

Syllabus

Macroeconomic Environment for Business

Business Economics 560
Fall 2003

Professor Margaret C. Levenstein

3201 Davidson Hall (Office Hours: Tuesday, 1:00 – 3:00 pm)
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<https://coursetools.ummu.umich.edu/>

Course objectives

The U.S. economy has officially been in recovery for almost two years now, but jobs are scarce and the government budget deficit is ballooning. Will economic growth eventually turn that around, or could the U.S. economy stagnate for a decade like Japan's has? How can the Federal Reserve juggle the conflicting demands of stabilizing the stock market, the dollar, and domestic economic growth? What's the impact of war and recent tax cuts on the economy? What impact will the current round of negotiations of the World Trade Organization have? What about IMF policy in Argentina and Brazil? In this class, you will learn models and tools of economic analysis to answer these and related questions. You will also study the implications of this analysis for business decision-making and long-term economic growth.

Readings

You are required to purchase three books for this class:

Robert J. Gordon's *Macroeconomics* (9th edition), Addison Wesley Longman.

Paul J. Krugman, *The Return of Depression Economics*, W. W. Norton.

Joseph E. Stiglitz. *Globalization and Its Discontents*, W. W. Norton.

All other *required* readings are on the course tools web site <https://coursetools.ummu.umich.edu/2003/fall/be/560/001.nsf>. They are organized by topic and you should make sure to read them *before* class.

Course Requirements

There are 4 problem set assignments. These problem sets will be graded; each is worth 50 points. No late problem sets will be accepted. Problem sets must be submitted at the *beginning* of the class at which they are due.

You are also required to make a group presentation to the class, presenting a relevant article from the business press to the class. Your class presentation must include three parts: 1. summary of the main points of the article, 2. “translation” of the article’s points into the economic models that we have discussed in class, and 3. critique of the article, including its assumptions and conclusions. You must submit a copy of the article and your presentation slides before the class when you present. You will have ten minutes for the group presentation and five minutes to answer questions. One member of the group should be assigned primary responsibility for answering questions; the others should have responsibility for the presentation. You should bring your presentation to class on disk and have it ready to go when class begins. Points will be deducted for any presentation that exceeds the allotted time.

There will be a required midterm and final exam. Please note the date and time of the exams carefully. In the event of illness, please contact me *before* the exam to arrange a makeup. You will receive a grade of **zero** on any quiz or exam that you miss without prior approval. All exams are cumulative. You may bring one page (8 ½ x 11 inch paper, double-sided) with notes to each exam.

Class attendance and participation are important. Active participation by all students is necessary for a successful class, and therefore, for a successful grade. Cell phones must be turned off during class. Checking email and surfing the web during class are not permitted and will adversely affect your grade.

The course grade will be determined as follows:

	Points
Problem Sets	200
Presentation	100
Midterm	300
Final	350
Participation	50
Total	1000

Outline of Classes

Please note that this schedule may change over the semester depending on the pace that works best for the class.

Week 1 (Sep 3)

Topic Introduction to Macroeconomics

Week 2 (Sep 8-10)

Topic (Monday) Measuring Macroeconomic Performance
Reading Gordon, ch. 1-2, pp. 3-22, 25-41, 42-43

Topic (Wednesday) Keynesian Cross Model of National Income
Reading Gordon, ch. 3, pp. 61-71

Week 3 (Sep 15-17)

Topic (Monday) The Multiplier
Reading Gordon, ch. 3, pp. 72-79
Assignment Problem set #1 due Monday, September 15

Topic (Wednesday) Fiscal Policy and the Current Recovery
Reading Web Site:
"Sharp Rise in Federal Spending May Have Helped Ease Recession"
"Faster 2nd Quarter Growth Fuels Optimism"
"States' Budget Crises Cause National Economy to Weaken"
Bureau of Economic Analysis Press Release, August 28, 2003

Week 4 (Sep 22-24)

Topic (Monday) The Investment Function
Reading Gordon, ch. 4, pp. 87-93
Assignment Problem set #2 due Monday, September 22

Topic (Wednesday) ISLM Model of National Income: IS curve
Reading Gordon, ch. 4, pp. 94-98

Week 5 (Sep 29-Oct 1)

Topic (Monday) ISLM Model of National Income: LM curve
Reading Gordon, ch. 4, pp. 98-106

Topic (Wednesday) ISLM Model of National Income: IS and LM together
Reading Gordon, ch. 4, pp. 106-113
Krugman, *Return of Depression Economics*, ch. 1, 1-20

Week 6 (Oct 6-8) Topic (Monday) Reading	Tax Policy and the Recovery “Economic Stimulus: Evaluating Proposed Changes in Tax Policy” Congressional Budget Office report, Summary and Table 1, pp. vii-xiii, 27 (on web site)
Topic (Wednesday) Reading Assignment	Tax Policy and the Budget Deficit Gordon, ch. 5, pp. 131-142 Problem set #3 due Wednesday, October 8
Week 7 (Oct 15) Topic (Wednesday) Reading	Banking and Monetary Policy Gordon, ch. 13
Week 8 (Oct 22) Topic (Wednesday) Reading	No class, Monday October 20 Financial Deregulation and Monetary Policy “Banking’s Future Lies in its Past” Martin Mayer, <i>NYT</i> Aug. 25, 2002 (on web site)
Week 9 (Oct 27-29) Topic (Monday) Reading	Implementation of Fiscal and Monetary Policy Gordon, ch. 5, pp. 117-131
Topic (Wednesday)	MIDTERM EXAM (Covers Gordon chapters 1-5, 13)
Week 10 (Nov 3-5) Topic (Monday) Reading	Exchange Rates and Exchange Rate Systems Gordon, ch. 6, pp. 157-170
Topic (Wednesday) Reading	Balance of Payments Gordon, ch. 6, pp. 151-157 Web Site: “US International Transactions: First Quarter 2003” U.S. Bureau of Economic Analysis “Foreign Investors Turning Cautious on Spending in U.S.” Uchitelle, <i>NYT</i> August 4, 2002
Week 11 (Nov 10-12) Topic (Monday) Reading	Macro Policy in an Open Economy Gordon, ch. 6, pp. 172-184
Topic (Wednesday) Reading	Macro Policy in a Large Open Economy Gordon, ch. 6, pp. 184-187 “Demise of the Dollar, Rise of the Euro?” (on web site)

Week 12 (Nov 17-19)

Topic (Monday)

Reading

International Financial Architecture

Gordon, ch. 6, pp. 170-171

Web Site:

Jeffrey Frankel, "International Financial Architecture"

Brookings Institution Policy Brief #51, June 1999

Blecker, *Taming Global Finance Executive Summary*

Economic Policy Institute April 1999

Topic (Wednesday)

Reading

Long Term Economic Growth

Krugman, *Return of Depression Economics*, ch. 2, 21-37

Angus Maddison, *The World Economy: A Millennial*

Perspective ch. 1, pp. 27-38 and ch. 3, pp. 125-165 (on

web site)

Gordon, ch. 10, pp. 309-316; Ch. 11, pp. 338-347

Assignment

Problem set #4 due Monday, Nov. 17

Week 13 (Nov 24-26)

Topic (Monday)

Reading

International Financial Policy

Joseph Stiglitz, *Globalization and Its Discontents*, Norton

2002, chs. 1-3, pp. 3-88, ch. 9, pp. 214-252.

IMF response to Stiglitz (on web site)

Krugman, chs. 6-8, pp. 102-153

Topic (Wednesday)

Tax Policy

Speaker: Professor Joel Slemrod

Director, UMBS Office of Tax Policy Research

Week 14 (Dec 1-3)

Topic (Monday)

Reading

International Financial Policy (continued)

Same as above

Topic (Wednesday)

Reading

Japanese Stagnation and the East Asian Financial Crisis

Krugman, *Depression Economics*, chs. 4-5, 60-101

Stiglitz, ch. 4, pp. 89-132

Litan, "A Three Step Remedy for Asia's Financial Flu"

Brookings Policy Brief #30 Feb. 1998 (on web site)

Week 15 (Dec 8-10)

Topic

Reading

Latin American Monetary Crises

Krugman, *Depression Economics*, chs. 3, 9

Web Site:

Economist "A decline without parallel - Argentina's collapse"

Paul Blustein "Argentina Didn't Fall on Its Own"

December 18

Final Exam 10:30 – 12:30