

# FINANCE 602/101 MACROECONOMICS AND FINANCIAL MARKETS

The University of Pennsylvania

The Wharton School

Prof. Jeremy J. Siegel

Spring, 2010

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## Required Purchase

CP Course Pack of Readings and Lecture Notes from Wharton Reprographics

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## Course Description

This course presents the analysis of macroeconomic theory with a current events perspective. The material in the class concentrates on lecture notes, which are the primary learning source, and readings from a course packet of articles drawn from journals, magazines, newspapers, and other economic publications.

The material covered will include: (1) Economic Statistics, GDP, Price Indices, Productivity and the nature of the business cycle, (2) The government budget and Social Security, (3) Monetary policy, The Fed and other Central Banks, (4) Interest rates - indexed bonds and the term structure, (5) Aggregate Demand and the determination of income and interest rates, (6) Money and Inflation - the Velocity Approach, (7) Reaction of Financial Markets to economic data, (8) Inflation, inflationary expectations and the Phillips Curve, (9) Supply-side shocks and macro-dynamics, (11) International Balance of Payments, the current account and capital flows, (12) Determination of Exchange Rates, exchange rate systems, purchasing power and interest rate parity.

# FNCE 602/101

## MACROECONOMICS AND FINANCIAL MARKETS

### WEEKLY ASSIGNMENTS

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RN = Class Review Notes

PS = Problem Set

#### CLASSES:

#### TOPICS AND ASSIGNMENTS

January 11, 13

**Introduction, Econ Statistics**

RN 1-15: Economic Data and Markets 2 wks.

January 18

**NO CLASS – Martin Luther King Holiday**

January 20

**Econ Stat (cont'd), Price Indices**

RN 15-23;

January 25, 27

**Government Budgets, Social Security, and  
Future Demographic Trends;**

RN 24-27 PS #1 (GDP & Price Indices)

February 1, 3

**Monetary Policy; Fed Funds Rate**

RN 28-47

February 8, 10

**NO CLASS – DEDICATED INTERVIEW PERIOD**

February 15, 17

**Central Bank Structure**

RN 28-38.

February 22, 24

**Interest Rates: Loanable Funds and Fisher  
Equation**

RN 48-59.

March 1,

**Term Structure of Interest Rates**

RN 60-67

PS #2 (Money Supply)

March 3

No Class, MBA Midterm Week

<b>WEEK OF:</b>	<b>TOPICS AND ASSIGNMENTS</b>
March 8, 10	<b>NO CLASSES -- SPRING BREAK</b>
March 15, 17	<b>Equilibrium with money and goods</b> RN 68-81 PS #3 (Interest Rates)
March 22, 24	<b>Equilibrium with money and goods cont.</b> PS#4 (Term Structure)
<b>March 25</b>	<b>MIDTERM, Thursday MARCH 25 6-8:00P</b>
March 29, 31	<b>Money and Inflation</b>  RN 82-88 PS#5 (Aggregate Demand)
April 5,7	<b>Reactions of Financial Markets</b> RN 89-100 PS #6 (Money and Inflation)
April 12, 14	<b>Price Level in a DD-RR Model</b> RN 101-114 PS #7 (Financial Markets)
April 19, 21	<b>Phillip's Curve and Government Policy</b> <b>Balance of Payments</b> PS #8 (Flexible Price DDDR Model)
April 26	<b>Theory of Exchange Rates</b> RN 114-125 PS #9 (Int. Exch. Rates) RN 115-126
<b>MAY 6</b>	<b>FINAL EXAMINATION</b> <b>Monday May 3, 6:00 – 8:00 p.m.</b>

**PROBLEM SETS AND EXAMS**  
**COMPLETION DATES**

<b>Number</b>	<b>Topic</b>	<b>When Due</b>
1	GDP and Price Indices	Feb 7
2	Monetary Policy	Mar 1
3	Interest Rates	Mar 17
4	Term Structure	Mar 24
	<b>MIDTERM</b>	<b>March 25</b> <b>6:00 – 8:00 p.m.</b>
5	Aggregate Demand	Mar 31
6	Money and Prices	Apr 7
7	Financial Markets	Apr 14
8	Flexible price DDDR	Apr 21
9	Exchange rates, PPP, and Interest Rate Parity	-----
	<b>FINAL EXAMINATION</b>	<b>May 3</b> <b>6:00 – 8:00 p.m.</b>

## COURSE FACTS

Professor Jeremy J. Siegel

SH-DH 2251 Ph 215-898-7742

E-mail [Siegel@wharton.upenn.edu](mailto:Siegel@wharton.upenn.edu)

Webcafe: <https://webcafe.wharton.upenn.edu/eRoom/fnce/602-sp10-2>

Office Hours: Tu 11:00 - 12:00 and by appointment

Teaching Assistants are located in SH/DH 2305  
2<sup>nd</sup> Floor, turn right after entering Finance Department, TA Cubicles are located  
just beyond the Conference Room

**EACH STUDENT WILL HAVE A FOLDER IN THE FILE CABINETS LOCATED  
ACROSS FROM THE TA CUBICLES MARKED SIEGEL 602/101. ALL EXAMS AND  
PROBLEM SETS WILL BE HANDED OUT IN THESE FOLDERS. DO NOT SEARCH  
FOR THEM IN STEINBER-DIETRICH OR HUNTSMAN HALLS**

**Problem Sets can be handed in during class or in the file cabinets marked SIEGEL 602  
located opposite the TA cubicles**

**Office Hours and teaching schedule for TAs will be handed out during the second  
week of classes.**

### PROBLEM SETS

Problem sets must be handed in; they are graded and are designed as learning tools. They are more analytical than questions on the exams, although exam questions are often patterned after questions taken from the problem sets.

**Students may work in groups to solve the problem sets but must hand them in individually.  
Worksheets cannot be shared. Students violating these rules will be considered to  
have cheated and will be treated accordingly.**

### EXAMINATIONS

Examinations are based on understanding and not memorization. All formulas will be provided on the examination sheets. **The examinations are closed book**, except students, if they wish, may bring in notes covering *one, and only one side of an 8 ½ by 11 inch piece of paper* for the midterm and *two sides* for the final examination. **The final examination is cumulative.**

One hand-held calculator may be brought into the examinations. All cell phones and other communications devices must be completely off and stowed.  
***Re-grade policy found on the next page.***

There will be **no make-ups** for the final examination. Students who know in advance that, because of their schedule, they cannot sit for the May 6 final examination must drop the course.

Students who wish to subscribe to *The Wall Street Journal* should use the following hyperlink <http://subscribe.wsj.com/semester> or for *Barron's* to <http://barron's.com/student>

Please include my name as the Instructor.

## GRADING IN COURSE

There are 200 total points (TP) in the course. Ten percent or 20 points will be allocated to the problem sets (PS) and 90% or 180 points to exams. Of the exams, the midterm (MT) will be 40% (or 72 points) and the final examination (F) will count for 60% (or 108 points).

You cannot do worse than your performance on the final examination.

Total Points (TP) in course will be computed as:

$$\mathbf{TP = Max [MT, 2F/3] + Max [PS, 0.185F] + F.}$$

Course grade will be based on **Total Points**.

## EXAM REGRADE POLICY

Re-grades will only be considered if a student writes in detail on a separate piece of paper why he or she deserves more points on a certain question. Such a request must come after carefully reading and understanding the answers given in the answer sheet for the exam, which will be posted on my website. This explanation must accompany your exam for a regrade.

If any question on the exam is submitted for a re-grade, the ENTIRE EXAM WILL BE RE-GRADED to make sure the proper grade has been given. Therefore it is possible to lose points on other questions even if you gain on the question submitted. For that reason, it usually does not pay to submit for one or two points unless you are confident of all the points allotted on your other questions. A tough grade on one question is often offset by an easy grade on another.

**EXAMS RESUBMITTED BECAUSE OF AN ADDING MISTAKE WILL NOT HAVE THE QUESTIONS RE-GRADED.**

*I have learned that in almost all cases where a student asks for re-grades on 4 or 5 questions this means that the student is "fishing" for more points. I will not be sympathetic to such requests.*

Please limit re-grades to those question(s) that you specifically believe have been mis-graded.

***As stated in (2.) above, if any question is submitted for re-grade, the entire exam will be re-graded.***

Deadline for submission of re-grades will be *two weeks* following the date of the examination. Re-grade requests can be submitted in class or placed in my mailbox in the Finance Department.