

The University of Pennsylvania
The Wharton School

**Finance 101:
Monetary Economics and the Global Economy**

Professor John P. Caskey
Spring 2010

Course Description

Finance 101 is an intermediate-level course in open-economy macroeconomic analysis and policy. The course is divided into four parts. After a brief review of national income accounting, the first part of the course examines the factors that determine how much an economy is capable of producing, i.e. how much it would produce at full employment. In this part we also discuss the determinants of consumption and investment spending in an economy at full employment and equilibrium in asset markets.

The second part of the course, which takes up the lion's share of our time, focuses on business cycles. Here we ask why the economy sometime expands for several years and subsequently contracts. Contractions are associated with rising unemployment and reduced utilization of productive capacity. In this section of the course, we also examine the institutions of monetary and fiscal policy and discuss how these two policy instruments might attenuate recessions.

The third part of the course extends our analysis to focus on the effects of international trade and exchange rates on economic output levels and how policy actions can affect trade balances and exchange rates.

In the fourth and final part of the course, we discuss the factors that determine how fast an economy can grow over decades or longer periods of time, i.e. we examine the factors that determine differences in standards of living over long periods of time and across countries.

This course focuses heavily on issues that are directly related to numerous current events, such as the Great Recession of late 2007 - ?, the U.S. trade imbalance, and the incredible growth of the Chinese economy over the past 25 years. Many of our class discussions and outside readings will address these and related issues.

Reading Materials and Course Lecture Outlines

The textbook for the course is *Macroeconomics* (6th edition) by Andrew Able, Ben S. Bernanke, and Dean Croushore (Addison-Wesley Publishing Co) 2008.

The outlines for course lectures and supplementary reading material will be posted on WebCafe at least two days prior to the relevant lecture. I will also assume that students are reading the economic news in at least one good daily newspaper, such as the *New York Times*, *Wall Street Journal*, or *Financial Times*.

Class Attendance

Students must attend the section in which they are enrolled.

Problem Sets

There will be four graded problem sets and several ungraded ones. The problem set prior to the first midterm will have the same format as the midterm. The problem sets are graded on a pass/fail basis. You are welcome to work in groups on the problem sets, but each student is expected to write up and submit his or her own answers. Problem sets cannot be turned in late and there is no regrading of problem sets.

Country Analysis Project

This is a group assignment, promoting teamwork, near the end of the semester. Each group will write a short report and give an in-class presentation drawing on the course material to analyze the macroeconomic situation of a country, other than the U.S. Details will be provided in class.

Exams

There will be two closed-book midterm exams and a final exam. Students should write their answers to the exam in ink, not pencil. The final exam is cumulative and covers the material from the entire course.

You will have up to 90 minutes to do each midterm exam. They will be administered on the following two evenings:

Midterm I: Thursday, February 11, 2010, 6 pm

Midterm II: Thursday, March 25, 2010, 6 pm

The final exam will be two hours in length and will be given during the final exam period as scheduled by the registrar.

Each midterm will count as one grade. The final exam will count as two grades, so effectively you received four exam grades. The lowest grade among the four grades will be dropped in computing your course grade. The policy of dropping the lowest exam grade prevents you from being penalized for having a bad day or being unable to attend one of the midterms due to an emergency or a scheduling conflict. Because of this insurance policy, **THERE WILL BE NO MAKE-UP EXAMS FOR THE MIDTERM EXAMS**, unless specifically required by University policy. Any request for foreseeable special situations must be received at least one week before the final exam is administered. The final exam can be rescheduled only if required by University policy, and only during the official make-up period during the first week of the following semester.

Regrading of Exams

Any requests for regrading of exams must be submitted in writing within one week from the date that the exams are returned in class. They must be accompanied by a Regrade Request Form, a Statement of Honesty Form, and the entire exam (both forms are posted on WebCafe). If you miss the class during which the exams are returned, it is your responsibility to pick up the graded exam within the one-week period. Requests for regrading must be very specific. Do not mark or make notes on your exam and do not, of course, alter in any way the answers to the questions. Any such alterations will be construed as violations of the Code of Academic Integrity and may be referred for disciplinary action. When you request a regrade, I retain the right to regrade your entire exam. It is possible that your exam grade may fall as a result of regarding if I determine that you received too many points for the question or questions that you ask to have regarded, or if too many points were give for other exam answers.

Course Grade

The course grade will be based on the problem sets, the country analysis project, the two midterm exams and the final exam. The weighting is as follows:

Problem sets: 5%

Country analysis project: 10%

Course exams: 85%

Office Hours

My office hours are Tuesday, 10:30 to noon. In addition, you may schedule appointments to talk with me at other times. My office is SH/DH 2338, my phone number is 215-898-8831, and my email address is jcaskey@wharton.upenn.edu. The office hours for the TAs will be announced in class and posted on WebCafe.

Schedule of Topics to be Covered

(A tentative schedule with dates for these topics will be posted on WebCafe, but it will have to be periodically updated since I can't perfectly forecast the pacing of the class.)

1. Introduction and Macroeconomic Data

Ch 2 of A, B, & C

2. What Determines Potential Economic Output?

Ch 3 of A, B, & C

3. Equilibrium in the Goods Market with Full Employment

Ch 4 of A, B, & C

4. Equilibrium in the Asset Market with Full Employment

Ch 7 of A, B, & C

5. Business Cycles & Supply Shocks

Ch 8 & Ch 10 (pp. 360-371) of A, B, & C

6. The IS-LM Model: Output Determination with Sticky Prices

Ch 9 (sections 1-4) of A, B, & C

7. The IS-LM Model with Flexible Prices (and the AD-AS Model)

Ch 9 (sections 5 and 6) of A, B, & C

8. Macro Policy in a World with Sticky Prices

Ch 11 of A, B, & C

9. Unemployment and Inflation

Ch 12 of A, B, & C

10. Monetary Policy and the Fed

Ch 14 of A, B, & C

11. Financial Crises and the Great Recession of 2007-?

Readings to be announced

12. Policy Responses to the Great Recession

Readings to be announced

11. Should We Worry About Government Deficits and Debt?

Ch 15 of A, B, & C

12. Saving and Investment in the Open Economy

Ch 5 of A, B, & C

13. Exchange Rates, International Trade and Macro Policy in an Open Economy

Ch 13 of A, B, & C

14. Why Do Some Countries Grow Faster than Others?

Ch 6 of A, B, & C