

Finance 613
Macroeconomics and the Global Economic Environment
Professor Ravi Bansal
Fall 2016

Ravi Bansal is J.B. Fuqua Professor of Finance at the Fuqua School of Business, Duke University, Research Associate of the National Bureau of Economic Research, and Visiting Professor at Wharton. Professor Bansal conducts research that focuses on macro-finance, money and liquidity, and more recently on climate change from the perspective of financial economics. His papers have appeared in leading journals, including the *Journal of Finance*, *Review of Economic Studies*, *Journal of Political Economy*, *Review of Financial Studies*, *American Economic Review*, and *Journal of Econometrics*. His work on Long-Run Risks received the Smith Breeden distinguished paper award and is acknowledged in the [scientific background article](#) for the 2013 Nobel Prize in Economics. His PhD students have placed at leading academic institutions, central banks, and asset management firms.

Contact Information

Office location: Steinberg Hall/Dietrich Hall: 2458

Email: ravib@wharton.upenn.edu

Course Description

Finance 613 is a course in macroeconomic analysis and policy in the context of globally integrated economies. The course provides answers to important global economic issues. What are the causes of the 2008 recession, and downturns in general? Have actions on the monetary front by the Fed and central banks around the world been effective in addressing the downturn? Can fiscal policy (tax breaks and government spending) help mitigate downturns? Can interventions cause more harm than good? What are the implications of the weakening dollar (for example, relative to the Japanese Yen?)

However, economies (thankfully!) expand rather than contract for a majority of the time, so we will also focus on the factors that are responsible for a country's long-run growth and economic wellbeing. How will the industrialized countries weather competition from the fast-growing emerging economies? What are the determinants of trade and globalization? In this course, which places the firm in the context of the national and the global economy, we will shed some light on these questions.

At the end of this course, in addition to understanding the above issues at a conceptual level, you should be able to critically evaluate arguments in the popular financial press – **Wall Street Journal**, **Financial Times**, and **The Economist**, to name a few – since such arguments will influence decisions you will make as executives

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). 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 breadth. 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:

	Category	Due Date	Relative Weight
In-class midterm	Individual test	10/24/2016	35% or 0%
Final Exam	Individual exam	TBA/12/2016*	40% or 75%
In-Class Discussion	Group-based assignment	--	20%
Group peer evaluation	Group-based penalization	TBA/12/2016*	0 to -5%
Participation	Individual	--	5%

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.

Midterm and Final exam. The midterm refers to the first part of our course. The final exam covers the entire course with a tilt towards the second half of the course. 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.” 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 make available.

Practice Exams. I will provide two sample exams for both the midterm and final. They are intended to help students reinforce the material learned in class. I highly recommend that students review these practice materials carefully as they will be consistent with the structure of the exam and the scope of questions on the exams. I also recommend that students attempt the questions before looking at the solutions.

Insurance Policy on Examinations. The final grade depends on both your group performance (discussions count overall for 20%) and your individual performance (midterm, final exam, and participation count for the remaining 80%). 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 35% to the midterm and 40% to your final;
- If your relative performance in the final exam is better than your relative performance in the midterm, I will assign a weight of 75% to your final and 0% to your midterm.

This formula provides a great deal of insurance against both scheduling conflicts and anomalous performance (a bad day in an exam). As a result, no requests to reschedule or retake the exam 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 20%. 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.

There are lecture days on which we still start class with a presentation from one of the groups (see those that specify “Discussion” on the schedule). I will randomly select one group in each section to present on the readings for that day. If the entire group is absent or not prepared, each member of that group will be penalized 10% off their in-class discussion grade. My expectations for satisfactory in-class discussion are a succinct summary of the stylized facts in the readings and how they related to the material in the lecture slides. Formal presentation slides are optional but recommended. At my discretion, I may also give extra credit to groups whose presentations are outstanding.

Your TAs and I will form your groups. The ideal group size consists of five students. We retain the option to (i) change group composition, and (ii) consolidate groups, if appropriate. We will try to minimize changes and disruptions. We hope to finalize this task within the first three weeks of the course, i.e., right after enrollment is finalized.

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.

Re-grading 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 (midterm) or available for pick up (final), not on the date that you specifically retrieve your exam. If you miss 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.

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. 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 13 is scheduled on Mon October 24/2016 at 6pm-8pm and we will have our midterm exam in this time slot.**
- **Our final exam will be on TBA/12/2016 (tentative, scheduled by the registrar).**
- Topics Schedule is given below.

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 can be reached by e-mail at: ravib@wharton.upenn.edu.

Graders and Tutors

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

- Alex Belyakov: alex.belyakov@yahoo.com
- Roberto Gomez: rogo@wharton.upenn.edu
- Sam Rosen: sam.rosen23@gmail.com

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; and (2) 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.

1	Wed Aug 31	Motivation and National Income and Product Accounts (Ch. 1 and Ch. 2)
2	Wed, Sep 7	Motivation and National Income and Product Accounts (Ch. 1 and Ch. 2)
3	Mon, Sep 12	Production and Growth (Ch. 3, Sec. 1, and Ch. 6 Sec. 1) Discussion: Global Outlook
4	Wed, Sep 14	Production and Growth (Ch. 3, Sec. 1, and Ch. 6 Sec. 1) Discussion: Secular Stagnation
5	Mon, Sep 19	Labor Market (Ch. 3, Secs. 2 to 5) Discussion: Jobless Recoveries
6	Wed, Sep 21	Labor Market (Ch. 3, Secs. 2 to 5) Discussion: Wage distribution/Income Inequality
7	Mon, Sep 26	Capital Market/savings(Ch. 4) Discussion: Household Leverage
8	Wed, Sep 28	Capital Market/Investment Discussion: Is Investment share declining?
9	Mon, Oct 3	Cost of Borrowing: Equity/Risk Premia
10	Wed, Oct 5	Economic Indicators Discussion: Announcement premiums, Why?
11	Mon, Oct 10	International Capital Flows (Ch. 5)
12	Wed, Oct 12	Midterm Exam Review
13	Mon, Oct 24	Midterm Exam 6-8 PM (no class meeting during regular hours)
14	Wed, Oct 26	International Capital Flows (Ch. 5) Discussion: Current A/C deficits
15	Mon, Oct 31	Money and the Federal Reserve Bank (Ch. 7, Secs. 1, 3, 5 and Ch. 14, Sec. 1)
16	Wed, Nov 2	Money and the Federal Reserve Bank (Ch. 7, Secs. 1, 3, 5 and Ch. 14, Sec. 1)
17	Mon, Nov 7	Taylor Rule and the Term Structure
18	Wed, Nov 9	Taylor Rule and the Term Structure/Bond Markets
19	Mon, Nov 14	Government Expenditure Discussion: Social Security
20	Wed, Nov 16	Government Expenditure & Taxes
21	Mon, Nov 28	Budget Deficits and Crisis of Confidence (Ch. 15, Secs. 1, 4)
22	Wed, Nov 30	The European Union/Exchange Rates Discussion: Brexit
23	Mon, Dec 5	Exchange Rates (Ch. 12, Secs. 1, 2, 5) Discussion: Yuan Overvalued
24	Wed, Dec 7	Exchange Rates (Ch. 12, Secs. 1, 2, 5) In-Class Review Session for Final Exam
FINAL EXAMINATION: TBA		

Midterm Exam Location:

Class meeting at 10.30-12.00 takes midterm in JMHH G60

Class meeting at 1.30-3.00 takes midterm in SHDH 350

Class meeting at 3.30-4.30 takes midterm in SHDH 351



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OPERATIONS

Wharton Event Confirmation Report

8/10/2016
10:26AM

<u>Time</u>	<u>Building</u>	<u>Room</u>	<u>Meeting Title</u>	<u>Reservation Number</u>
10/24/2016 <i>Monday</i>				
6:00 PM - 8:00 PM	JMHH	G60	FNCE 613- Midterm Exam, BANSAL	WHD20160809-222450
6:00 PM - 8:00 PM	SHDH	350	FNCE 613- Midterm Exam, BANSAL	WHD20160809-222450
6:00 PM - 8:00 PM	SHDH	351	FNCE 613- Midterm Exam, BANSAL	WHD20160809-222450