



## Fall 2009 Syllabus

# **FIN-941-0 Section 71: International Macroeconomics for Business Managers**

Wednesday 6-9 PM Room 347

### **Professor**

**Jonathan A. Parker**

**Office hours: Wednesday 5:00 – 6:00 in M-271**

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## **Overview**

This course covers international macroeconomic theory and policy for business leaders -- it will equip you to understand the workings of the world economy within which your business operates. The same forces that have brought about globalization and greater international interdependence have also increased the importance of macroeconomic and international factors in business planning, and understanding how the economy works and interacts with the economies of other countries is more central than ever for managing companies and choosing investment strategies.

More specifically, the course covers such topics as: how monetary policy affects interest rates, exchange rates, and capital costs; what constitutes good monetary policy; how the financial crisis caused the current recession and why the policy responses are what they are; how to determine which developing countries will develop and become good markets to produce in or to sell to; how US markets respond to US government debt and how they will respond if the Chinese unwind their holdings of US government debt; what factors lead the dollar to appreciate and the implications for business strategy if you are an exporter or importer.

More generally, the course also teaches how to analyze international macroeconomic issues. That is, in addition to teaching about the workings of the *current* global economy, this course will also arm you to analyze the new, new thing, so that you can place new economic developments into a coherent framework and contend with -- and avoid losses from or make

profits from -- events like the subprime crisis, the coming global pension funding shortages, or whatever the unexpected national economic challenge is after you leave Kellogg.

Finally, many of you will become the next generation of leaders or the advisers of leaders who are setting policy, and this course will teach you the fundamental principles of how to analyze and set international macroeconomic policy – that is, how to run a country in the global economy.

This course is *not* a cookbook course with take-aways like “when the economy does this, you should do that.” Rather it is a ‘big-think’ course that provides a deeper understanding that will serve you well as you make *large* strategic decisions for which macroeconomic factors are becoming more pivotal determinants of success and failure.

This course makes use of basic mathematical skills (algebra and we will take the very occasional derivative).

FIN-941 is an elective in the INTL major. Since neither INTL-466 nor FINC-470 are pre-requisites for this course (nor this course for either of these other courses), there is a small amount of overlap with these courses. Due to *significant* overlap, it is highly recommended that one not take FINC-941 and MECN-450.

## **The Technical Details**

There is a course web page maintained for the course on the blackboard system (at <https://courses.northwestern.edu/>). Problem sets, exam solutions, readings, and handouts will be distributed through this means as well as in class. Links to relevant current events will be maintained here -- interesting economic news may sidetrack us from our scheduled programming. The course has two sources of required reading: a main text and a case packet. It has regular problem sets. It has two exams: a midterm and a final.

### **Readings:**

**Required Text:** Abel, Andrew B., Ben S. Bernanke, and Dean Croushore, Macroeconomics, 6th edition, Addison-Wesley (ABC). *It is recommended that you do the relevant reading from ABC before each week's lectures.* (You do not need MyEconLab)

**Case packet:** lecture notes and additional required readings are in the case packets (some of these are also on the course webpage). *It is suggested that you look at the case packet readings before lecture of each week and read them closely after the lecture.* Some suggested optional readings are listed and, so we can stay abreast of current issues, some additional short readings will be handed out in class and/or via the webpage.

### **Lectures:**

Lectures assume that you have read the required chapter of ABC, but not that it is completely understood or digested. Lectures review main concepts, but mainly extend and apply them significantly farther than ABC. Lecture notes will be provided.

Laptops may be used during lecture *only* for note taking and *only* in the farthest back row of the lecture hall. Students are not to arrive late or depart early without prior approval (or an

excellent excuse).

### **Written assignments**

There are exercises roughly every other week consisting of analytic or numerical questions that apply the week's topics. Working in groups is encouraged, and one common set of solutions can be turned in. A recommended approach is to individually sketch solutions, then meet as a group and together work out a common set of solutions. Working on problem sets is an excellent learning tool. Free riding on a group's effort is highly discouraged and tends to cause problems come exam time. All problem sets are graded solely on whether or not a solid and timely effort is made: complete attempts at a problem receive full credit, late or incomplete attempts receive no credit.

### **In-class discussion:**

The course will include discussion of the course packet articles or the way in which the course material relates to current events. Often, short supplemental articles on current events will be handed out in class. Discussion will focus on relating the core course material to current macroeconomics, economic policy, and business planning (investment, hiring, innovation, and so forth).

### **Grading and Exams:**

Final grades are calculated as 50% final exam grade, 30% midterm grade and 20% problem sets. Grades can be appealed in writing only. If a student submits a written statement detailing how he/she has been mis-graded, this and the work in question will be irreversibly re-graded (possibly down). Exams are closed-book. It should not need mentioning, but unlike problem sets, exams are to be done on one's own.

**Midterm:** 1.5 hours in class, Wed October 21. Students that miss the midterm (with a reasonable prior excuse) have this share of their grade determined by the final. Student who miss the midterm without an excuse receive zero credit.

**Final:** (cumulative) 2 hours in class time, Wednesday Dec 9.

**As always, the Kellogg honor code is in effect, and honorable behavior is expected. If you have any doubt about whether your actions for this course are in accord with the code or any doubt about how it applies to any part of this course, ask.**

## **Course Outline**

*Prior to or just after the first class read ABC chapter 2.*

### **Week 1: Economic growth across countries: measurement and the facts**

ABC chapter 3.1. 6.1.

[Chad Jones \(1997\), "On the Evolution of the World Income Distribution," Journal of Economic Perspectives, 11, 19-36.](#)

"Stumble or Fall" The Economist, January 10, 2009.

### **Week 2: International economic growth and development I: employment and capital accumulation**

ABC chapter 3 and 6.2, 6.3.

Sarel, Michael, "Growth in East Asia: What we can and what we cannot infer" IMF Economic Issues No 1, 1997.

[Robert E. Hall and Charles I. Jones, "Why Do Some Countries Produce So Much More Output per Worker than Others?" Quarterly Journal of Economics, February 1999, Vol. 114, pp. 83-116.](#)

### **Week 3: International economic growth and development II: Institutions and technology**

"The Road to Hell is Unpaved" Economist, December 19, 2002.

Chapters 4 and 7 Jones, Charles: Introduction to Economic Growth, W.W. Norton and Co.

Chapter 11 and 12 in Easterly, William, "The Elusive Quest for Growth," MIT Press, 2001.

### **Week 4: Consumer demand and national investment**

ABC chapter 4 and 5

"The end of the affair" The Economist, November 22, 2008

Furman, Jason and Douglas Gale, "If, When How: A Primer on Fiscal Stimulus," Working Paper, The Hamilton Project, Brookings Institution, January 2008.

### **Week 5: Globalization: international trade and capital flows (and midterm)**

Midterm: October 21 (half-class)

Blinder, Alan, "Offshoring: The Next Industrial Revolution?" [Foreign Affairs](#), March/April 2006, pp. 113-128.

"The Free Trade Fix" New York Times Magazine, August 18, 2002

**Week 6: Money and inflation**

ABC chapters 7, 12.3, 15.4.

Reinhart, Carmen and Miguel Savastano, "The Realities of Modern Hyperinflation" *Finance and Development*, June 2003.

[Alesina, Alberto and Lawrence H. Summers, "Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence," \*Journal of Money, Credit and Banking\*, Vol.25 No. 2, May 1993, 151-162](#)

**Week 7: The Business Cycle**

ABC chapters 8.1-8.3 (not 8.4), 9.1-9.5 (not 9.6), 10.1, 10.2, 11.1, 11.2.

"Lessons from the US Recession," *The Financial Times*, January 18, 2002.

"Preparing for the next downturn" *McKinsey Quarterly*, April 2007

**Week 8**

**Part 1: Business Cycle Policy**

ABC chapters 11.3, 11.4, 11.C, 12.1 and 14.

The latest "Summary of Commentary on Current Economic Conditions by Federal Reserve District" (<http://www.federalreserve.gov/FOMC/BEIGEBOOK/2010/>)

**Part 2: Exchange rates**

ABC chapters 13.1

**Week 9: Stabilization policy in an open economy, the currency trade and speculative attacks**

ABC Chapter 13

"Currency Comeback: Why the financial crisis helps the dollar" by Patrick Lane, *The World in 2009*, *The Economist*.

**Week 10: Special topic: the credit crisis and global economic slump of 2008 – 2009**

"Deciphering the Liquidity and Credit Crunch 2007-08" by Markus K. Brunnermeier, Barton, Dominic, Roberto Newell, and Gregory Wilson, "How to win in a financial crisis," *The McKinsey Quarterly*, 2002 No 4.