

The Wharton School
University of Pennsylvania
Finance Department

Finance 602
Macroeconomics and the Global Economic Environment

Fall 2004
Prof. Martin Asher

Required Text and Materials:

Andrew B. Abel and Ben S. Bernanke, *Macroeconomics*, Fifth Edition, Addison-Wesley Publishing Co., 2005.

Charles L. Schultze, *Memos to the President*, Brookings Institution, 1992.

Bulk Pack at Wharton Reprographics that contains outlines of all lectures. Additional handouts from Reprographics will be provided in class throughout the term involving a modest (estimated to be less than \$10.00) bursar-billed handout fee.

The Wall Street Journal, including online version

Optional Materials:

Croushore, Dean, *Study Guide to Abel-Bernanke Macroeconomics*, Fifth Edition, Addison-Wesley Publishing Co., 2005.

Objectives:

Finance 602 is designed to introduce the student to competing theories regarding the functioning of the macroeconomy in a global environment and the effects of government policy. In doing so, it covers

- the measurement of macroeconomic activity (production, employment, interest rates, prices, national saving, investment, and international transactions),
- Classical macroeconomic analysis (the functioning of the macroeconomy assuming efficient markets), identifying the sources of long-run economic growth,
- business cycles and theories of cyclical fluctuations,
- the use of government policies to stabilize economic activity and promote long-term growth.

The principal text (Abel-Bernanke) presents a cohesive model for studying macroeconomic performance and for identifying the sources of controversy among economists and policy makers. The supplementary text (Schultze) reinforces conclusions found in Abel-Bernanke regarding long-run economic growth, and, further, provides a particular view of the role of government stabilization policy shared by both moderate liberals and moderate conservatives. Other perspectives will also be presented.

Course Requirements and Grading:

There will be two midterm examinations and a final examination. Because the course continually builds on previous knowledge, the final examination will be *cumulative over the material from the entire course*, though it will stress material covered since the second midterm examination.

Each midterm will count as one grade, and the final examination will count as two grades. The lowest grade among these four grades will be dropped; the course grade will be based only on the remaining three grades. This policy of dropping the lowest grade provides you with some insurance against having a bad day or against being unable to attend one of the midterm examinations. Because this insurance is being provided to you, requests to reschedule or retake midterm examinations, write alternative papers, etc., will not be entertained.

There will be NO MAKE-UP EXAMS FOR THE MIDTERM EXAMS FOR ANY REASON. If you miss a midterm exam for any reason whatsoever, then you can simply use your insurance policy to drop that exam; your grade will be based on the other midterm exam and the final exam. The final grade for the course will be based on a curve.

Schedule of Exams:

The midterm exams will be held in class on the following two dates:

Midterm I: **Tuesday, October 12, 2004, 6:00 p.m.**
Midterm II: **Tuesday, November 16, 2004, 6:00 p.m.**
Final Exam: **Thursday, December 16, 2004, 4:00-6:00 p.m.**

Regrading of Exams:

Any requests for regrading of exams must be submitted using the ***Regrade Request Form*** (downloadable from the course Web site) ***within one week*** from the date that exams are returned in class. Requests for regrading must be very specific. When you request a regrade, I retain the right to regrade your entire exam. Unambiguous errors in grading will be promptly corrected. The one-week period for submission of exams for regrading begins on the date that the exams are returned in class, not the day on which you pick up the exam, if for some reason you are absent from class the day the exams are returned. If you miss the class during which the exams are returned, it is ***your responsibility*** to pick up your graded exam within the one-week period. If you want to get in touch with me and I am not in my office, you can leave a note in my mailbox in the Finance Department office, leave a message on my voicemail (215-898-0285), or contact me by e-mail (asherm@wharton.upenn.edu).

Problem Sets and Review Sessions:

Problem sets from end-of-chapter questions, as well as answers, can be viewed or downloaded from the course web site (i.e., excerpts from the instructor's manual in .pdf files.). Questions and answers related to the Schultze questions can be found in the bulk pack, following the lecture outlines. Other optional exercises based on current events may also be distributed. Exam questions will be inspired by problem set questions.

Office Hours:

Tuesdays and Thursdays 9:00 - 10:00 a.m. and by appointment at other times.

Office: JMHH G95
Phone: 215-898-0285
E-mail address: asherm@wharton.upenn.edu
Web address: <http://finance.wharton.upenn.edu/~asherm/> (Note: NO "www.")
Click "FNCE 602" and enter userid and password (given in class)

Schedule of Lectures and Midterm Examinations

Cal. Wk	Date	Topic (Abel-Bernanke <i>Macroeconomics</i> Chapter)	Schultze <i>Memos</i>
1	Tues., Sept. 7	NO CLASS	
	Thurs., Sept. 9	Introduction and Overview (Ch. 1)	#1, #2
2	Tues., Sept. 14	National Income Accounting, Part I (Ch. 2)	
	Thurs., Sept. 16	National Income Accounting, Part II (Ch. 2)	#3, #4, #11
3	Tues., Sept. 21	Production and Employment (Ch. 3, Secs. 1 - 4)	(same as above)
	Thurs., Sept., 23	Employment and Unemployment (Ch. 3, Secs. 5-6)	#14, #15
4	Tues., Sept. 28	Consumption and Saving: Part I (Ch. 4, Sec. 1; and Appendix 4.A)	#6
	Thurs., Sept. 30	Consumption and Saving: Part II (Same reading as previous lecture)	(#6)
5	Tues., Oct. 5	Investment and Goods Market Equilibrium (Ch. 4, Secs 2 and 3)	#7
	Thurs., Oct. 7	A Framework for the Open Economy (Ch. 5, Secs. 1 - 2)	
6	Tues., Oct. 12	MIDTERM EXAMINATION I -- IN EVENING: 6:00 p.m. (Review session during scheduled class time)	
	Thurs., Oct. 14	Saving, Investment, and the Current Account (Ch. 5, Secs. 3 - 5)	
7	Tues., Oct. 19	Long-Run Economic Growth, Part I (Ch. 6)	#20 - #24, #27, #28
	Thurs., Oct. 21	Long-Run Economic Growth, Part II (Ch. 6)	#20 - #24, #27, #28
8	Tues., Oct. 26	FALL BREAK -- NO CLASS	
	Thurs., Oct. 28	Long-Run Economic Growth, Part III (Ch. 6)	(same as above)
9	Tues., Nov. 2	Money and Inflation (Ch. 7)	#16 pp. 172-176
	Thurs., Nov. 4	Business Cycle Facts (Ch. 8) and The IS-LM Model, Part I (Ch. 9)	
10	Tues., Nov. 9	The IS-LM Model, Part II (Ch. 9)	
	Thurs., Nov. 11	Aggregate Demand and Aggregate Supply (Ch. 9)	
11	Tues., Nov. 16	MIDTERM EXAMINATION II -- IN EVENING: 6:00 p.m. (Review session during scheduled class time)	
	Thurs., Nov. 18	The Classical Model (Ch. 10)	
12	Tues., Nov. 23	The Keynesian Model, Part I (Ch. 11)	#5, #12, #13, #29
	Thurs., Nov. 25	THANKSGIVING BREAK -- NO CLASS	
13	Tues., Nov. 30	The Keynesian Model, Part II (Chs. 11 and 12)	(same as above)
	Thurs., Dec. 2	The Phillips Curve: Unemployment and Inflation (Ch. 12)	
14	Tues., Dec. 7	International Revisited -- (Selected topics from Ch. 13)	#9, #10
	Thurs., Dec. 9	Monetary & Fiscal Policy Institutions (Selected topics from Chs. 14 and 15)	#16 pp. 176-82, #17, #18, #19