Canvas. The one-week period for submission of exams for regrading begins on the date that the exams are returned in class, not on the date that you pick up the exam, if for some reason you are absent from class the day the exams are returned. If you miss the class during which the exams are returned, it is your responsibility to pick up your graded exam within the one-week period. Requests for regrading must be very specific.

Do not mark or make notes on your exam, and do not alter in any way the answers to the questions. Such alterations will be construed as violations of the Code of Academic Integrity and may be referred for disciplinary action. When you request a regrade, I retain the right to regrade your entire exam. Please be aware that your exam score may fall as a result of regrading, if I determine that you received too many points for the question(s) you identify, or for other questions on the exam.

Course Material

Webpage

The course is 'self-contained' in the sense that the class-notes, the websites, and the articles assigned for reading provide the backbone for studying and understanding the topics of the course. There is no course pack for FNCE613: all documents will be provided in electronic form on Canvas. Most of the class will be taught with slides. These slides, together other useful documents, will be posted on our course webpage throughout the term. All files essential to the course will have a name starting by "1_". Other files important for interviews but not necessary to perform well in the course (articles from specialized newspapers, html pages from economic institutions, or extra slides) will be denoted as "2_". Files that I may or may not discuss in class might appear on Course portal in the category "Temp_". If I end up discussing them in class, I will change their category to "1_", otherwise I will mark them as "2_" or even delete them.

Economic News

While no subscription to any particular newspaper or journal is required, I strongly encourage you to regularly read any of the following: *The Economist* (available for free through the University), the economic calendar of *Nasdaq.com* (available on the web for free), *Wall Street Journal* (available for free through the University), or equivalent publications.

Suggested Text Book

Students that have not had the privilege of having being formerly exposed to Macro may find the following optional book useful:

- (ABC) Abel, Bernanke, and Croushore. *Macroeconomics*. Addison-Wesley.

Schedule

By default, our schedule will follow the University calendar, subject to a few exceptions and to sudden changes that sometimes happen (i.e., weather conditions, ...). Changes will be announced in advanced in order to minimize disruption and to be fair with everybody. The Canvas' calendar will be updated regularly so that it will reflect our effective schedule.

A list of dates to keep in mind follows:

- **Lecture 12 is scheduled on Mon 02/29/2016 at 6pm (tentative), as opposed to TUE March 01.**

- **Our midterm will take place on Mon Febr 29 at 6pm (tentative).** You will have 90 minutes for the examination but you should count on staying in class until 8pm (it takes 30 minutes to distribute and collect exams)
- **Our exam will last 2 hours and will be on 05/02/2016 (tentative, scheduled by the registrar).**

Re-Scheduling

Students should take note of the following paragraphs from the AcademicPolicies section of the MBA Resource Guide (<http://www.wharton.upenn.edu/mbaresource/misc/academic-policies.cfm>), specifically the section on Examination Policies:

“If you have documentable special circumstances such as time conflicts between multiple exams, illness, or grave personal difficulties such as a death in the family, you should petition the MBA Program Office, which will work with the faculty in appropriate cases to find a resolution. The MBA Program Office will require documentation of your conflict as a matter of course. See the University website (Pennbook) for policies covering absences resulting from religious observances. You should never approach your instructors with requests to reschedule exams or to make special accommodations. [underline added]

*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. Employers cannot require a student, as a condition of his or her employment candidacy, to participate in recruiting-related activities at a time that conflicts with his or her academic schedule. An employer’s inflexibility on this issue is considered a violation of Wharton’s recruiting policies. **A time conflict due to a job interview, a career pursuit or travel is not an appropriate reason to request accommodation on an academic commitment.**”*

Support

Office hours

I encourage you to contact me with questions related to our course. I will be having office hours in my office, **TBA**, by appointment. I can be reached by e-mail at: **mmc287@gmail.com**.

Graders and Tutors

I am very pleased to list below top students that have agreed to function as graders for your exams:

- Sam Rosen: sam.rosen23@gmail.com
- Dorothee Rainis: drainis@wharton.upenn.edu
- **TBA** (depending on enrollment, we may have a 3rd TA)

I will personally grade your final exams with their help. These students are also official tutors for my course.

Responsibilities and obligations

As in every well-functioning society, our community has set forth guidelines that govern our participation in the school. These can be generally categorized in two groups. One outlines our values while the other describes our responsibilities. Below, I provide a summary of both.

The Honor Code for my course

If you have questions about your responsibility under the honor code, please bring them to me. This document contains policies and procedures pertaining to the student honor code for my course. Your full participation and observance of the honor code is expected.

The following acts, among others, are expressly prohibited by the honor code:

1. **Unauthorized assistance or unauthorized collaboration** in connection with academic work, whether or not for a grade.
2. **Cheating** on examinations or other academic assignments, whether graded or otherwise, including but not limited to the following:
 - a. Using unauthorized materials and methods (notes, books, electronic information, telephonic or other forms of electronic communication, or other sources or methods);
 - b. Violating or subverting requirements governing administration of examinations or other electronic assignments;
 - c. Compromising the security of examinations or academic assignments;
 - d. Representing another's work as one's own; or
 - e. Engaging in other actions that compromise the integrity of the grading or evaluation process.

What is permitted

1. You should work with your study group on group assignments.
2. You may seek help for grammar or composition on all graded assignments, especially if you are an international student. You may not, however, seek help for any other aspect of the assignment.
3. You may consult with me regarding any question you have with respect to whether a proposed action is permitted in my class. Your failure to consult with me regarding questionable or dubious behavior shall be considered should I decide that you have violated the Honor Code.
4. I create my own problems, so while working on problem sets you and your group are allowed to search the web, textbooks, etc. for similar sample exercises if you find that helpful. During the final exam, however, I expect you to use only your own notes and books (electronic format is fine).

What is not permitted

1. You may not consult with any other person via the internet, text messaging, email, in person, etc. during (1) the midterm; (2) the "take-home" quizzes on Canvas; and (3) the Final Exam.
2. You may consult resources on the internet for help with the homework, but not if those resources are, on the other end, human beings. You cannot post questions in chat rooms or discussion boards, for example. For the in-class discussions, you may sometimes be absent, but you are expected to talk to your group and contribute to the preparation of the required short briefing.