

The Wharton School
University of Pennsylvania
Finance Department

Finance 101
Monetary Economics & the Global Economy

Spring 2018
Prof. Gerald Carlino

Required Text and Materials:

Andrew B. Abel, Ben S. Bernanke, and Dean Croushore, *Macroeconomics*, Ninth Edition, Pearson Addison-Wesley Publishing Co., 2013.

Optional Materials:

Croushore, Dean, *Study Guide to Abel-Bernanke Macroeconomics*, Eighth Edition, Pearson Addison-Wesley Publishing Co., 2013.

Other periodicals (e.g., *Financial Times*, *BusinessWeek*, *The Economist*, *NY Times*, *Washington Post*)

Objectives:

Finance 101 is designed to introduce the student to competing theories regarding the functioning of the macroeconomy in a global environment and the effects of government policy. In doing so, it covers

- the measurement of macroeconomic activity (production, employment, interest rates, prices, national saving, investment, and international transactions),
- Classical macroeconomic analysis (the functioning of the macroeconomy assuming efficient markets), identifying the sources of long-run economic growth,
- business cycles and theories of cyclical fluctuations,
- the use of government policies to stabilize economic activity and promote long-term growth.

The principal text (Abel-Bernanke-Croushore [“ABC”]) presents a cohesive model for studying macroeconomic performance and for identifying the sources of controversy among economists and policy makers. Additional supplementary readings, to be made available through the course, reinforce conclusions found in Abel-Bernanke-Croushore regarding long-run economic growth and stabilization policy shared by both moderate liberals and moderate conservatives. Other perspectives will also be presented.

Examinations:

There will be two midterm examinations and a final examination. Because the course continually builds on previous knowledge, the final examination will be *cumulative over the material from the entire course*, though it will stress material covered since the second midterm examination. The exams are scheduled as follows:

Midterm I:	Wednesday, February, 21 2018,
Midterm II:	Wednesday, March, 28 2018,
Final Exam:	<u>Thursday, May 3, 2018 6:00-8:00 p.m.</u>

The lower of these two midterms 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 must notify the professor before the exam begins, 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 or class notes. You may use a calculator, but only if it cannot communicate with other devices (e.g., no cellphone calculators). 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.

Problem Sets:

TBA

Grading:

TBA

Violations of the course or University rules may be referred to appropriate authorities for disciplinary action. Please review the Code of Academic Integrity at:
http://www.upenn.edu/academicintegrity/ai_codeofacademicintegrity.html.

Lectures:

Though lectures will closely follow the material in the ABC text, they will also include many additional examples and may skip or modify the treatment of some topics (the ABC text is comprehensive, and not all of it will be covered and tested).

No laptop computer or other communication device may be used in class unless a request is made through Student Disability Services or direct contact with the professor with support for the need.

Office Hours:

Numerous office hours with the professor and the TAs 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.

Professor Asher:

Office Hours: Mondays and Wednesdays, 2:15 - 3:15 p.m. and by appointment.
Office: SHDH
Phone:
E-mail address: carlinog@wharton.upenn.edu

Teaching Assistants: [Office hours and locations TBA]

Class	Date	Topic (Abel-Bernanke-Croushore Macroeconomics Chapter)
1	Weds., Jan. 10	Introduction and Course Overview (Ch. 1)
2	Mon., Jan. 15	Martin Luther King Jr. Day: No Class
3	Weds., Jan. 17	National Income Accounting (Ch. 2)
4	Mon., Jan. 22	Production and Employment (Ch. 3)
5	Weds., Jan. 24	Production and Employment (Ch. 3)
6	Mon., Jan. 29	Consumption and Saving: Part I (Ch. 4 Section 4.1 and Appendix 4.A)
7	Weds., Jan 31	Consumption and Saving: Part II (Same reading as previous lecture)
8	Mon., Feb. 5	Investment and Goods Market Equilibrium (Ch. 4, Sections. 4.2 and 4.3)
9	Weds., Feb. 7	A Framework for the Open Economy (Ch. 5)
10	Mon., Feb. 12	Long-Run Economic Growth Part I (Ch. 6)
11	Weds, Feb 14	Long-Run Economic Growth Part II (Ch. 6)
12	Mon., Feb. 19	Midterm Review
	Weds., Feb. 21	EXAM I
13	Mon., Feb. 26	Asset Markets, Money and Inflation (Ch. 7)
14	Weds., Feb. 28	Business Cycle Facts (Ch. 8) and The IS-LM Model, Part I (Ch. 9)
	Mon., March 5 Weds. March 7	SPRING BREAK
15	Mon., March 12	The IS-LM Model, Part II (Ch. 9)
16	Weds., March 14	Aggregate Demand and Aggregate Supply (Ch. 9)
17	Mon., March 19	The Classical Model (Ch. 10)
18	Weds., March 21	The Keynesian Model, Part I (Ch. 11)
19	Mon., March 26	Midterm Review
	Weds. March 28	EXAM II
21	Mon., April 2	The Fed and Monetary Policy (Ch. 14)
22	Weds., April 4	The Fed and Monetary Policy (Ch. 14)
23	Mon., April 9	Fiscal Policy Part I (Ch. 15)
24	Weds., April 11	Fiscal Policy Part II (Ch. 15)
24	Mon., April 16	The Phillips Curve: Unemployment and Inflation (Ch. 12)
25	Weds., April 18	International Trade and Capital Markets (Ch. 13)
24	Mon., April 23	Open Economy IS/LM (Ch. 13)
25	Weds., April 25	Open Economy IS/LM (Ch. 13)

COURSE OUTLINE AND READING LIST

Topic 1: Introduction to Macroeconomic Data

Wednesday, January 10: Introduction and Course Overview

Wednesday, January 17: National Income Accounting Topics: origin of national income accounting, definitions and measurements of Gross Domestic Product (GDP), GDP components, production, income, and expenditure approach of measuring GDP, saving and wealth, nominal and real GDP, GDP across countries, growth rates, price indices and inflation, nominal and real interest rates, the Fisher equation

Readings: ABC Ch. 1 and 2

Boundary problems, The Economist, August 2013

2017 in charts, The Economist, December 2017

Why do measures of inflation disagree? Economic Letter, Federal Reserve Bank of San Francisco, December 2013

Topic 2: Production and Economic Markets

Wednesday, January 22-Monday, January 24: Production and Economic Markets

Topics: production function, return to scale, Cobb-Douglas production function, capital and labor inputs, Total Factor Productivity, marginal product of capital and labor, diminishing marginal products, capital and labor inputs allocation, production and shocks to labor, capital or TFP.

Readings: ABC Ch. 3

Is China growth miracle over? Economic Letter, Federal Reserve Bank of San Francisco, August 2015

Consequences of rising income inequality. Economic Letter, Federal Reserve Bank of San Francisco, October 2016

Monday, February 29 – Wednesday, February 31: Consumption and Saving Decisions

Topics: consumption and saving decisions, the intertemporal budget constraint, income and wealth, income and substitution effects, permanent-income hypothesis, Ricardian equivalence, borrowing constraints, empirical evidence on consumption

Readings: ABC Ch. 4 and appendix 4.A

Increased credit availability, rising asset prices help boost consumer spending, Economic Letter, Federal Reserve Bank of Dallas, April 2016

Monday, February 5: Investment and Goods Market Equilibrium

Topics: firms' investment decisions, the user cost of capital, desired capital stock and investment, components of physical investment, saving and investment equilibrium, the real interest rate

Readings: ABC Ch. 4.2-4.3

Why are interest rates so low?, by Ben Bernanke, March 2015

Wednesday, February 7: A Framework for the Open Economy

Balance of Payments Accounting, Goods market equilibrium in an open economy, saving and investment in open economies, fiscal policy and the current account

Readings: ABC Ch. 5

“When a flow becomes a flood” The Economist, 01/22/2009

“Why are interest rates so low, part 3: The Global Savings Glut, by Ben Bernanke, April 2015

Topic 3: Long-Run Economic Growth

Monday, February 12-Wednesday, February 14

The sources of growth, The Solow growth model, endogenous growth theory government growth policies.

Readings: ABC Ch. 6

Monday, February 19: REVIEW SESSION

Wednesday, February 21: First Exam

Topic 4: Business Cycle Models

Monday, February 26: Asset Markets, Money, and Prices

Topics: monetary aggregates, portfolio allocation and the demand for assets, money demand, money supply creation, the quantity theory of money, asset market equilibrium, money growth and inflation, the costs of inflation

Readings: ABC Ch. 7

Health care services depress recent PCE inflation readings. Economic Letter, Federal Reserve Bank of Dallas, August 2016

Wednesday, February 28: The Business Cycle and the IS/LM Model: Part I

Topics: business cycle trends and fluctuations, actual and potential output, overview of the short-run model, equilibrium in the labor, goods, and asset markets, macroeconomic shocks and the IS/LM model

Readings: ABC Ch. 8 and 9.1-9.4

The New IS-LM Model: Language, Logic, and Limits, Economic Quarterly, Federal Reserve Bank of Richmond, Summer 2000 Read Sections 1 and 2, pp 45-54.

Will the Economic Recovery Die of Old Age? Economic Letter, Federal Reserve Bank of San Francisco, February 2016

Monday, March 5 – Wednesday, March 7: SPRING BREAK

Monday, March 12: IS/LM Model: Part II

Readings: ABC Ch. 8 and 9.1-9.4

Wednesday, March 14: Aggregate Demand and Aggregate Supply

Topics: aggregate demand curve, aggregate supply curve, the AS/AD framework, the liquidity trap, the dangers of deflation, expectations and economic activity

Readings: ABC Ch. 9.5-9.6

The high cost of falling prices, The Economist, February 201

Monday, March 19: Classical Business Cycle Models

Readings: ABC Ch. 10

Wednesday, March 21: Keynesian Business Cycle Models

Readings: ABC Ch. 11

Monday, March 26: REVIEW SESSION

Wednesday, March 28: Second Exam

Topic 5: Monetary Policy

Monday, April 2: The Federal Reserve System

Topics: the Federal Reserve System, central banking around the world, the Federal Open Market Committee, conventional monetary policy, open market operations, the federal funds market

Readings: ABC Ch. 14.1-14.3

"Central Banks and the Federal Reserve System," by Frederic Mishkin on Study.Net

"Tools of Monetary Policy," by Frederic Mishkin on Study.Net

Monetary policy, money, and inflation, Economic Letter, Federal Reserve Bank of San Francisco, July 2012

Wednesday, April 4: Monetary Policy

Topics: monetary policy rules, the Taylor rule, the limits of conventional monetary policy, the Great Recession, unconventional monetary policy, financial stability

Readings: ABC Ch. 14.4-14.5

What tools does the Fed have left? Part 1: Negative interest rates, by Ben Bernanke, March 2016

What tools does the Fed have left? Part 2: Targeting longer-term interest rates, by Ben Bernanke, March 2016

Topic 6: Fiscal Policy

Monday, April 9 – Wednesday April 11: Government budgets, fiscal policy

Readings: ABC Ch. 15

“Did the Fiscal Stimulus Work?” by Gerald Carlino, Economic Insights, Federal Reserve Bank of Philadelphia, First Quarter 2017

Monday, April 16: Unemployment and Inflation

Readings: ABC Ch. 12

Topic 7: The Global Economy

Wednesday, April 18 –International Trade and Exchange Rates

Topics: facts about international trade, reasons for trade, risk sharing, absolute and comparative advantage, costs and benefits of international trade, trade and capital flows, purchasing power parity

ABC Ch. 13

Impact of Chinese slowdown on US no longer negligible, Economic Letter, Federal Reserve Bank of Dallas, May 2016

Monday, April 23: IS-LM in –Wednesday, April 25 Open Economy Macro

Topics: open-economy IS/LM, open-economy AS/AD, interest rates and exchange rate movements, international transmission of monetary policy, fixed exchange rates

Readings: ABC Ch. 13

Thursday, May3: Third Exam