

# **FINANCE 101**

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

**Fall 2007**

**Professor Joao F. Gomes**

### **DESCRIPTION**

Finance 101 develops a unified framework suitable to analyze macroeconomic events and policy, with an emphasis on the links 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 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 second 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. Finally, 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 crises. In all parts of the course the analysis will be applied to current events, highlighting their implications for financial markets, businesses, and households.

### **COURSE MATERIALS AND INFORMATION**

#### **Web Sites**

You can access most of the information about this course by using the webCafé room at <https://webcafe.wharton.upenn.edu>. To do this you will need to have a Wharton account. If you do not have a Wharton account you can apply online at <http://accounts.wharton.upenn.edu>

#### **Lecture Notes**

Copies of the lecture notes and other course materials are available in a bulkpack that can be purchased from Wharton reprographics. Electronic copies can be obtained from my web site at <http://finance.wharton.upenn.edu/~gomesj>. A link to this site will be provided in the webCafé room, together with a required password.

#### **Textbooks**

The recommended textbook for this course is *Macroeconomics*, 6<sup>th</sup> edition, by Abel, Bernanke and Croushore. This is an excellent text in macroeconomics and provides a wealth of background and complementary material. However classroom discussions and notes often focus on more applied topics and do not always follow the book closely.

## Economic News

A subscription to *The Wall Street Journal* is required. You can obtain one by applying online at <https://www.wallstreetjournal.com>. Subscription forms will also be provided at the beginning of the semester. You are expected to bring the paper to class regularly and to be prepared to discuss the major economic news.

Key macroeconomic 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. Major news releases will be discussed extensively during the semester and are required reading. Links to these data releases are provided in my web site.

Occasionally selected articles from other major business newspapers may also be added to the list of required readings.

## Videos

Classes held during University recognized holidays and review sessions before exams will be videotaped and the videos will be posted on webCafé, usually within 48 hours.

## GRADES

### Deliverables

The final grade for this course will be based on three exams (two midterms and one final), homework assignments, and case studies. The weights are as follows:

- Best Two Exams 25% each
- Homework Assignments 25%
- Case Studies 25%

All exams are comprehensive. The exam format is multiple choice and “open book”-- you will be able to bring all your notes to the exam.

Cases and assignments should be done in teams of about five students. They must be submitted using the Assignment Submission folder in webCafé.

The final grade distribution will follow the school’s guidelines. Quality-adjusted class participation will be taken into account for all marginal grades.

Please note: no extra work during or after the end of semester will be counted towards the final grade.

### Scheduling Conflicts and Make-ups

Because you can drop one exam grade without penalty there is no make-up for any missed exam. Any time conflicts regarding the final exam will be resolved according to University Policy.

There are no make ups for missed assignments or cases. Late submissions will be accepted with a penalty -- I will subtract 25% of the total points for each day after the due date.

## Returning Graded Exams and Assignments

Personal grade information can be retrieved by clicking on the My Grade link in the webCafé room. Information about grade distributions will be posted in my web site and discussed in detail at the end of the semester.

University rules prohibit the return of graded exams and papers to individual student mail-folders. Instead all exams and assignments will be available for collection from my TAs. Times and locations will be announced during the semester.

## Regrading of Exams

Any requests for regrading of exams must be submitted in writing within 10 days from the date that exams are made available and must be accompanied by the *Regrade Request* form and *Statement of Honesty in Regrade Request* form. These are posted in the FAQ section of my web site and on webCafé. Please note that the regrade period begins on the date that the exams are made available 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 may 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.

## OFFICE HOURS

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). Regular office hours for me and my TAs will be announced during the semester and posted on my web site.

## TENTATIVE SCHEDULE OF ACTIVITIES

Date	Topic	Textbook Readings	Due
Sep 6	Macroeconomics and Financial Markets	Ch. 1, Sec 8.4	
Sep 11	Economic Indicators	Ch. 2, Sec.8.1-8.3	
Sep 13	Financial Markets		
Sep 18	Money, Interest Rates and Stocks	Ch. 7	
Sep 20	Production and Employment	Ch. 3	<b>Assignment 1</b>
Sep 25	Consumption, Savings, and Investment	Sec. 4.1-4.2	
Sep 27	Budget and Trade Deficits	Sec. 4.3, Ch 5	<b>Assignment 2</b>
Oct 2	General Macroeconomic Equilibrium I: IS/LM	Sec. 9.1-9.5	
Oct 4	Case Study: Employment Report		<b>Case 1</b>
Oct 9	<b>Midterm Exam - 6PM -- No Class</b>		
Oct 11	General Macroeconomic Equilibrium II: AS	Sec. 10.3	
Oct 18	General Macroeconomic Equilibrium III: AD	Sec. 9.6, 10.3	
Oct 23	Business Cycles and Macroeconomic Policy	Sec. 11.3-11.4	
Oct 25	Monetary Policy	Ch. 14	
Oct 30	Exchange Rates	Sec. 13.1-13.2	<b>Assignment 3</b>
Nov 1	International Macroeconomics		
Nov 6	Flexible Exchange Rates		
Nov 8	Fixed Exchange Rates		<b>Assignment 4</b>
Nov 13	Budget Deficits and the National Debt	Ch 15	
Nov 15	<b>Midterm Exam - 6PM -- No Class</b>		
Nov 27	Economic Growth	Ch. 6	
Nov 29	Current Policy Topics		<b>Case 2</b>
Dec 4	Case Study: Country Study		
Dec 6	Case Study: Country Study		
Dec 18	<b>Final Exam (6PM)</b>		