

**Kellogg School of Management
Northwestern University**

Syllabus

Macroeconomic Policy and Global Capital Markets (FINC 473)

Spring 2025

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Course overview

What drives the global economy? How does government policy affect economic and financial conditions? This course focuses on the economic forces and the policy responses relevant for business, investment, and growth strategies.

Measurement underlies all analysis, so we begin by learning how to interpret data on national and international economic activity, with particular attention to the measurement of output and inflation. We then study patterns of economic growth in the long run, including the status of advanced economies, and growth in emerging markets.

Our focus then turns to two key markets: the market for labor, and the market for capital. We study key trends and cyclical changes in labor markets, connecting them to rising inequality. Credit and financial markets play a crucial role in the process of capital accumulation but are also prone to crises. We study their role in both driving growth, and propagating downturns.

We then shift attention to economic policy, starting with monetary policy. Monetary policy has been transformed by the global financial crisis of 2009 and the COVID-19 crisis, and the rapid onset of inflation that followed. We study monetary policy decisions and their effect on financial institutions and credit markets. This includes both conventional policies and quantitative easing (QE) as implemented by Central Banks around the world.

We then turn to fiscal policy. Fiscal policy is the other main tool of macro policy, which also directly interacts with financial markets through sovereign debt, such as the Treasury market, the largest and (usually) most liquid market in the world. We consider government spending and the revenue programs that fund it, plus the government liabilities that result when revenues fall short of expenditures. The sustainability of sovereign debt is a key issue, as budget deficits have ballooned since 2020. We analyze the issue in detail.

Since these markets are global, capital flows, trade balances, and the relative strength of currencies are behind all these discussions. We look at these considerations explicitly as we pull together the topics at the conclusion of the course.

The course provides a high-level overview to aid business planning, investment strategies, and policy analysis. FINC 473 counts toward the Finance major and is on the short list of classes for the Analytic Finance major.

Modality

The class is in-person. If students registered for the in-person option cannot attend in-person for health-related reasons, a zoom option will be made available for them to participate in the class in real time.

This year, the review session to be held during the normal class time of Monday, June 2, will be organized on Zoom. An in-person Zoom option in the classroom will be offered for students wanting to attend the class from the Hub.

Additionally, the catch-up class for the Monday, May 26 class (labor day) will be held on Wednesday, May 21, instead of Wednesday, May 28.

Pre-requisites

The prerequisite for this class is Finance I (FIN-430-0).

Material

Readings: Readings provide you with background material that will help make your experience in class more rewarding. They are listed by topic in the section "Detailed material" below. The material comes from four sources:

Textbook: Andrew Abel, Ben Bernanke, and Dean Croushore, *Macroeconomics*, Pearson, 11th Edition, 2023. The textbook is available for rent at:

<https://www.pearson.com/store/p/macroeconomics/P200000007767/>

Teaching notes: these notes provide an in-depth description of theoretical tools that we will use in. They will be available in the "Files" section of Canvas.

Discussion sets: these are short and practical exercises on the topic that we will discuss in class. They are meant to get you thinking about the issues ahead of class, as well as to provide a basis for class discussion. Each discussion set contains a few questions, the answer to which you will have to turn in before class. The discussion sets are available in the "Files" section of Canvas.

Optional readings: these are additional readings, also on the week's topic, that will provide you with more background on the key issues. The sources will typically be articles from the financial press or blogs, but sometimes also from academic review papers. All optional readings will be made available in the "Files" section of Canvas.

Slides: An electronic copy of the presentation slides for each lecture will be available on Canvas before each class. Make sure that you obtain these slides, as they will structure your in-class notes and reduce the pace of notetaking during class.

Grading

The course grade is out of 100 points. There are four types of required assignments, the point of which add up to 100:

Discussion sets (25 points): Discussion Sets include both quantitative and qualitative questions to prepare for class discussion. These are due before the relevant class. The answers to the questions are to be turned in and will be graded. You can prepare and hand in the questions **by group**.

Country Project (15 points): At the end of the class, each **group** will be asked to prepare an analysis of the current macroeconomic situation and performance in a country of their choice. Groups can choose to either do an in-class presentation, or hand in their analysis as a written assignment. A description of the assignment will be posted on Canvas. The project is due in the last week of class and presentations will take place in the last class.

Final exam (40 points): An **individual** final exam will cover the analytic content of the course. The exam will cover all topics. Three quarters of the exam will consist of quantitative questions that are direct applications of the models studied in class. The remaining quarter will consist of qualitative analysis of recent economic events, for which you are expected to leverage key facts and mechanisms learned in class. I will conduct a review session in the last week of class where we will solve a practice final exam. The final exam will be administered remotely through Canvas during exam week.

Participation (20 points): You are expected to actively participate in the class discussion. This does not require frequent or voluminous comments – thoughtful and substantive contributions are welcome. Also, good questions are an excellent way to participate. The participation grade will be centered around Discussion Sets (10 of 20 points), but additional points are available for consistent classroom participation (10 of 20 points).

Finally, there is one optional assignment.

Problem sets (15 points): These assignments are **optional** and **individual**. The problem sets are intended to help you keep up to date on the analytic content of the material as the course proceeds. They will be short. There will be three of them. You **do not** need to complete these assignments to get to the maximum grade for the class (100pts), but any points you earn in completing these assignments can make up for points lost in any of the required

assignments. Think of them as a bonus. If you do not complete these assignments, your recorded problem set grade will be 0.

Required assignments	
Discussion sets (group)	25
Final project (group)	15
Participation (individual)	20
Final exam (individual)	40
Optional assignments	
Problem sets (individual)	15

The final grade will be computed as: Final grade = $\min(100, \text{Discussion sets grade} + \text{Final project grade} + \text{Participation grade} + \text{Final exam grade} + \text{Problem sets grade})$.

Case packet

The case packet contains case studies that will be used as material for some discussion sets. The material in the case packet is marked in the reading list below with a (C).

Supplementary Information

Up-to-date information, calendar items, and announcements will be kept on Canvas, where you can always check for current course information. Announcements and any additional course materials will be posted there as well. Finally, I will regularly post interesting readings from the financial or academic press on Canvas, as well as useful links to blog, podcasts, and twitter feeds connected to the topics we'll cover in class.

Topics

Topic 1. Economic growth

- ❖ Measurement
Current economic situation – What is GDP, and why should businesses care? – What's the right measure of inflation?
- ❖ Long-run growth
How does a country go from being poor to rich? – Why do rich countries grow more slowly? – Can economic growth continue forever?

Topic 2. Business cycles

- ❖ Expansions and recessions
What happens when a country enters a recession? – What causes recessions, and can we forecast them? – How do they affect firms and workers?
- ❖ Financial crises
What is a financial crisis, and how is it different from a normal recession? – Can we prevent financial crises? – What role do banks play in all of this?

Topic 3. Fiscal policy

- ❖ Government spending and economic activity
The basics of government budgets – Can deficits help fight recessions? – Do deficits lead to inflation?
- ❖ Government debt
How much government debt is too much? – How bad is the long-term government budget outlook in advanced economies?

Topic 4. Monetary policy

- ❖ Central banks, money markets, and financial markets
What does the balance sheet of a central bank look like, and what do they do with it? – Why do central banks intervene so often in financial markets? – Do central banks need to be independent?
- ❖ Central banks and inflation
How do modern central banks manage inflation, and what trade-offs do they face? – Why have they become so big? – How much attention should businesses pay to the Fed, and why?

Topic 5. (De)-globalization

- ❖ 1980-2009: the Halcyon years?
What is globalization? – How did it impact growth and inflation? – How did it impact labor markets?
- ❖ post-2009: Globalization undone?
Is globalization over? – Are protectionist policies making a come-back? – What are the implications for global growth and inflation?

Detailed readings

Required material is marked by **(R)**. Optional material is marked by **(O)**. Material involving the case packet is marked with **(C)**. "ABC" denotes the textbook. Green text refers to the corresponding class.

Topic 1. Economic growth

Weeks 1 and 2

I. Measurement

1. **(R)** ABC chapter 2
2. **(O)** "Inflation is still high. What's driving it has changed." *New York Times*, April 27, 2023
3. **(O)** "Goods deflation is back" *The Wall Street Journal*, December 3, 2023

II. Long-run growth

1. **(R)** ABC chapter 6.1.
2. **(R)** Teaching note: "Growth accounting"
3. **(R)** Discussion set: "The East Asian Tigers"
4. **(R)** "The quest for secure property rights in Africa," *The Economist*, Sep 20th, 2020
5. **(O)** "Measuring management," *The Economist*, Jan 18th, 2014
6. **(O)** "China's economic data," *St Louis Fed Regional Economist*, Q2, 2017

(O) Best book on the topic: Daron Acemoglu and James A. Robinson, "Why Nations Fail"

Topic 2. Expansions and recessions

Weeks 3 and 4

I. Expansions and recessions

1. **(R)** Teaching note: "The AS/AD framework"
2. **(O)** "Recession predictors - an evaluation," *Federal Reserve Bank of Richmond Brief*, Aug 2022
3. **(O)** "Who's missing from the post-pandemic labor force?," *Brookings Institution*, Apr 4, 2023

II. Financial crises

1. (R) Teaching note: "Capital markets: structure and function"
2. (R) Teaching note: "Leverage and risk-taking"
3. (R) (C) Discussion set: "Lehman Brothers, too big to fail?"
4. (O) "The crisis as a classic financial panic," *Remarks by Ben Bernanke at IMF financial conference*, Nov 8 2013
5. (O) "The implications of unrealized bank losses," *Federal Reserve Bank of Kansas City Brief*, Q2 2023

(O) Best book the topic: Michael Lewis, "*The Big Short*"

Topic 3. Fiscal policy

Weeks 5 and 6

I. Government spending and economic activity

1. (R) Teaching note: "Ricardian equivalence and Keynesian multipliers"
2. (R) ABC chapters 15.1 and 15.2
3. (O) "How can Scandinavians tax so much?" Henrik Jacobsen Kleven, *Journal of Economic Perspectives*, Fall 2014.
4. (O) "Why do developing countries tax so little?" Timothy Besley and Torsten Persson, *Journal of Economic Perspectives*, Fall 2014.
5. (O) "Has the pandemic shown inflation to be a fiscal phenomenon?," *The Economist*, Dec 18th, 2021

II. Government debt

1. (R) Teaching note: "Sovereign debt dynamics"
2. (R) Discussion set: "The Greek Sovereign Debt Crisis"
3. (O) "Financing the US response to Covid," *St Louis Fed Blog*, Dec 1st, 2020
4. (O) "Low interest rates and government debt," John Cochrane, *The grumpy economist blog*, Jan. 11, 2021
5. (O) "The coming fiscal cliff," The Hamilton Project, September 2023. [Intro only.]

(O) Best book on the topic: William G. Gale, "*Fiscal Therapy*"

Topic 4. Monetary policy

Weeks 7 and 8

I. Central banks, money markets, and financial markets

1. (R) Teaching note: "Money supply and inflation"
2. (R) Teaching note: "The Federal Reserve and money markets"
3. (R) ABC Chapter 7, introduction and Chapter 7.1; Chapters 14.1 and 14.2
4. (O) "The shawarma paradox," *The Economist*, Aug 11th, 2020
5. (O) "The Corporate Credit Facilities", *NY Fed Liberty Street Blog*, May 26, 2020

II. Central banks and inflation

1. (R) (C) Discussion set: "The March 2022 FOMC"

2. (O) "What is the Philips curve (and why has it flattened)?", *St Louis Fed Economics Blog*, Jan 2020
3. (O) "Rewriting monetary policy 101," *Journal of Economic Perspectives*, Fall 2015
4. (O) "What happened in money markets in September 2019?," *FEDS note*, February 2020

(O) Book of the week: Bernanke, Geithner and Paulson, "Firefighting"

Topic 5. (De)-globalization

Weeks 9 and 10

I. 1980-2009: The Halcyon years?

1. (R) Teaching note: "Savings, investment, and capital flows"
2. (R) ABC Chapter 5.1
3. (O) "The global savings glut and the US current account deficit", *Remarks by Ben Bernanke*, March 10, 2005
4. (O) "Measuring the 1%," *The Economist*, Nov 28th, 2019
5. (O) "The deaths-of-despair narrative is out of date," *The Economist*, Dec 23, 2023

II. Post-2009: Globalization undone?

1. (R) (C) Discussion set: "The US-China trade war"
2. (O) "An event study of the inflation reduction act," *Hutchins Center*, Sep 2023
3. (O) "Four years into the trade wars," *Peterson Institute For International Economics*, Oct 2022
4. (O) "Ten years of China's Belt and Road," *Financial Times*, Oct 2023

(O) Best book on the topic: Ronald Findlay and Kevin O'Rourke, "Power and Plenty"

Last update: 28-Mar-25