

Finance 602: *Macroeconomics and the Global Economic Environment*

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Office Hours: Wednesdays 1:30-3:00pm
(or by appointment)

Course Description

Finance 602 is a course in macroeconomic analysis and policy in the context of globally integrated economies. The course is divided into two parts. After introducing national income accounts for an open economy, the first part of the course focuses on a classical analysis of efficiently operating labor markets, goods markets, and asset markets. This part of the course examines the determination of employment, output, prices, wages, interest rates, national saving, investment, and international flows of goods, services, and assets.

The second part of the course focuses on business cycles. The analysis of business cycles begins with a description of the cyclical behavior of various economic variables. This cyclical behavior motivates the development of business cycle models and the application of these models to study monetary and fiscal policy. The analytic engine of this part of the course is the IS-LM model, which is applied in both a classical mode and a Keynesian mode. The course extends the classical and Keynesian IS-LM models to models of large open economies with flexible exchange rates to study the international transmission of business cycles. This part of the course also analyzes the institutional framework of monetary and fiscal policy.

Lectures

Each lecture is one hour and twenty minutes. Most lectures are divided into two parts. The first hour is devoted to discussion of core analytic material, and the final twenty minutes are devoted to a discussion of a related current policy topic.

Reading Materials

The textbook for this course is Macroeconomics (sixth edition), by Andrew B. Abel, Ben S. Bernanke, and Dean Croushore, Addison-Wesley Publishing Co., 2008. The Study Guide (by Dean Croushore) that accompanies this textbook is a useful aid to students who would benefit from some additional explanation and practice with the material.

Lecture notes, supplemental readings, problem sets and answers, seating charts, exam information, TA information, and other useful links can be found on the webCafe.

Problem Sets

Suggested problems and answers arranged by textbook chapter can be found on webCafe. Most of the questions are taken directly from the textbook. In addition, for most chapters there are one or two questions that are not in the textbook. The problem sets are optional and will NOT be collected and graded. Experience has shown that it is well worth your time to work out the answers and to go through the formal exercise of writing your answers.

Macro Policy Simulation

On Tuesday, April 8 and Tuesday, April 22, we will have Macro Policy Simulations. The Macro Policy Simulations will be graded. The grade will be in the form of bonus points added to your final exam score.

Exams

There will be two midterm exams and a final exam. The exams will be **open book**. The final exam will be **cumulative over the material from the entire course**.

Schedule of Exams

The midterm exams will each be 90 minutes in length and will be administered on the following two evenings (location TBA):

Midterm I: Wednesday, February 20, 2008, 6:00pm

Midterm II: Wednesday, April 2, 2008, 6:00pm

The final exam will be two hours in length and will be given during the final exam period as scheduled by the registrar. The tentative time of this exam is Thursday, May 8, 2008, 3:00–5:00pm (location TBA).

Students should take note of the following paragraph from the [MBA Resource Guide 2007-2008](#):

“You should never approach your instructors with requests to reschedule exams or to make special accommodations. If you find yourself with a conflict due to your career search, you should work with the MBA Career Management Office to find a resolution. Employers cannot require a student, as a condition of his or her employment candidacy, to interview at a time that conflicts with his or her academic schedule. An employer’s inflexibility on this issue is considered a violation of Wharton’s recruiting policies. A time conflict due to a job interview, a career pursuit or travel is not an appropriate reason to request accommodation on an academic commitment.”

Regrading of Exams

Any requests for regrading of exams must be submitted in writing **within one week** from the date that exams are returned in class, and must be accompanied by the [Regrade Request form and Statement of Honesty in Regrade Request form](#). The one-week period for submission of exams for regrading begins on the date that the exams are returned in class, not on the date that 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. Requests for regrading must be very specific. 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. Please be aware that your exam score may fall as a result of regrading, if I determine that you received too many points for the question(s) you identify, or for other questions on the exam.

Course Grade

The course grade will be based on the two midterm exams and the final exam as follows: Each midterm exam will count as one grade, and the final exam (including bonus points from the Macro Policy Simulations) will count as two grades. The lowest grade among these four grades will be dropped. The policy of dropping the lowest exam grade provides insurance against having a bad day or against being unable to attend one of the midterm exams. Because this insurance is being provided to you, 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 course grade will be based on the other midterm exam and the final exam.

1	Tues., Jan. 8	Introduction and Overview (Ch. 1)
2	Thurs., Jan. 10	National Income Accounting (Ch. 2)
3	Tues., Jan. 15	Production and Employment (Ch. 3, Secs. 1, 2, 4)
4	Thurs., Jan. 17	Labor Supply and Unemployment (Ch. 3, Secs. 3, 5, 6)
5	Tues, Jan. 22	Consumption and Saving: Basic Analytics (Ch. 4, pp. 110-118; App. 4.A pp. 156-164)
6	Thurs., Jan. 24	Consumption and Saving: Using the Basic Analytics (Ch. 4, pp.119-126;App. 4.A, pp.164-170)
	Tues, Jan. 29	DEDICATED INTERVIEW PERIOD – NO CLASS
	Thurs., Jan 31	
	Tues., Feb. 5	
	Thurs., Feb. 7	
7	Tues, Feb. 12	Investment and Goods Market Equilibrium (Ch. 4, Secs. 2 and 3)
8	Thurs., Feb. 14	A Framework for the Open Economy (Ch. 5, Secs. 1 - 2)
9	Tues, Feb. 19	In-Class Review Session for Midterm Exam I
	Wed., Feb. 20	MIDTERM EXAMINATION I: EVENING – 6:00pm
10	Thurs., Feb. 21	Saving, Investment, and the Current Account (Ch. 5, Secs. 3 - 5)
11	Tues, Feb. 26	Asset Markets, Money, and Prices (Ch. 7)
12	Thurs., Feb. 28	Asset Returns and Prices: Term Structure and Tobin's Q
	Tues., Mar. 4	QUARTER III EXAMS – NO CLASS
	Thurs., Mar. 6	
	Tues., Mar. 11	SPRING BREAK
	Thurs., Mar. 13	
13	Tues., Mar. 18	Business Cycles (Ch. 8)
14	Thurs., Mar. 20	The IS-LM Model (Ch. 9, Secs. 1 - 5)
15	Tues., Mar. 25	Classical and Keynesian Versions of the IS-LM Model (Ch. 10, Secs. 1 – 2; Ch. 11)
16	Thurs., Mar. 27	Aggregate Demand and Aggregate Supply (Ch. 9, Sec. 6; Ch. 10, Sec. 3)
17	Tues., Apr. 1	In-Class Review Session for Midterm Exam II
	Wed., Apr. 2	MIDTERM EXAMINATION II: EVENING – 6:00pm
18	Thurs., Apr. 3	The Phillips Curve: Unemployment and Inflation (Ch. 12)
19	Tues., Apr. 8	Macro Policy Simulation I: Closed Economy
20	Thurs., Apr. 10	Exchange Rates (Ch. 13, Secs. 1 - 2)
21	Tues., Apr. 15	Monetary & Fiscal Policy in the Open Economy (Ch. 13, Secs. 3 - 5)
22	Thurs., Apr. 17	Monetary Policy and Institutions (Ch. 14)
23	Tues., Apr. 22	Macro Policy Simulation II: Open Economy
24	Thurs., Apr. 24	Government Spending and Its Financing (Ch. 15)
	Thurs., May 8	FINAL EXAMINATION: 3:00pm – 5:00pm