



The Global Business Environment

Part II – The International Macroeconomy

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SYLLABUS

(10/27/2002)

Introduction

Macroeconomics studies how economies grow and change over time and how they interact with one another. Macroeconomics affect us all and we are continuously flooded with information about the economy. What is the source of that information? How do we interpret it? How do macroeconomic developments affect the climate for business? We will confront these topics in the second six-week segment of this course.

The course's main objective is to provide you with a framework that you can call upon to understand economic ideas and economic events as you confront them in the future. While pursuing this goal, the course will provide you with an understanding of the interesting and important issues in macroeconomics. The broad set of questions we will address is the following:

- How do we measure the economics performance and well-being?
- What drives long run economic growth and how do we understand the patterns of economic development?
- What is the nature of short run fluctuations in economic and what causes them?
- What can government policy do to affect growth and fluctuations?
- How do domestic fiscal policies affect economic well-being and growth?
- How do monetary institutions and monetary policy influence the economic environment and the business climate?
- How do international monetary institutions and policies affect the business environment?

These questions are clearly compelling and macroeconomics is an exciting discipline. I hope you will come to share my excitement and passion about these topics which are of such vital importance.

Course Materials

The textbook for the course is “Macroeconomics- Understanding the Wealth of Nations” by David Miles and Andrew Scott, published by John Wiley and Sons (henceforth MS). I do not intend to follow the book exactly as it is laid out. I will complement the book with additional material, such as lecture notes, slides and data. Additional material will be available on the web page for the course. For some topics, you may find it helpful to supplement this material with a

set of notes developed by Professor Cooley. These notes are available at:
<http://www.stern.nyu.edu/~tcooley/MBAcourse.htm>

Evaluation

Evaluation of this course will be on the basis of two cases and a final exam. I expect everyone to participate actively in class discussions. The weighting will be as follows: Final Exam 60%, Cases 40%.

Teaching Assistant

The teaching assistant for this course is Gopal Tampi, gt318@stern.nyu.edu.

Cases

The two cases for the course will be team projects. These must be prepared in writing and will be due on the date noted with no exceptions. Each member of the team must initial the case before submitting it. By doing so you assume full responsibility for its contents and the subsequent grade on the project. If teams have problems with “free riders” I expect you to work those out internally. If problems persist and you are unable to resolve them, let me know and I will try to facilitate a solution.

Lecture Topics

Lecture 1 (October 30)- What is Macroeconomics?

Topics: The scope and method of macroeconomics. Questions to be addressed in this six-week segment. Definition and measurement of key economic variables. Basic sources of economic data. National Income and Product Accounts, Price Indices and the Measurement of the Capital Stock. Basic facts about economic growth, fluctuations, and patterns in world trade.

Reading: MS, Chapters 1, 2

Discussion: The stock market and intangible capital.

Lecture 2 (November 6)- Facts About Economic Growth and A Model of How Countries Grow

Topics: Facts about the differences in income per capita and growth rates across countries. Production function, total factor productivity, growth accounting. Determinants of economic growth (the Solow model). Link between growth, capital accumulation and savings. The role of foreign direct investment in growth. Evidence on convergence and rates of convergence.

Reading: MS Chapters 4, 5, 6, 7, Material on Growth Accounting and the Productivity Slowdown

Discussion: Geography and Institutions in the Making of the World Income Distribution

Lecture 3 (November 13)- Business Cycles

Topics: What are business cycles? How are they classified? Business cycle behavior in post-war US. How do we predict business cycles? Smooth consumption and volatile investment over the business cycle. What are the costs of business cycles?

Reading: MS Chapters 13, 14, 15, “What a peculiar cycle”

Discussion: The Macroeconomic Effects of War

Discussion of Singapore Case

Lecture 3 (November 20)- The Role of Government and Monetary Policy

Topics: Good government (public good provision, paternalism, distribution of income, missing insurance markets), bad government (tax distortions, rent-seeking and vested interest groups, Laffer curves). Debt, deficits and Ricardian equivalence. Money and the mechanics of money creation. Determinants and costs of inflation. How is inflation measured? Linkages between fiscal and monetary policy, seignorage and hyperinflation.

Reading: MS Chapters 10, 11, 12

Discussion: Taxation in Developing Countries, Inflation and Inequality

Lecture 4 (November 27)- Effects of Monetary Policy

Topics: The effect of monetary policy in the long run- the quantity theory of money. How does money affect the real economy in the short run? The monetary transmission mechanism: nominal rigidities and financial market frictions. Liquidity traps. The role of central banks. Credibility and inflation bias. Targets and rules for monetary policy.

Reading: MS Chapters 16, 17

Discussion Topic: The credit channel of monetary transmission. Japan’s deflation.

Lecture 5 (December 4)- The Open Economy: The Current Account and Exchange Rates

Topics: The current account and the balance of payments. Nominal exchange rates, real exchange rates, purchasing power parity, covered and uncovered interest parity. Strengths and weaknesses of alternative exchange rate arrangements. Currency boards, dollarization, monetary unions, central bank intervention in foreign exchange markets. Origins of currency crises and the role of the IMF.

Reading: MS Chapter 18, 19, 20

Discussion: The scope of monetary cooperation between the FED and the ECB, How should the IMF be reformed?

Lecture 6 (December 11)- Equity markets.

Topics: Forward looking behavior and unpredictability of share prices. Excess volatility and equity premium puzzles. Asset market bubbles. The stock market and new technologies. How monetary policy can affect the stock market.

Reading: MS Chapter 21, Additional material

Presentation of European Monetary Union Case.