

# University of Notre Dame

## Mendoza College of Business

### FIN 60220 -- Macroeconomic Analysis Third Module 2007-8

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#### **Course Description:**

This course is designed to provide students with a structured and analytically sound understanding of how the U.S. economy and other market economies function. Attention is given to understanding measures of economic performance – productivity, economic growth, price stability, unemployment rates, interest rates, exchange rates, and government budget and international trade deficits – to better understand where an economy is in its business cycle and the direction it may be heading. Prominent attention is given to how government (fiscal) policy and central bank (Federal Reserve) monetary policy independently affect U.S. and world economic growth, unemployment, interest rates, exchange rates, and inflation rates. We will also examine factors that influence the supply side of the economy: the labor market, markets for intermediate inputs (such as oil), and the formation of expectations of price inflation. All of this will be discussed in the context of a “global macroeconomic environment” where economies are linked through trade and capital flows.

#### **Course Methodology:**

The course will use primarily lectures and class discussion along with readings to help students develop a *systematic* analytical framework for understanding how the U.S. economy (and like economies) works. In the business world, most information about the state of the economy is absorbed through economic releases, business publications, mass media, and discussions. Accordingly, an important objective of the course is that students be able -- using this systematic analytical framework -- to competently discuss orally and in writing economic activity, which ultimately impinges upon business decisions.

In support of this objective, written evaluations (tests and projects) will be primarily essay in nature. Moreover, class participation will account for a significant amount of the course grade; there will be “cold calls.” Hence, students are expected to have read assigned material *before class*.

Team projects will provide an opportunity to conduct realistic experiments using the *FAIRMODEL* – a representative macroeconometric software model employed by many businesses

to forecast U.S. economic trends. These are **group** projects; groups will be the ones assigned by the MBA office and have around five members.

There will be a third major team project running throughout the module in which you analyze the macroeconomic conditions of a non-U.S. economy your team chooses. By Friday, January 19, each group will need to have selected non-U.S. economy by submitting to me as soon as possible three (ranked) choices. For the final part of the course, each group will be expected to prepare a 9-10 page report (double-spaced), including a 5-year retrospective and a 2-year economic outlook for their economy, and present and defend this analysis in one of the last three classes. A Bibliography is necessary, and is not included in the page limit; also, you can have charts and figures that do not count toward the page limit. Everyone on the team will present; the presentation should include a Powerpoint presentation.

### **Course Materials:**

*Macroeconomics and the Global Business Environment*, Second Edition, by David Miles and Andrew Scott, Wiley, 2005.

Semester subscription to the *Wall St. Journal*, *London Financial Times*, *The Economist*, *Business Week*, or *Fortune* or regular reading of business news on the Internet ([www.nytimes.com](http://www.nytimes.com), [www.wsj.com](http://www.wsj.com), [www.ft.com](http://www.ft.com)).

### **Course Evaluations:**

There will be three group projects. The first involves a problem set analyzing some long-run economic issues. The second will involve simulations of the U.S. economy in the short-run using the FAIRMODEL. The first problem set will be assigned on January 22 (due Jan. 31) and the second will be assigned on Jan. 31 (due Feb. 12).

The third project is a group analysis of an actual (non-US) economy. For this Economic Outlook project (described earlier), all papers will be due on the day of the presentation. Presentations will be on Tuesday, February 19; Thursday, February 21; and Tuesday, February 26. Details are on the last page of this syllabus.

There is one exam. The final exam is assigned for Friday, February 29; there will be an optional Q&A review session on Thursday, Feb. 28 at 5pm. There are **no** excused absences for exam. The final exam will count 40% toward your grade. The first project will count 10%, the second project will count 20%. The final project will count 25% of your grade. Class participation will count 5%; I will COLD CALL in class.

Class lectures and discussion will overlap, but not replicate, reading. ATTENDANCE IS REQUIRED. You will receive in hardcopy a set of most slides used in class. But this is designed to COMPLEMENT, not SUBSTITUTE for, lectures. You are allowed NO MORE THAN 2 EXCUSED CLASS ABSENCES (due either to illness or internship interview; there are NO

UNEXCUSED absences). TARDINESS COUNTS AS AN ABSENCE. For each absence beyond the two excused absences, students will lose a third of a letter grade from their course grade. Excused absences MUST be sent to me by e-mail PRIOR to absence (such as job interview) or immediately after (such as illness); violation of this (i.e., not sending the e-mail) will constitute a violation of the honor code.

Laptops and other electronic devices are NOT allowed in the classroom during class; please shut everything off before class begins.

### **Other Honor Code Issues**

Exams will be closed-book. Teams may not discuss or collaborate at all on projects; any perceived duplication of teams' projects will be a violation of the Honor Code. Please respect this seriously as there have been violations in the past. As discussed above, the two excused absences need to be e-mailed to me.

**Abbreviations:** M&S refers to the Miles and Scott textbook.

### **Outline of Course and Textbook Reading**

- (1) Tue, 1/15 Syllabus Discussion; Issues in Macroeconomics; Measure of Economic Performance  
M&S, Preface and Ch. 1
- (2) Thu, 1/17 Determinants of Long-Run Growth; National Income Accounting  
M&S, Chs. 2 and 3
- (3) Tue, 1/22 Savings, Investment, and the Long-Term Real Interest Rate  
M&S, Chs. 4 (excluding 4.7) and 5  
**Project #1 distributed.**
- (4) Thu, 1/24 The Labor Market; Long-Run Equilibrium  
M&S, Chs. 7, 11.1-11.3 and 11.8
- (5) Tue, 1/29 Aggregate Demand; the Short-Run Keynesian Model  
M&S, Ch. 12.1-12.3
- (6) Thu, 1/31 The Goods-Market Multiplier; Short-Run Goods-Market Equilibrium  
M&S, Ch. 12.6-12.9  
**Project #1 due.**  
**Project #2 distributed.**
- (7) Tue, 2/5 Financial Markets; Monetary Policy; Fiscal Policy  
M&S, Chs. 10, 11.4-11.7

- (8) Thu, 2/7 IS-LM Analysis; Short-Run Goods- and Financial-Markets Equilibria  
M&S, Ch. 15
- (9) Tue, 2/12 Inflation and Inflation Expectations  
M&S, Ch. 14  
**Project #2 due.**
- (10) Thu, 2/14 Hyperinflations, Disinflations and Supply Shocks  
M&S, Ch. 16
- (11) Tue, 2/19 **Group Presentations in Class and Final Papers due**
- (12) Thu, 2/22 **Group Presentations in Class and Final Papers due**
- (13) Tue, 2/26 **Group Presentations in Class and Final Papers due**
- Optional:* Thu, 2/28 Q&A Review Session at 5pm in DeBartolo room (to be announced)
- (14) Fri, 2/29 **FINAL EXAM**

**PROJECT #3:  
A COUNTRY BUSINESS CONDITIONS ANALYSIS**

This is a group project **due on the day of your presentation**. Only one paper needs to be turned in per group; please include all names and your group name. **PLEASE WORDPROCESS ALL BUT GRAPHS**. (You may include “analytical” (e.g., aggregate demand and supply, IS-LM) graphs, but also may enter plotted charts of data).

In this project, you will analyze the “Business Conditions” in a real economy. As a group, select and e-mail to me as soon as possible a non-US economy in the world you would like to analyze. Countries will be allocated on a first-come/first-serve basis; hence, you may not get your first choice so please specify a ranking of three choices.

Presentations (prepared) must include all individuals and last no longer than 15 minutes. This will be followed by 10 minutes of questions and answers in the class.

Please prepare a 10-page, double-spaced report analyzing the last 3-5 years of economic activity in your country **and forecasting** economic activity for the next 2 years (until end of 2009). You may include as many charts with data or graphs with figures as you like. However, the *text* is limited to 10 pages, double-spaced.

The general organization should be one similar to the analytical framework of the class. You should have a part focusing on the aggregate demand and aggregate supply of goods and services, including a discussion of the past and expected future values of components of planned expenditures and factors that influence them (such as fiscal policies). You should have a part focusing on money and financial markets, including a discussion of factors influencing interest rates in the economy and monetary policy. You should have a part focusing on the labor market, and factors influencing employment levels, unemployment rates, and real wage rates.

A *suggested* coverage for your 10 pages is the following. Accounting for introduction and conclusion of about 1 page, I suggest spending about 6 pages discussing what has been occurring in the goods and services market, the financial markets, and labor markets over the last 3-5 years. I would spend about 3 pages justifying your forecasts of expected developments over the next 2 years in these three markets. Again, this is a *suggested* format. Also, you may include as many charts and figures as you need to clarify your analysis and forecast.

Please *footnote* appropriate material and sources including websites, and include a full bibliography.