

# **FINANCE 101**

## **Macroeconomics and the Global Economic Environment**

**Fall 2004**

**Professor Joao F. Gomes**

### **DESCRIPTION**

Finance 101 develops a unified framework suitable to analyze macroeconomic events and policy, with an emphasis on the relation between economic activity and the behavior of financial markets.

The course is designed to combine three main blocks of analysis. The first part provides an introduction to the construction and interpretation of the main economic and financial indicators. The bulk of the course is then devoted to building a solid theoretical foundation designed to understand the behavior of central economic and financial variables such as GDP, employment, inflation, interest rates and stock prices. This part of the course also includes a detailed study of fiscal and monetary institutions and policy, focusing on the Federal Reserve and the Federal Government. In addition, a substantial section of the course will focus on macroeconomic analysis in an open economy. Specific topics will include the determination of international capital flows, exchange rates and international financial crisis. In all parts of the course the analysis will be applied to current events, highlighting their implications for financial markets, businesses and households.

### **MATERIALS**

#### **Lecture Notes**

Lecture notes and other required course materials are available in a bulkpack from Wharton reprographics and also at my web site at <http://finance.wharton.upenn.edu/~gomesj>. This site is the main source of information for all course related issues. A password will be provided during the first week of classes.

#### **Textbooks**

##### **Required**

- *Macroeconomics*, 5<sup>th</sup> edition, by Abel and Bernanke (“AB”).

##### **Also Recommended**

- *International Economics*, 6<sup>th</sup> edition, by Krugman and Obstfeld (“KO”).
- *The Wall Street Journal Guide to Understanding Money & Investing*, by Morris, Morris, and Siegel.

## Economic News

Economic data is released regularly by the major government agencies as well as a few private ones. Analyzing and understanding this data is one of the core elements of the course. The major news releases are included with the bulkpack. These as well as all updates will be used extensively during the semester. They are required reading. Links to the main data sources are also provided in my web site.

When relevant, articles from *The Economist*, *The Wall Street Journal*, *The Financial Times*, or other major business newspapers will be added to the reading list.

## GRADES

### Deliverables

Grading will be based on three exams (two midterms and one final), five homework assignments, and three case studies.

The weights are as follows:

- |                        |     |
|------------------------|-----|
| • Best 2 Exams         | 50% |
| • Homework Assignments | 25% |
| • Case Studies         | 25% |

Normalized scores will be used to compute the best exam grades.

All exams are open book and comprehensive. Cases and assignments should be done in teams of about five students. They should be handed in on the due date at the beginning of class. Due dates are detailed in the schedule of activities below. Late submissions will be penalized. I will subtract 25% of the total points for each day after the due date.

The final grade distribution will follow the school's guidelines. **Quality**-adjusted class **participation** will be taken into account for all marginal grades. In addition I **never** award a D or and F to students who actively participate in class during the semester. Conversely, I never award an A to students who do not participate in class.

### Schedule Conflicts

The policy of dropping the lowest exam grades provides insurance against having a bad day or against any schedule conflicts. Because this insurance is being provided to you, there will be **no make-ups or postponements** for any reason.

### Regrading of Exams

Any requests for regrading of exams must be submitted in writing within **one week** from the date that exams are returned and must be accompanied by the *Regrade Request* form and *Statement of Honesty in Regrade Request* form. These are posted on my web site. The one week period begins on the date that the exams are returned and not on the date that you pick up the exam.

Requests for regrading must be very specific. Asking for regrades on three or four questions invariably means that the student is “fishing” as I have never seen that many questions graded incorrectly. Such broad requests will be summarily **rejected**. You should limit your request to those answer(s) that you believe to have clearly been misgraded.

Do not mark or make notes on your exam, and do not alter in any way the answers to the questions. **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. As a result your exam score may fall as a result of regrading.

### **OFFICE HOURS**

My office hours will be held on Mondays and Thursdays from 17:00 to 18:00. My office is Steinberg Hall-Dietrich Hall 2324. In addition you can reach me by email at [gomesj@wharton.upenn.edu](mailto:gomesj@wharton.upenn.edu). TA office hours will be posted on my web site. You should also consult the course web page for regular updates.

## SCHEDULE OF ACTIVITIES

Date	Topic	Readings	Due
Sep 9	Macroeconomics and Financial Markets	AB (Ch. 1)	
Sep 14	Economic and Financial Indicators	AB (Ch. 2; Sec. 5.1); GDP, CPI	
Sep 16	Economic and Financial Performance	AB (Ch. 8); NBER	
Sep 21	Production and Growth	AB (Sec. 3.1; Ch. 6)	Assignment 1
Sep 23	Employment and Wages	AB (Ch. 3.2-3.6); Employment	
Sep 28	Consumption and Savings	AB (Sec. 4.1)	Assignment 2
Sep 30	Investment	AB (Sec. 4.2)	
Oct 5	Goods Market Equilibrium	AB (Sec. 4.3; 5.2-5.5)	
Oct 7	Case Study: Employment Report		Case 1
Oct 12	Money, Interest Rates and Inflation	AB (Ch 7)	
Oct 14	General Macroeconomic Equilibrium: IS/LM	AB (Sec. 9.1-9.5)	Assignment 3
Oct 19	General Macroeconomic Equilibrium: AS/AD	AB (Sec. 9.6; 10.3)	
Oct 21	Business Cycles and Macroeconomic Policy	AB (Sec. 11.3-11.4)	Assignment 4
Oct 28	Review Session	<b>Midterm Exam 1 in the Evening</b>	
Nov 2	International Trade		
Nov 4	Exchange Rates	AB (Sec. 13.1-13.2)	
Nov 9	Case Study: Monetary Policy		Case 2
Nov 11	International Macroeconomics	AB (Sec. 13.3-13.4)	
Nov 16	Fixed Exchange Rates	AB (Sec. 13.5)	
Nov 18	Currency Crisis		Assignment 5
Nov 30	Monetary Policy	AB (Sec. 14); FOMC	
Dec 2	Review Session	<b>Midterm Exam 2 in the Evening</b>	
Dec 7	Case Study: China		Case 3
Dec 9	Government Spending and Financing	AB (Ch. 15)	
TBA	<b>Final Exam</b>		