

Finance 602
Macroeconomics and the Global Economic Environment
Professor Andrew Abel
Spring 2008

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.

Course Website

The URL for the course website is <http://finance.wharton.upenn.edu/~abel/Finance602/Fin602-PhiladelphiaCampus/Home-Phila.html>. The website contains the syllabus, lecture notes, problem sets and answers, old exams, regrade request forms, TA office hours, seating charts, and some other useful links. The website is password protected. The password will be announced on the first day of class. **You can also access the website through webCafe, which can be particularly convenient because the password is listed on webCafe.**

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 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.

There is an optional bulkpack for the course that is available from Wharton Reprographics. The bulkpack contains the [lecture notes](#) for the core analytic material. It is optional because these notes are also available from the course website.

Handouts for current policy topics will be distributed in class each day and will be made available on the course website as the term progresses. You will be charged for these handouts via the bursar-billed handout fee from Reprographics.

Problem Sets

The website contains [suggested problems and answers](#) arranged by textbook chapter. Most of the questions are taken directly from the textbook. In addition, for most chapters the website contains 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:

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

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

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 pm – 5:00 pm.

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.

Office Hours

My office hours are Wednesday, 1:30pm – 3:00pm. In addition, you may schedule appointments to talk with me at other times. My office is SH/DH 2315, my phone number is 215-898-4801, and my email address is abel@wharton.upenn.edu.

1	Tues., Jan. 8	Introduction and Overview (Ch. 1) current policy topic: Macroeconomic Data on the Internet
2	Thurs., Jan. 10	National Income Accounting (Ch. 2) current policy topic: Should the CPI be Changed?
3	Tues., Jan. 15	Production and Employment (Ch. 3, Secs. 1, 2, 4) current policy topic: Minimum Wage
4	Thurs., Jan. 17	Labor Supply and Unemployment (Ch. 3, Secs. 3, 5, 6) current policy topic: European Unemployment
5	Tues., Jan. 22	Consumption and Saving: Basic Analytics (Ch. 4, pp. 110-118; App. 4.A pp. 156-164) current policy topic: The Future of Social Security
6	Thurs., Jan. 24	Consumption and Saving: Using the Basic Analytics (Ch. 4, pp.119-126;App. 4.A, pp.164-170) current policy topic: Tax Incentives to Saving
--	Tues., Jan. 29	DEDICATED INTERVIEW PERIOD – NO CLASS
--	Thurs., Jan 31	DEDICATED INTERVIEW PERIOD – NO CLASS
--	Tues., Feb. 5	DEDICATED INTERVIEW PERIOD – NO CLASS
--	Thurs., Feb. 7	DEDICATED INTERVIEW PERIOD – NO CLASS
7	Tues., Feb. 12	Investment and Goods Market Equilibrium (Ch. 4, Secs. 2 and 3) current policy topic: Is There a New Industrial Revolution?
8	Thurs., Feb. 14	A Framework for the Open Economy (Ch. 5, Secs. 1 - 2) current policy topic: Outsourcing
9	Tues., Feb. 19	In-Class Review Session for Midterm Exam I
--	Wed., Feb. 20	MIDTERM EXAMINATION I: EVENING – 6pm
10	Thurs., Feb. 21	Saving, Investment, and the Current Account (Ch. 5, Secs. 3 - 5) current policy topic: The Mexican Current Account
11	Tues., Feb. 26	Asset Markets, Money, and Prices (Ch. 7) current policy topic: Indexed Bonds
12	Thurs., Feb. 28	Asset Returns and Prices: Term Structure and Tobin's Q current policy topic: Bubbles
	Tues., Mar. 4	QUARTER III EXAMS – NO CLASS
--	Thurs., Mar. 6	QUARTER III EXAMS – NO CLASS
--	Tues., Mar. 11	SPRING BREAK
--	Thurs., Mar. 13	SPRING BREAK
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) current policy topic: Hyperinflations
16	Thurs., Mar. 27	Aggregate Demand and Aggregate Supply (Ch. 9, Sec. 6; Ch. 10, Sec. 3) current policy topic: Forecasts of the Price Level
17	Tues., Apr. 1	In-Class Review Session for Midterm Exam II
--	Wed., Apr. 2	MIDTERM EXAMINATION II: EVENING – 6pm
18	Thurs., Apr. 3	The Phillips Curve: Unemployment and Inflation (Ch. 12) current policy topic: Political Business Cycles
19	Tues., Apr. 8	Macro Policy Simulation I: Closed Economy
20	Thurs., Apr. 10	Exchange Rates (Ch. 13, Secs. 1 - 2) current policy topic: Is the Chinese Yuan Overvalued ?
21	Tues., Apr. 15	Monetary & Fiscal Policy in the Open Economy (Ch. 13, Secs. 3 - 5) current policy topic: Monetary Policy in Argentina
22	Thurs., Apr. 17	Monetary Policy and Institutions (Ch. 14) current policy topic: Should the Fed Aim for Zero Inflation?
23	Tues., Apr. 22	Macro Policy Simulation II: Open Economy
24	Thurs., Apr. 24	Government Spending and Its Financing (Ch. 15) current policy topic: Outlook for the Federal Budget
	Thurs., May 8	(tentative date) FINAL EXAMINATION: 3pm – 5pm