Michael Dothan

GSM-504 Macroeconomics and the Financial System

With Trading Simulation

Spring 2008
M/W 9:30 - 10:50
Room 201

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Michael Dothan
Atkinson Graduate School of Management, Willamette University, Salem, OR 97301
E-mail: mdothan@willamette.edu
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1 Purpose

The purpose of this course is to make students better managers by helping them acquire working knowledge of "big picture" analysis of the economic environment and financial markets.

All economies are subject to the business cycle. Corporate profits, employment, and investment performance are subject to intermittent growth and decay as general economic activity expands and contracts.

Managing the business cycle is an important part of organizational strategy. The business cycle presents both dangers and opportunities, and managing it effectively can be very rewarding. All activities are affected by the business cycle: Production, supply chain management, marketing, human resources, capital expenditures, and financing.

To manage the business cycle you need to learn the basic relationships among economic growth, credit conditions, economic shocks, public confidence, government economic policy, corporate profits, employment, inflation, and the behavior of stock, bond, and foreign exchange markets.

After successful completion of this course, you will be able to analyze those economic relationships and apply your analysis to management and investment decisions in business, government, and not-for-profit enterprises.

Rather than using business cases, this course includes an experiential component in the form of a trading simulation. The purpose of the simulation is to help you recognize the real-world importance of the economic relationships listed above, to apply those relationships to short-term trading decisions, and to develop working knowledge of risk and risk management.

In order to benefit from the simulation, you will have an objective of making a trading profit. In assessing a trading profit, you have to consider both the *size* and the *quality* of the profit. Section 5 gives some additional details about the measurement of trading profit, and I will give you further explanation in our class meeting on January 16.

2 Required Materials

The following are required:

(1) David A. Moss, *A Concise Guide to Macroeconomics*, Harvard Business School, 2007 (purchase, representative price $16.47).

(2) Subscription to Stock-Trak Silver trading simulation (purchase 12-week silver subscription starting on Feb 11 and ending on May 2, representative price $23.95).

The trading simulation is fun, and will give you an additional reason to follow and apply daily economic, financial, and company news.

About a week after the start of classes you will receive a Stock-Trak account number and password. Please go to `http://www.stocktrak.com`, click on the link `Students` and follow instructions to register online or to register by mail. You will have to furnish your assigned account number and password, and to provide payment information.

Please also go to `http://www.stocktrak.com/tradingrules.php` to download Stock-Trak trading rules. For additional trading rules that apply in this class, please see Section 10.

(3) The textbook explains the basic relationships among economic growth, credit conditions, economic shocks, public confidence, government economic policy, corporate profits, employment, and inflation.

For classes labeled "Lecture," to help you with applications, and to give you resources to succeed in the trading simulation, I will ask you to read other materials that discuss current economic and financial developments. I will post some such articles and notes in `Hand Outs`, and I will direct you to some articles online. The topics of those articles will depend on actual economic and financial developments during the semester.

(4) A basic scientific calculator for in-class exams. The calculator must have the capability to calculate the power function y^x, the exponential function e^x, and the natural logarithm function LN (each student must have his or her own calculator during exams, representative price $15.00).

Total expected cost $56.

Please let me know if you have a special interest in any particular topic related to this course and would like me to recommend additional optional readings on that topic.

3 Collaboration and Individual Work

I encourage students to collaborate to increase their individual learning: Students can learn from each other how to analyze problems, do relevant calculations, design effective tables and charts, and present their work effectively. Such collaboration applies to preparation for class, assigned problems, analysis of trading decisions, and preparation for the midterm and final exams. The collaboration is optional, please do it only if it helps you learn.

At the conclusion of any collaborative work, the final calculations, tables, charts, explanations, and writing of each assignment, and the making of each trading decision, have to be individual work. In other words, you can study together but you have to do the final version of each assignment and trading individually.

All exams and the trading performance memo are individual work without any assistance or reference materials.

4 Notice to Students with Disabilities

Any student eligible for and requesting academic accommodations due to a disability should provide documentation to Disability Services located in the Bishop Wellness Center within the first two weeks of the semester.

5 Deliverables

Please be in class on time.

There will be no extensions of deadlines and no makeup exams except for documented serious emergencies.

Please see me immediately if you have concerns about satisfying any of the deliverables.

The deliverables are:

	Date	Time	Weight
Problem I	Jan 28	9:15 am	4%
Problem II	Feb 13	9:15 am	4%
Midterm I	Feb 20	9:30 am	20%
Problem III	Mar 5	9:15 am	4%
Midterm II	Apr 2	9:30 am	20%
Problem IV	Apr 14	9:15 am	4%
Problem V	Apr 23	9:15 am	4%
Trading performance	May 2	2:00 pm	10%
Trading performance memo	May 2	11:59 pm	10%
Final	May 6	9:30 am	20%
Total			100%

- All grades will be reported with a base of 100 points.
- When doing the assigned problems, you can start with collaborative group work, but, at the end, each student has to do his or her own calculations, explanations, tables, charts, and writing. All problems are due in `Hand Ins` at the specified time. For each problem, I will describe the file format for upload. Problems will be available in `Hand Outs` two weeks before they are due. I will also provide you with additional problems that we will discuss in class, and that you will not need to submit.
- All exams are in-class, hand-written, individual work, calculator only, no collaboration, no assistance, no exchange of information, and no reference materials.
- Topics for exams include course content up to the day of the exam, with emphasis on content since the previous exam. That includes readings, lectures, problems, class discussions, and real-world economic and financial developments. Before each exam, I will post a more specific list of topics and sample questions for that exam.
- Problems, exams, and the trading performance memo will be graded on validity and completeness of answers and explanations, accuracy and explanation of calculations, and clear writing.
- Validity refers to being borne by fact, well founded in theory, free from logical flaws, and persuasive. Invalid answers do not earn any credit, incomplete answers, inaccurate calculations, inadequate explanation of calculations, and insufficient clarity may earn partial credit.
- In addition, it is important that you present your work well and use correct grammar and spelling. I will not deduct points for poor organization, poor presentation, or incorrect English grammar or spelling. You will, however, have to rewrite and resubmit your work to correct all such defects before your grade is recorded.
- The trading performance memo is a two-page (approximately 1,000 words) explanation of what you traded, why you traded it, and what you learned from the trades.

Also, you need to include in the trading memo a calculation of your final information ratio and tracking error. It is strictly individual work.

- The relationship between numerical grades and letter grades is:

A	96 – 100
A-	88 – 96
B+	79 – 88
B	71 – 79
B-	63 – 71
C	54 – 63
F	0 – 54

6 Trading Performance

Trading performance refers to the Stock-Trak trading simulation. Trading performance will be computed against the following benchmark:

Exchange Traded Fund	Trading Symbol	Weight
SPDR Trust, Series 1	SPY	40%
iShares MSCI EAFE Index Fund	EFA	20%
iShares Lehman 20+ Year Treasury Bond Fund	TLT	40%

We will measure trading performance by the *information ratio*, that is, active return divided by active risk. Assignment of grades for trading performance will be:

Information Ratio	Grade
Less than 0	20 points
Greater or equal to 0 and less than 0.1	40 points
Greater or equal to 0.1 and less than 0.2	60 points
Greater or equal to 0.2 and less than 0.3	80 points
Greater or equal to 0.3 and less than 0.4	100 points
Greater or equal to 0.4 and less than 0.5	100 + 20 bonus points
Greater or equal to 0.5	100 + 40 bonus points

We will discuss the calculation of the information ratio in class on January 16. You can find further description of the benchmark exchange traded funds on `finance.google.com/finance`.

Don't let mistakes bother you, even the most experienced investors make investing mistakes. Instead, make sure that you learn from your mistakes. Turning a mistake into a lesson will help you avoid repeating that mistake in the future.

Please see Section 10 for additional rules and restrictions that apply to the trading simulation.

7 Web Sites

The table shows some useful links to get you started. You will soon discover many additional web sites that deal with macroeconomic and investment information. Please keep in mind that nobody assures the quality of information on the Internet, you are responsible for assessing the quality of the information and the analysis from all sources.

It is important to recognize that publicly available information has no immediate investment value unless reorganized, combined with other information, interpreted in a novel way, or otherwise used in a manner that is different from the way that hundreds of thousands of other investors are using it.

Bureau of Economic Analysis	`http://www.bea.gov`
Board of Governors of the Federal Reserve System	`http://www.federalreserve.gov`
Federal Reserve Economic Database (FRED)	`http://research.stlouisfed.org/fred2`
Federal Reserve Bank of Cleveland	`http://www.clevelandfed.org`
Econbrowser	`http://www.econbrowser.com`
Calculated Risk	`http://calculatedrisk.blogspot.com`
Google Finance	`http://finance.google.com/finance`
Yahoo Finance	`http://finance.yahoo.com`
Bloomberg	`http://www.bloomberg.com`
Seeking Alpha	`http://www.seekingalpha.com`
MarketWatch	`http://www.marketwatch.com`
ETFConnect	`http://www.etfconnect.com`
New York Times	`http://nytimes.com`
Washington Post*	`http://www.washingtonpost.com`
Wall Street Journal**	`http://online.wsj.com/home/us`
Wall Street Journal Blogs**	`http://online.wsj.com/page/8_0019.html`
Wall Street Journal Political Market	`http://predictions.wsj.com/`
Financial Times**	`http://www.ft.com/home/us`
Business Week**	`http://www.businessweek.com`
Morningstar**	`http://www.morningstar.com`

*Registration required
**Subscription required

8 Office Hours

My office hours for this class are Monday and Wednesday from 3 pm to 4 pm, and by appointment. My office number is 210 and my email address is `mdothan@willamette.edu`.

9 Graduate Assistants

The graduate assistants for this course are Simona Bucur (sbucur@willamette.edu) and Pete Schonebaum (pschoneb@willamette.edu). Their first priority is to help you learn. We will determine their office hours and other availability soon after the beginning of the semester.

10 Trading Rules and Restrictions

With your Stock-Trak account you can buy, sell, buy on margin, and sell short many stocks, options, and futures in the United States and Canada. You can also buy and sell stocks in England, France, Germany, Japan, Korea, Hong Kong, Mexico, Brazil, and other countries.

We will apply the Stock-Trak *Trading Rules* and the following additional rules and restrictions:

- Use the assigned account number and password
- Do not trade before February 11
- Have at least 40% of your account invested by February 22
- Do not trade options and futures before April 1
- Do not invest in mutual funds
- Do not execute more than 200 trades
- Do not exceed the 10% position limits

11 Principles-Based Conduct

Observe the do's and don'ts of proper professional, and, when relevant, personal conduct. Students have the responsibility to uphold the principles of integrity, high professional, and, when relevant, personal standards, accountability for the accuracy of collected information and the quality of analysis, and the avoidance of conflicts of interest. The following examples illustrate, but do not exhaust, the application of those principles.

I expect you to be present, prepared, and willing to share your analysis and views in every class. Please be actively engaged, listen, ask questions, and contribute to the discussion.

Please use your laptops only for those purposes: to take notes, to look up applicable information, or to make a presentation. Please do not use your laptop constantly, instead, strike a balance between taking notes, and paying attention to the lecture and discussion and participating in the discussion.

For all required submissions, you are responsible for verifying that you are uploading the correct file. If you make a mistake and upload an incorrect file, you can upload a second, correct file, as long as you do it before the deadline.

You are responsible for emails sent to your Willamette University email address.

For your learning and ethical conduct you must use accurate information gathered from reliable sources. All information, whether ideas, text, data, analysis, or opinion, must be attributed to its sources. Do not use sources which you do not cite, acknowledge, and attribute in your work.

You must not copy the work of others and you must not make things up. If you see another person plagiarizing or fabricating anything, please tell him or her that it is unethical, unprofessional, impedes learning, and may be illegal. If you see a particularly bad or repeated case of plagiarism or fabrication, please let me know.

If you have a question about any principles of proper conduct or their application, please let me know, anonymously if you wish.

Violation of any of the principles of proper conduct will bring consequences, starting with a failing grade for an assignment or the course, and reaching, in extreme cases, expulsion from the School. For further details please see the *Atkinson Graduate School of Management Handbook*.

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12 Course Calendar

The table shows a general course calendar. Before each class I will give you more information about the purpose, agenda, and preparation for that class.

1	Jan 14			Introduction
2	Jan 16		Lecture	Profit, Information Ratio, and Tracking Error
3	Jan 21	Moss	Chapter 1	Output
4	Jan 23	Moss	Chapter 5	The Fundamentals of GDP Accounting
5	Jan 28		Solutions I	Problems in GDP Accounting
6	Jan 30		Lecture	Macro Investing
7	Feb 4		**No Class**	
8	Feb 6		Lecture	Economic Calendar and the Markets
9	Feb 11	Moss	Chapter 2	Money
10	Feb 13		Solutions II	Problems in Money
11	Feb 18		Lecture	Risk and Risk Management
12	Feb 20		**Midterm I**	
13	Feb 25		Lecture	Government Policy, Exogenous Shocks, and the Markets
14	Feb 27	Moss	Chapter 3	Expectations
15	Mar 3		Lecture	Aggregate Equilibrium
16	Mar 5		Solutions III	Problems in Aggregate Equilibrium
17	Mar 10		Lecture	Business Cycle and the Markets
18	Mar 12		Lecture	Interest Rate Cycle and the Markets
19	Mar 17		Lecture	Fundamental Analysis of Stocks
20	Mar 19		Lecture	Options
21	Mar 31		Lecture	Futures
22	Apr 2		**Midterm II**	
23	Apr 7		Lecture	Finance Ethics
24	Apr 9	Moss	Chapter 6	Reading a Balance of Payments Statement
25	Apr 14		Solutions IV	Problems in Balance of Payments
26	Apr 16		Lecture	More on Risk Management
27	Apr 21	Moss	Chapter 7	Understanding Exchange Rates
28	Apr 23		Solutions V	Problems in Exchange Rates
29	Apr 28			Conclusion
30	May 6		**Final**	