

## *Syllabus*

### **Growth and Stabilization in the Macro Economy** Business Economics 562

#### **Course objectives**

This course analyzes private market forces and national and international policy decisions that drive fluctuations in the global economy. The course uses formal macroeconomic models to give students the tools to understand and evaluate contemporary and historical economic growth. The course focuses on the structure of national and international banking and financial systems, sources of financial instability, and their impact on economic growth. Key topics include long-run economic growth, international trade, interest rates, exchange rates, and monetary policy. The course emphasizes development of students' ability to analyze national and international economic data and to understand discussions of macroeconomic issues in the business press and their implications for business decision-making.

#### **Readings**

Book to purchase: Joseph E. Stiglitz, *Making Globalization Work* Norton 2006.

All other readings are in the coursepack and on the C-Tools web site. They are organized by topic and you should make sure to read them *before* class. There is also a glossary on the class website. It will be updated throughout the semester. Please refer to it as you do the class readings.

#### **Course Requirements**

##### **Problem Sets and Short Paper**

There are 2 required problem set assignments. These problem sets will be graded. No late problem sets will be accepted. Problem sets must be submitted on paper at the *beginning* of the class at which they are due. Answers to problem sets will be posted on-line after the due date. Problem sets must be completed and submitted individually.

There is a required short (3-5 page) paper on the Stiglitz book due the last class of the term. You will select and evaluate one of the policy proposals in the book.

#### **Tests**

There is an in-class quiz half way through the term. There is a final exam at the end of the term. Please note the date and time of the quiz and the exam carefully. In the event of illness, please contact me *before* the test to arrange a makeup. You will receive a grade of **zero** on any test that you miss without prior approval. You may bring one page (8 ½ x 11 inch paper, double-sided) of notes to the quiz and to the final exam.

Class attendance and participation are important. Active participation by all students is necessary for a successful class, and therefore for a successful grade. Cell phones must be turned off during class. Checking email and surfing the web during class are not permitted and will adversely affect your grade.

### **Course Policies**

If you think you need an accommodation for a disability, please let me know at your earliest convenience. Some aspects of the course, the assignments, the in-class activities, and the way I teach may be modified to facilitate your participation and progress. As soon as you make me aware of your needs, we can work with the Office of Services for Students with Disabilities to help us determine appropriate accommodations. I will treat information you provide as private and confidential.

Personal integrity and professionalism are fundamental values of the Ross School community. To help ensure that these values are upheld and to maintain equitability in the evaluation of your work, this course will be conducted in strict conformity with the new Academic Honor Code. (The code and related procedures can be found at <http://www.bus.umich.edu/Academics/Resources/communityvalues.htm> and will not be repeated here. Claimed ignorance of this information is irrelevant should a violation take place.) Please note that the code requires that you report any violation by one of your classmates. Also, recall that the code requires proper citations of work that is not your own. With this clear understanding, I am highly confident that none of you will betray our mutual trust throughout the course.

The course grade will be determined as follows:

	Points
Problem Sets	200
Quiz	100
Paper	200
Final	400
Participation	100
Total	1000

## Outline of Classes

*Note: This schedule is tentative. It may be changed to reflect the pace of the class.*

### Week 1 (Sep 2-4)

Topic 1

Reading

*Measuring Macroeconomic Performance*

- Selection from Paul Krugman and Robin Wells, *Macroeconomics*
- “World Economic Situation and Prospects 2008” United Nations (Executive Summary)
- “World Economic Outlook: Housing and the Business Cycle” International Monetary Fund, April 2008 (Executive Summary)

Topic 2

Reading

*Predicting Macroeconomic Performance*

- Bureau of Economic Analysis Press Release, Gross Domestic Product
- Bureau of Economic Analysis, *Measuring the Economy: A Primer on GDP and the National Income and Product Accounts* September 2007

### Week 2 (Sep 9-11)

Topic 1

Reading

*How do savings, investment and government spending affect the business cycle?*

- “Fear Itself” Paul Krugman, *New York Times Magazine*, September 30, 2001
- “Deficit Schmeficit” Joseph Stiglitz, Portfolio.com May 2008
- Business Cycle Dating Committee, National Bureau of Economic Research, January 2008 press release

Topic 2

Reading

*Fiscal Policy for Economic Growth in the 21<sup>st</sup> Century*

- “The impact of the 2008 rebate” Christian Broda and Jonathan A. Parker
- “How to Stop the Downturn” Joseph Stiglitz *New York Times*
- “Consumer Response To Tax Rebates” Joel Slemrod and Matthew Shapiro *American Economic Review* (executive summary)
- “Temporary Investment Tax Incentives” Christopher House and Matthew Shapiro. *American Economic Review*. Summary from *NBER Digest*

### Week 3 (Sep 16-18)

*Topic 1*

*Money and Inflation*

Reading

- “Understanding the Consumer Price Index: Answers to Some Questions,” Bureau of Labor Statistics
- “Speculators at the Pump” Thomas Palley blog Aug 2008
- “The Education of Ben Bernanke” Roger Lowenstein *NYT Sunday Magazine* Jan 2008
- “It’s a Miserable Life” Paul Krugman *NYT* August 2007

*Assignment*

**Problem set #1 due September 16**

*Topic 2*

*How Central Banks Conduct Monetary Policy*

Reading

- “The Open Market Operations Committee,” “Open Market Operations,” and “Federal Funds” Federal Reserve Bank of New York Fedpoints
- Ben Bernanke’s Three New Tools for Staving off a Financial Crisis extracts from <http://www.federalreserve.gov/monetarypolicy/pdcf.htm>
- “Baby-Sitting the Economy: The Baby-Sitting Co-op that Went Bust Teaches Us Something that Could Save the World” Paul Krugman *Slate.com*

Multimedia

- DVD: It’s a Wonderful Life (the bank run scene)

**Week 4 (Sep 23-25)**

*Topic 1*

*Balance of Payments*

Reading

- “US International Transactions” U.S. Bureau of Economic Analysis
- “A Modest Proposal for International Monetary Reform,” Bruce Greenwald and Joseph Stiglitz, pp. 1-14

*Topic 2*

*Exchange Rates*

Reading

- *Foreign Exchange Market in the United States*, chs. 2-3, Federal Reserve Bank of New York
- “America’s Inflated Asset Prices Must Fall” Stephen Roach (*Financial Times* Jan 2008) and “Double Bubble Trouble” (*NYT* March 2008)
- “Stagflation Cometh” Joseph Stiglitz, *Guardian* Jan 2008

**Week 5 (Sep 30 – Oct 2)**

*Topic 1*

*Exchange Rate Systems*

Reading

- *Foreign Exchange Market in the United States*, ch. 10-11, FRBNY
- Jeffrey Frankel, “International Financial Architecture” Brookings Institution Policy Brief #51, June 1999

Multimedia (optional)

- Optional multimedia *This Month in Business History*: Jan. 1934 The Gold Reserve Act  
[http://select.nytimes.com/ref/business/200601\\_NORRIS\\_FEATURE.html](http://select.nytimes.com/ref/business/200601_NORRIS_FEATURE.html)

Assignment

**QUIZ on September 30**

*Topic 2*

*Macro Policy in a Global Economy*

Reading

- Joseph Stiglitz, Scarcity in an age of plenty, *Guardian* 2008
- Bruce Greenwald and Joseph Stiglitz, *A Modest Proposal for International Monetary Reform*, pp. 14-46

**Week 6 (Oct 7-9)**

*Topic 1*

*Long Term Economic Growth*

Reading

- Angus Maddison, *The World Economy: A Millennial Perspective* ch. 1, pp. 27-28 and ch. 3 , pp.125-167

*Topic 2*

*Macro Policies for Economic Growth*

Reading

- Joseph Stiglitz, *Making Globalization Work*

Assignment

**Problem set #2 due October 7**  
**Paper due October 9**

Final Exam

**October 14, 10:30 am**