Syllabus

Macroeconomic Environment for Business

Business Economics 560
Winter 2006

Professor Margaret C. Levenstein

3201 Davidson Hall
(734) 615-6352 or MaggieL@umich.edu
https://coursetools.ummu.umich.edu/

Course objectives

The U.S. economy has officially been in recovery for over three years now, but jobs growth has been slow and the trade and government budget deficits have reached new highs. Will economic growth eventually reverse these trends, or will they undermine future U.S. economic growth? How can the Federal Reserve juggle the conflicting demands of stabilizing the stock market, the dollar, and domestic economic growth? What's the impact of war, tax cuts, and uncertainty in the oil market on the economy? What impact will the current round of negotiations of the World Trade Organization have? In this class, you will learn models and tools of economic analysis to answer these and related questions. You will also study the implications of this analysis for business decision-making and long-term economic growth.

Readings

You are required to purchase two books for this class:


All other *required* readings are on the course tools web site. They are organized by topic and you should make sure to read them *before* class.
Course Requirements

There are 4 problem set assignments. These problem sets will be graded; each is worth 50 points. No late problem sets will be accepted. Problem sets must be submitted at the *beginning* of the class at which they are due.

You are also required to make a group presentation to the class, presenting a relevant article from the business press to the class. Your class presentation must include three parts: 1. summary of the main points of the article, 2. “translation” of the article’s points into the economic models that we have discussed in class, and 3. critique of the article, including its assumptions and conclusions. You must submit a *copy of the article and your presentation slides* before the class when you present. You will have fifteen minutes for the group presentation and five minutes to answer questions. You should bring your presentation to class on disk and have it ready to go when class begins. Points will be deducted for any presentation that exceeds the allotted time.

There is a required midterm and final exam. Please note the date and time of the exams carefully. In the event of illness, please contact me *before* the exam to arrange a makeup. You will receive a grade of *zero* on any exam that you miss without prior approval. All exams are cumulative. You may bring one page (8 ½ x 11 inch paper, double-sided) with notes to each 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.

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:

<table>
<thead>
<tr>
<th></th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Problem Sets</td>
<td>20</td>
</tr>
<tr>
<td>Presentation</td>
<td>10</td>
</tr>
<tr>
<td>Midterm</td>
<td>30</td>
</tr>
<tr>
<td>Final</td>
<td>35</td>
</tr>
<tr>
<td>Participation</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
Outline of Classes

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

**Week 1 (Jan 10 & 12)**

**Topic 1**
Introduction to Macroeconomics

**Topic 2**
Measuring Macroeconomic Performance

**Reading**
Gordon, ch. 1-2, pp. 3-22, 25-38, 45-49

  Elise Gould *EPI Briefing Paper*

**Week 2 (Jan 17 & 19)**

**Topic 1**
Keynesian Cross Model of National Income

**Reading**
Gordon, ch. 3, pp. 57-70

**Topic 2**
The Multiplier

**Reading**
Gordon, ch. 3, pp. 70-77

**Week 3 (Jan 24 & 26)**

**Topic 1**
Fiscal Policy and the Recovery

**Reading**
Web Site:

- “Sharp Rise in Federal Spending May Have Helped Ease Recession”
- “CBO’s Current Economic Projections”
- Bureau of Economic Analysis Press Release

**Topic 2**
The Investment Function

**Reading**
Gordon, ch. 3, pp. 78-82


**Assignment**
Problem set #1 due

**Week 4 (Jan 31 & Feb 2)**

**Topic 1**
ISLM Model of National Income: IS curve

**Reading**
Gordon, ch. 3, pp. 83-86, 91-93

**Topic 2**
ISLM Model of National Income: LM curve

**Reading**
Gordon, ch. 4, pp. 94-104

**Assignment**
Problem set #2 due

**Week 5 (Feb 7 & 9)**
<table>
<thead>
<tr>
<th>Topic</th>
<th>Using the IS-LM Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reading</td>
<td>Gordon, ch. 4, pp. 104-121, 126-129</td>
</tr>
<tr>
<td></td>
<td>Krugman, Return of Depression Economics, ch. 1, 1-20</td>
</tr>
<tr>
<td></td>
<td>Joseph Stiglitz et al, “The Roaring Nineties”</td>
</tr>
</tbody>
</table>

**Week 6 (Feb 14 & 16)**

<table>
<thead>
<tr>
<th>Topic</th>
<th>Banking, Financial Deregulation and Monetary Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reading</td>
<td>Gordon, ch. 13, 417-445</td>
</tr>
<tr>
<td></td>
<td>“Banking’s Future Lies in its Past” Martin Mayer, NYT Aug. 25, 2002</td>
</tr>
<tr>
<td></td>
<td>“Monetary Policy and the US Economy” Federal Reserve Bank of New York</td>
</tr>
</tbody>
</table>

**MIDTERM EXAM**

*Covers Gordon chapters 1-4, 13 and all supplementary readings*

*Thursday Feb. 23 from 2:00 – 3:30 pm in room P1016*

**Week 7 (Mar 7 & 9)**

<table>
<thead>
<tr>
<th>Topic 1</th>
<th>Balance of Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reading</td>
<td>Gordon, ch. 6, pp. 154-161</td>
</tr>
<tr>
<td></td>
<td>“US International Transactions” U.S. Bureau of Economic Analysis</td>
</tr>
<tr>
<td></td>
<td>“Decline in the U.S. Current Account Balance Since 1991” Economic and Budget Issues Brief Congressional Budget Office Aug. 6, 2004</td>
</tr>
<tr>
<td></td>
<td>“America’s Current Account Deficit” Obstfeld &amp; Rogoff and Cooper, <em>Financial Times</em></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Topic 2</th>
<th>Exchange Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reading</td>
<td>Gordon, ch. 6, 161-166</td>
</tr>
<tr>
<td></td>
<td>Foreign Exchange Market in the United States, chs. 2-3, FRBNY.</td>
</tr>
</tbody>
</table>

**Week 8 (Mar 14 & 16)**

<table>
<thead>
<tr>
<th>Topic 1</th>
<th>Purchasing Power Parity &amp; Exchange Rate Systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reading</td>
<td>Gordon, ch. 6, pp. 167-174</td>
</tr>
<tr>
<td></td>
<td>Foreign Exchange Market in the United States, ch. 11, FRBNY.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Topic 2</th>
<th>Macro Policy in an Open Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reading</td>
<td>Gordon, ch. 6, pp. 174-186</td>
</tr>
</tbody>
</table>

**Week 9 (Mar 21 & 23)**

<table>
<thead>
<tr>
<th>Topic</th>
<th>Macro Policy in an Open Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reading</td>
<td>Gordon, ch. 6, pp. 186-189</td>
</tr>
</tbody>
</table>
• “China Says Influx of Capital Hurts Efforts to Cool Economy” Bloomberg 3 Sep 2004
• “Trichet’s dilemma” 2 Dec 2005 Economist
• “Greenback’s Sinking Feeling,” 6 Jan 2006, Economist

Assignment
Problem set #3 due

Week 10 (Mar 28 & 30)
Topic International Financial Architecture and Policy
Reading Krugman, Return of Depression Economics, chs. 6-8, pp. 102-153
• Foreign Exchange Market in the United States, ch. 10, FRBNY
• Lau & Stiglitz, “China’s alternative to revaluation” FT 2005
• Stiglitz, “Odious Rulers, Odious Debts” Atlantic Monthly 2005

Week 11 (Apr 4 & 6)
Topic Long Term Economic Growth
Reading Gordon, ch. 10, pp. 319-325; Ch. 11, pp. 349-383
Krugman, Return of Depression Economics, ch. 2, 21-37
• Angus Maddison, The World Economy: A Millennial Perspective ch. 1, pp. 27-38 and ch. 3, pp.125-165

Week 12 (Apr 11 & 13)
Topic Financial Crises and Long Term Growth
Reading Krugman, Return of Depression Economics, chs. 3-5, 9
• Economist “Becoming a serious country”
• Paul Blustein “Argentina Didn’t Fall on Its Own”

Assignment Problem set #4 due

Final Exam - Cumulative
Friday, April 21, 2006
4:00pm - 6:00pm
Room W2740 (regular classroom)