

Syllabus

Macroeconomic Environment for Business

Business Economics 560
Winter 2006

Professor Margaret C. Levenstein

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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:

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. 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:

| | Percentage |
|---------------|------------|
| Problem Sets | 20 |
| Presentation | 10 |
| Midterm | 30 |
| Final | 35 |
| Participation | 5 |
| Total | 100 |

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

- “Measuring Employment Since the Recovery: A Comparison of the Household and Payroll Surveys”
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

- “What Investment Patterns across Equipment and Industries Tell Us about the Recent Investment Boom and Bust” Jonathan McCarthy *Current Issues in Economics and Finance* (v. 10, no. 6 May 2004 Federal Reserve Bank Of New York)

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)

Topic Using the IS-LM Model
 Reading Gordon, ch. 4, pp. 104-121, 126-129
 Krugman, Return of Depression Economics, ch. 1, 1-20

- “Economic Stimulus: Evaluating Proposed Changes in Tax Policy” Congressional Budget Office report, Summary and Table 1, pp. vii-xiii, 27
- Joseph Stiglitz et al, “The Roaring Nineties”

Week 6 (Feb 14 & 16)

Topic Banking, Financial Deregulation and Monetary Policy
 Reading Gordon, ch. 13, 417-445

- “Banking’s Future Lies in its Past” Martin Mayer, NYT Aug. 25, 2002
- “Monetary Policy and the US Economy” Federal Reserve Bank of New York

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)

Topic 1 Balance of Payments
 Reading Gordon, ch. 6, pp. 154-161

- “US International Transactions” U.S. Bureau of Economic Analysis
- “Decline in the U.S. Current Account Balance Since 1991” Economic and Budget Issues Brief Congressional Budget Office Aug. 6, 2004
- “America’s Current Account Deficit” Obstfeld & Rogoff and Cooper, *Financial Times*

Topic 2 Exchange Rates
 Reading Gordon, ch. 6, 161-166

- Foreign Exchange Market in the United States, chs. 2-3, FRBNY.

Week 8 (Mar 14 & 16)

Topic 1 Purchasing Power Parity & Exchange Rate Systems
 Reading Gordon, ch. 6, pp. 167-174

- Foreign Exchange Market in the United States, ch. 11, FRBNY.

Topic 2 Macro Policy in an Open Economy
 Reading Gordon, ch. 6, pp. 174-186

Week 9 (Mar 21 & 23)

Topic Macro Policy in an Open Economy
 Reading Gordon, ch. 6, pp. 186-189

- “Demise of the Dollar, Rise of the Euro?” *Business Times Singapore* 15 May 2003
 - “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
 - Jeffrey Frankel, “International Financial Architecture” Brookings Institution Policy Brief #51, June 1999
 - 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
- Litan, “A Three Step Remedy for Asia’s Financial Flu” Brookings Policy Brief #30 Feb. 1998
 - 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)