



# Macroeconomic Environment of Business

EMBA 637 E22

Winter 2016

## Syllabus

### Professor Margaret C. Levenstein

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6361 Ross School of Business

### Course objectives

Why does the economy sometimes grow rapidly and other times flounder or even fall into recession or depression? What difference does the budget deficit or the trade deficit make? Can the Fed manage the economy with changes in the interest rate or “quantitative easing?” Fluctuations in the level of economic activity and the rate of economic growth, as well as other macroeconomic variables such as prices and exchange rates, create challenges and opportunities. This class will help you to understand both what causes these fluctuations in economic activity and how firms and policy-makers can respond to them.

### Readings

- Olivier Blanchard and David R. Johnson (B&J), *Macroeconomics* (6<sup>th</sup> ed.), Pearson
- Paul Krugman, *The Return of Depression Economics and the Crisis of 2008*, W. W. Norton
- Coursepack articles (all articles are also posted on the CTools website)
- Occasional articles from the business press will be posted to CTools

### Course Requirements

Your grade will be based on problem sets, quizzes, class participation, and the final exam. The course grade will be determined as follows:

	Percent
Problem Sets	20
Quizzes	20
Participation	10
Final	50
Total	100

There are 2 problem sets and they should be completed and submitted as a team on CTools. Individual scores may be adjusted as a result of feedback from team members. Problem set answer keys will be posted to CTools after the problem set submission deadline. Late problem sets are not accepted.

There are 5 quizzes on CTools. They should be completed individually and are designed to be done immediately following the on-line lecture. They must be completed by the date on the syllabus.

Class attendance and participation are very 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 is not permitted and will adversely affect your grade.

The final exam at the end of the class covers in-class and electronic lectures, all class readings and class discussions. Exams and answer keys from previous years are on CTools. Note that the course material varies from year to year, so that exams from previous terms are a guide. Your final exam will cover the topics for this year's course.

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 Ross School's Academic Honor Code. (The code and related procedures can be found at <http://www2.bus.umich.edu/MyiMpact/academics/ross-community-values> 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.

***When emailing me, please include EMBA 637 in the subject line of all correspondence.***

# Outline of Classes

## Pre-work for January residency

- Lecture 1: Video lecture: Introduction to Macroeconomics (parts 1 and 2)
- Reading:
- B&J, *Macroeconomics*, chapters 1 (all) and 2, pp. 20-28
  - Paul Krugman, [Fear Itself](#), *New York Times*, September 30, 2001
  - Statement of the Federal Open Market Committee decision following its December 16, 2015 meeting (not yet released).  
<http://www.federalreserve.gov/newsevents/press/monetary/20151216a.htm>
- Quiz Quiz 1 submit on CTools by 11:00 pm PST, **Wednesday, January 13, 2016**

## January Residency - January 14–15, 2016

- Lecture 1: What is GDP?
- Reading:
- B&J, *Macroeconomics*, chapter 3 (all)
- Lecture 2: Measuring GDP
- Reading:
- [Measuring the Economy: A Primer on GDP and the National Income and Product Accounts](#) U.S. Bureau of Economic Analysis, 2014
  - [Gross Domestic Product](#), Bureau of Economic Analysis press release.
- Lecture 3: What determines the level of GDP, version 1
- Reading:
- Claudia Sahm, Matthew Shapiro and Joel Slemrod, [Check in the Mail or More in the Paycheck](#) *American Economic Journal: Policy* 2012: 216-250.
- Lecture 4: Fiscal policy for economic growth in the 21<sup>st</sup> century
- Reading:
- National Bureau of Economic Research, [September 2010 press release](#) and [NBER's Business Cycle Dating Procedure](#)
  - [October Job Growth Pushes Employment Rate Down to 5.0 Percent](#) CEPR *Jobs Byte* November 2015
  - Justin Wolfers testimony to U.S. Senate Committee on Finance, January 22, 2015 (or watch video of testimony of Wolfers, Professor Robert Hall, and former Michigan Governor John Engler at <http://www.c-span.org/video/?323932-1/hearing-tax-trade-policies>)

## Online Week 1 - January 25–31, 2016

- Lecture 1: Video lecture: Inflation (parts 1 and 2)
- Reading:
- B&J, *Macroeconomics*, ch. 2, pp. 29-33, ch. 7, p. 153 and ch. 24, pp. 519-524
  - “[Understanding the Consumer Price Index](#),” Bureau of Labor Statistics
  - Consumer Price Index [press release](#), Bureau of Labor Statistics
  - “[The Surprisingly Elusive Number That Suggests Full Employment](#)” Jared Bernstein. *New York Times: The Upshot* November 14, 2014.
- Quiz Quiz 2 submit on CTools by 11:00 pm PST, **Sunday, January 31**

- Lecture 2: Video lecture: The Demand and Supply of Money (parts 1, 2, and 3)
- Reading:
- B&J, *Macroeconomics*, ch. 4, pp. 63-69
  - Money stock measures [H.6](#), Federal Reserve.
- Quiz Quiz 3 submit on CTools by 11:00 PST, **Sunday, January 31**

**Online Review Session** **Thursday, January 28** 7:00 pm – 9:00 pm PST  
Send questions to [MaggieL@umich.edu](mailto:MaggieL@umich.edu). Put EMBA 637 in subject line

*Assignment:* Problem Set #1 due **Sunday, January 31** by 11:00 pm PST. Submit on CTools

## Pre-work for February residency

- Movie: • It’s a Wonderful Life (whole movie, optional; bank run scene, required)
- Reading: • Krugman, *The Return of Depression Economics and the Crisis of 2008*.
- Quiz Quiz 4 submit on CTools by 11:00 pm PST, **Thursday, February 11**

## February Residency – February 12, 2016

- Lecture 1: The banking system and monetary policy
- Reading:
- B&J, *Macroeconomics*, ch. 4, pp. 70-81 and ch. 17, p. 365
  - *Fedpoints* [Open Market Operations Committee](#) and [Open Market Operations and Repurchase and Reverse Purchase Transactions](#)
  - [Forms of Federal Reserve Lending to Financial Institutions](#)
- Lecture 2: What determines GDP, version 2
- Reading:
- B&J, *Macroeconomics*, ch. 5 (all)
  - [The Fed Looks set to make a dangerous mistake](#), Summers, *FT*, August 2015
  - [Is the Economy Overheating?](#) Wolfers, *NYT*, November 6, 2015
  - [IS-LMentary](#), Paul Krugman blog, October 9, 2011.
- Lecture 3: Fiscal and monetary policy since the Great Recession
- Reading: B&J, *Macroeconomics*, ch. 23 (all) and ch. 24, pp. 524-535  
University of Michigan Survey of Consumers *Monthly Report*.
- Lecture 4: Balance of payments and exchange rates
- Reading:
- B&J, *Macroeconomics*, ch. 18 (all)
  - [US International Transactions](#), Bureau of Economic Analysis
  - [The China Debt Syndrome](#) and [Liquidity Preference, Loanable Funds, and Erskine Bowles](#) Krugman blog, October 2013.

**Online Week 2 - February 15-21, 2016**

Lecture 1: Video lecture: Financial Crises and International Stability (parts 1, 2, and 3)

Reading:

- [Do Currency Regimes Matter?](#) Krugman blog, October 2013
- [Towards a Reform of the Global Reserve System](#), Speech by Joseph Stiglitz to the Banco Central de la Republica Argentina, Buenos Aires, June 2007
- [Reform the International Monetary System](#), Zhou Xiaochuan, Governor, People's Bank of China.

Quiz Quiz 5 submit on CTools by 11:00 pm PST, **Sunday, February 21**

**Online Review Session** **Wednesday, February 17**, 6:00 pm – 8:00 pm PST

*Send questions to [MaggieL@umich.edu](mailto:MaggieL@umich.edu). Put EMBA 637 in subject line*

*Assignment:* Problem Set #2 due on **Thursday, February 18**, by 11:00 pm PST. Submit on CTools

**Final Exam** Two-hour exam available on **Friday, February 19**, at 12:01 a.m. *Due Sunday, February 21 by 11:00 pm PST*