

Syllabus

Macroeconomics

EMBA 637
Winter A 2006

Professor Margaret C. Levenstein

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Course objectives

Fluctuations in the level of economic activity and the rate of economic growth, as well other macroeconomic variables such as prices and exchange rates, create challenges and opportunities for businesses. This class will help you to understand both what causes these fluctuations and how firms and policy-makers can respond to them.

Readings

We will use two books for this class:

Robert J. Gordon's *Macroeconomics* (10th edition), Addison Wesley Longman.

Paul J. Krugman, *The Return of Depression Economics*, W. W. Norton.

All other *required* readings are on the course tools web site <https://ctools.umich.edu/portal/site/cc9ffa30-ef5b-4d77-80ed-25d05db4fbe6> and in your course pack.

Course Requirements

There are 2 problem set assignments. You should complete the problem sets with your team. Each problem set is worth 100 points.

Each team will also write a three page “memo to the boss,” using the tools developed in the course to explain the likely implications of a particular macroeconomic topic for the company. In consultation with me, each team should choose an article from a business periodical (e.g. *Economist Magazine*, *Business Week*, *Wall Street Journal*, *Financial Times*) that discusses a topic relevant to the class. Drawing on the article and what you have learned in class, your memo should summarize the topic, evaluate the implications for the business, and explain any confusion that your firm might have from relying just on the popular press for its understanding of the topic. Possible topics include: oil price increases, the revaluation of the yuan, the fall in the value of the dollar, the US trade deficit, the US budget deficit, the possibility of a bubble in real estate prices, IMF policy in a particular country, the implications of the recent Hong Kong WTO ministerial meeting, the flattening or inversion of the term structure of interest rates.

There will be a final exam at the end of the class.

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.

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.

The course grade will be determined as follows:

	Points
Problem Sets	200
Memo	90
Memo topic	10
Final	650
Participation	50
Total	1000

Outline of Classes

Please note that this schedule may change over the semester depending on the pace that works best for the class.

Pre-work (Jan 8-12)

Lecture 1	DVD: Introduction to Macroeconomics
Lecture 2	DVD: Measuring Macroeconomic Performance
Reading	Gordon, ch. 1-2, pp. 3-22, 25-39, 45-49

January Residency (Jan 13-14)

Lecture 3	Keynesian Cross Model of National Income
Reading	Gordon, ch. 3, pp. 57-70

Lecture 4	The Multiplier
Reading	Gordon, ch. 3, pp. 70-77, 91-93

Lecture 5	Fiscal Policy and the Business Cycle
Reading	Course Pack/Web Site: 1. "The Budget and Economic Outlook: An Update" Congressional Budget Office, August 2005, pp. 25-48. 2. Gross Domestic Product: Third Quarter 2005 (Preliminary) Bureau of Economic Analysis Press Release, 30 November 2005.

Lecture 6	Interest Rates and Economic Growth: the IS Curve
Reading	Gordon, ch. 3, pp. 78-86 Course Pack/Web Site: "What Investment Patterns across Equipment and Industries Tell Us about the Recent Investment Boom and Bust" Jonathan McCarthy <i>Current Issues in Economics and Finance</i> (v. 10, no. 6 May 2004 Federal Reserve Bank Of New York)

Online Week 1 (Jan 16-22)

Lecture 7	DVD: The Demand and Supply of Money
Lecture 8	DVD: The Money Market and Monetary Policy: the LM Curve
Movie	DVD: It's a Wonderful Life (especially the bank run scene)
Reading	Gordon, ch. 4, pp. 101-104 and ch. 13 pp. 417-424, 428- 432
Assignment	Problem set #1 due Jan 22

Pre-work (Feb 5-9)

Lecture 9	DVD: ISLM Model of National Income
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Reading Gordon, ch. 4, pp. 94-101,104-121
Paul Krugman, *The Return of Depression Economics*
(Norton 1999)

February Residency (Feb 10-11)

Lecture 10 Balance of Payments
Reading Gordon, ch. 6, pp. 154-161
Web Site:
"US International Transactions: Third Quarter 2005"
Bureau of Economic Analysis Press Release, 16
December 2005.
"Decline in the U.S. Current Account Balance Since 1991"
Economic and Budget Issues Brief Congressional Budget
Office Aug. 6, 2004

Lecture 11 Exchange Rates and Exchange Rate Systems
Reading Gordon, ch. 6, pp. 161-177

Lecture 12 Macro Policy in an Open Economy
Reading Gordon, ch. 6, pp. 178-190
"The paradox of thrift: excess savings are storing up
trouble for the world economy" Martin Wolf, *Financial
Times* (13 June 2005)

Lecture 13 International Financial Architecture and Policy
Reading Jeffrey Frankel, "International Financial Architecture"
Brookings Institution Policy Brief #51, June 1999
Assignment Memo topic due February 11

Online Week 2 (Feb 13-19)

Lecture 14 DVD: Long Term Economic Growth
Reading Gordon, ch. 10, pp. 319-325; Ch. 11, pp. 349-362, 368-
376
Angus Maddison, *The World Economy: A Millennial
Perspective* ch. 1, pp. 27-28 and ch. 3 , pp.125-167
Assignment Problem set #2 due February 14 (Tuesday at midnight)
Memo due February 16 (Thursday at midnight)
Final Exam Two hour exam available February 17-19