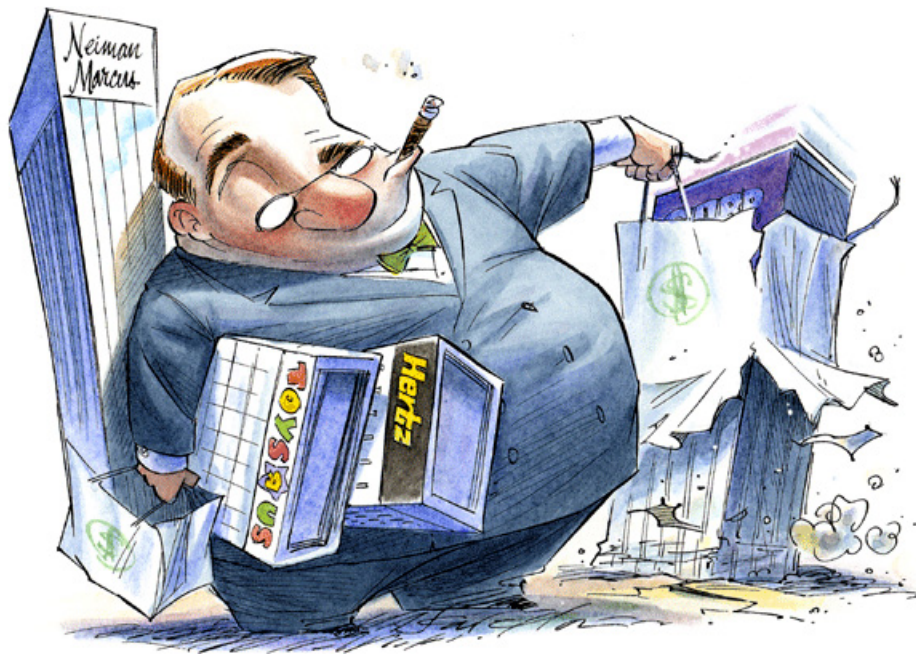


Course Information

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General

Please read this course information in its entirety before the end of the first week of classes and let me know if you have any questions or concerns.

Class Meetings

Monday and Wednesday from 8:30 AM to 9:50 AM in Kilkenny Lecture Hall.

Office Hours

Monday and Wednesday, 10:00 AM to 10:30 AM, 3:00 PM to 3:30 PM, and by appointment.

Class Materials

The required textbook for this course is:

Frederic S. Mishkin and Stanley G. Eakins, *Financial Markets and Institutions*, 5th Edition, Pearson/Addison Wesley, 2006, ISBN 0-321-28029-6.

The fifth edition at the University Bookstore is bundled with access to *Moody's Economy.com Dismal Scientist, Global Edition*. *Moody's Economy.com* is an economic information service on the web. It has several linked sections:

- (a) Home – headlines and links to other sections

<http://www.economy.com/dismal/default.asp?edition=0>.

- (b) Today's Economy Blog – live commentary on the world economy

http://www.economy.com/dismal/pro/blog_main.asp

- (c) Economic Indicator Coverage – data and analysis for key international economic indicators

http://www.economy.com/dismal/pro/ind_landing.asp.

- (d) Economic Analysis – original analysis of topical subjects

http://www.economy.com/dismal/com_landing.asp.

(e) Data & Tools – links to additional features

http://www.economy.com/dismal/toolkit_landing.asp.

In addition, I will hand out supplementary readings, and direct you to various other sources of news, analysis, and data on the web.

Quick List of Classes

This is a quick list. For details please see the section *Course Calendar and Assignments* below.

- 1 Macroeconomic concepts
- 2 The global financial system
- 3 Financial crises
- 4 Market efficiency
- 5 Interest rates
- 6 Term structure
- 7 Bond yields and valuation
- 8 National income and product accounts (NIPA)
- 9 The Federal Reserve
- 10 Monetary policy
- 11 Fiscal policy
- 12 The LM/IS model
- 13 The business cycle
- 14 Review questions and problems
- 15 Midterm exam
- 16 Video: *Inside the World's Mightiest Bank*
- 17 Case: *Japan: Beyond the Bubble*
- 18 The stock market
- 19 Valuation of stocks
- 20 Problem in valuation of stocks
- 21 Trade and capital flows
- 22 Foreign exchange markets
- 23 Mutual funds and investment banks
- 24 Commercial banks and insurance companies
- 25 Case: *Harvard Management Company*
- 26 Asset allocation
- 27 Risk management
- 28 Moral hazard

Course Requirements

I expect all students to behave with dedication, responsibility, integrity, and a commitment to excellence. Seeking challenges and active participation in learning, helping enhance the performance of other students, and keeping class discussions issue-oriented and focused are some of the best preparations for your future careers.

The nature of this subject is such that as the course progresses new material builds on previous material. Experience shows that a student who falls behind has to work hard to catch up, and the more he or she falls behind the more difficult it is to catch up.

I encourage all students very strongly to attend class, participate in class discussions, study regularly, and complete the assigned readings and assignments in a timely manner.

I expect success from all students and I try to create a climate of success. If you encounter problems in this class, please see me, a teaching assistant, or both. Please do it as soon as you start encountering problems, so that we can help you with additional explanations, practice problems, and advice on how to study this material.

Each student is responsible for email notices sent to the student's assigned email address that is used by the `Class Tools` server. If you are unsure which email address is used by the `Class Tools` server, you can check it at `Class Tools > Records > Show Roster`.

Deliverables

There are reading and other assignments as shown in the *Course Calendar and Assignments* section below.

There are two required written analyses of cases, we will also discuss the cases in class. The written case analyses require strictly individual work, group work is not allowed. The written case analyses are due before midnight of the preceding day through an upload to `Class Tools`, there are no extensions. The specific formats, folders, and deadlines are shown below, please follow them precisely:

Case	Deadline	Format	Upload Folder
<i>Japan: Beyond the Bubble</i>	11:59 PM on March 12, 2006	.doc or .pdf	Hand Ins/Japan
<i>Harvard Management Company</i>	11:59 PM on April 16, 2006	.doc or .pdf	Hand Ins/Harvard

There is a two-part midterm exam and a two-part cumulative final exam. Each exam has a take-home part and an in-class, closed book, part. Both exams require strictly individual work, group work is not allowed. There are no makeup tests for the exams.

If, however, you have a serious unexpected emergency I will work with you to find a solution. The specific times, formats, folders, and deadlines for the exams are shown below, please follow them precisely:

Exam	Time/Deadline	Format	Upload Folder
Midterm take-home	11:59 PM on March 5, 2006	.doc or .pdf	Hand Ins/Midterm
Midterm in-class	8:30 AM – 9:50 AM on March 6, 2006		
Final take-home	11:59 PM on May 3, 2006	.doc or .pdf	Hand Ins/Final
Final in-class	10:00 AM – 1:00 PM on May 4, 2006		

Course grades are based on the deliverables according to the formula:

Case analysis: <i>Japan: Beyond the Bubble</i>	15 percent
Case analysis: <i>Harvard Management Company</i>	15 percent
Midterm exam	30 percent
Final exam	40 percent

I will decide borderline grades on the basis of class participation. The relationship between numerical grades and letter grades is:

A	96 – 100
A-	88 – 96
B+	79 – 88
B	71 – 79
B-	63 – 71
C	54 – 63
F	0 – 54

Effective Written Communication

It is important that you write well so that your reader can concentrate on the content. You have to want to write well, and you should keep reading and editing, reading and editing, and reading and editing your writing until it is good. Frequently good writing is bad writing that has been rewritten several times.

It is important that you have a good understanding of the topic and know exactly what you want to say. Focus on the topic and write about it clearly and directly. Get to the point quickly. Do not write things that are irrelevant to the topic, they distract and confuse the reader. Bad or irrelevant writing loses your readers very quickly and makes it very difficult to communicate anything to them.

Teaching Assistants

The two teaching assistants for this course will help you with questions, clarifications, best study practices, preparation of cases, and preparation for exams. They have regular weekly office hours and may also be available at other times by special appointment, if their schedules permit.

Fadi Bouri

Office Hours: TBA.

Alex Russell

Office Hours: TBA.

Notice for Students with Disabilities

Any student eligible for and requesting academic accommodations due to a disability should provide documentation to Disability Services located in the Bishop Wellness Center within the first two weeks of the semester.

Course Calendar and Assignments

In addition to the reading assignments below, please follow daily economic developments and indicators on *Moody's Economy.com* *Dismal Scientist*.

(1) Monday, January 16, 2006

Macroeconomic concepts

(2) Wednesday, January 18, 2006

The global financial system

Assignment: Read Mishkin & Eakins, Chapters 1 and 2.

(3) Monday, January 23, 2006

Financial crises

Assignment: Read Mishkin & Eakins, Chapter 14.

(4) Wednesday, January 25, 2006

Market efficiency

Assignment: Read Mishkin & Eakins, Chapter 6.

(5) Monday, January 30, 2006

Interest rates

Assignment: Read Mishkin & Eakins, Chapter 3.

Go to the web site of FRED (Federal Reserve Economic Data) at

<http://research.stlouisfed.org/fred2/>.

Find and download an Excel worksheet of all the available data for:

3-Month Treasury Constant Maturity Rate (Monthly)

10-Year Treasury Constant Maturity Rate (Monthly)

Consumer Price Index for all Urban Consumers: All Items (Not Seasonally Adjusted)

(a) Chart all three time series in Excel.

(b) Compute and chart monthly CPI inflation.

(6) Wednesday, February 1, 2006

Term structure

Assignment: Read Mishkin & Eakins, Chapters 4 and 5.

(7) Monday, February 6, 2006

Bond yields and valuation

Assignment: Read Mishkin & Eakins, Chapters 9 and 10.

(8) Wednesday, February 8, 2006

National income and product accounts

Assignment: Go to the web site of U.S. Department of Commerce, Bureau of Economic Analysis at <http://www.bea.doc.gov/>.

Choose

Gross Domestic Product > Interactive NIPA tables >

List of all NIPA tables > Table 1.1.5. Gross Domestic Product (A) (Q)

Make sure the displayed table is quarterly from 2000 Q1 to date and download it in CSV format for importing into Excel. Repeat with

Table 1.1.6. Real Gross Domestic Product, Chained Dollars (A) (Q).

- (a) What are the reported components of the U.S. GDP?
- (b) What percentage of GDP does each component represent?
- (c) What is the difference between Table 1.1.5 and Table 1.1.6?

You can download a *Guide to the National Income and Product Accounts of the United States (NIPA)* from <http://www.bea.doc.gov/bea/an/nipaguid.pdf>.

(9) Monday, February 13, 2006

The Federal Reserve

Assignment: Read Mishkin & Eakins, Chapter 7.

Go to the web site of the Board of Governors of the Federal Reserve System

<http://www.federalreserve.gov/>.

Choose

Monetary Policy > Federal Open Market Committee

Find and download the meeting calendar for 2006 and the latest statement and released minutes of the FOMC. What are their current concerns in setting monetary policy?

(10) Wednesday, February 15, 2006

Monetary policy

Assignment: Read Mishkin & Eakins, Chapter 8.

(11) Monday, February 20, 2006

Fiscal policy

Assignment: Read Dothan, *Fiscal Policy* and Boskin, *Sense and Nonsense About Federal Deficits and Debt*.

Go to the web site of U.S. Department of Commerce, Bureau of Economic Analysis at

<http://www.bea.doc.gov/>.

Find and download quarterly data from 2000 Q1 to date in CSV format:

Table 3.1. Government Current Receipts and Expenditures (A) (Q)

Table 3.2. Federal Government Current Receipts and Expenditures (A) (Q)

- (a) What are the components of government receipts and expenditures?
- (b) What is the difference between the two tables?

(12) Wednesday, February 22, 2006

The LM/IS model

Assignment: Read Dothan, *The LM/IS Model*.

(13) Monday, February 27, 2006

The business cycle

Assignment: Read Dothan, *The Business Cycle*.

(14) Wednesday, March 1, 2006

Review questions and problems

Assignment: Prepare answers and solutions to review questions and problems.

(15) Monday, March 6, 2006

Midterm exam

(16) Wednesday, March 8, 2006

Video: *Inside the World's Mightiest Bank*, 51 mins.

(17) Monday, March 13, 2006

Case discussion: *Japan: Beyond the Bubble*, Harvard Business School.

Assignment: TBA.

(18) Wednesday, March 15, 2006

The stock market

Assignment: Read Mishkin & Eakins, Chapter 11.

(19) Monday, March 20, 2006

Valuation of stocks

Assignment: Read Dothan, *Valuation of Stocks*.

(20) Wednesday, March 22, 2006

Problem in valuation of stocks

Assignment: TBA.

(21) Monday, April 3, 2006

Trade and capital flows

Assignment: Read Quiggin, *The Unsustainability of U.S. Trade Deficits* and Poole, *A Perspective on U.S. International Capital Flows*.

Go to the web site of U.S. Department of Commerce, Bureau of Economic Analysis at <http://www.bea.doc.gov/>.

Find and download

Table 4.1. Foreign Transactions in the National Income and Product Accounts

What are the components of the U.S. current account?

Go to the web site of FRED (Federal Reserve Economic Data) at <http://research.stlouisfed.org/fred2/>.

Find and download an Excel worksheet of all the available data for

Balance on Current Account (Quarterly)

- (a) Chart the current account time series in Excel.
- (b) What is the U.S. current account deficit as a percentage of GDP?

(22) Wednesday, April 5, 2006

Foreign exchange markets

Assignment: Read Mishkin & Eakins, Chapter 13, *The Economist*, *The Passing of the Buck?*, and Martin Feldstein, *Uncle Sam's Bonanza Might not Be All that It Seems*.

Go to the web site of FRED (Federal Reserve Economic Data) at

<http://research.stlouisfed.org/fred2/>.

Find and download an Excel worksheet of all the available data for

Japan/U.S. Foreign Exchange Rate (Monthly)

U.S./Euro Foreign Exchange Rate (Monthly)

- (a) What is the difference between the definitions of exchange rate between the two series?
- (b) Compute and chart in Excel the price of one yen and the price of one euro in terms of U.S. dollar, as they trend and fluctuate over time.
- (c) What explains those trends and fluctuations?

(23) Monday, April 10, 2006

Mutual funds and investment banks

Assignment: Read Mishkin & Eakins, Chapters 21 and 23.

(24) Wednesday, April 12, 2006

Commercial banks and insurance companies

Assignment: Read Mishkin & Eakins, Chapters 18 and 22.

(25) Monday, April 17, 2006

Case discussion: *Harvard Management Company (2001)*, Harvard Business School, 9-201-129.

Assignment: TBA.

(26) Wednesday, April 19, 2006

Asset allocation

Assignment: Read Dothan, *Asset Allocation*.

(27) Monday, April 24, 2006

Risk management

Assignment: Read Mishkin & Eakins, Chapters 24 and 25, and McAfee, *The Real Lesson of Enron's Implosion: Market Makers Are In the Trust Business*.

(28) Wednesday, April 26, 2006

Moral hazard

Assignment: Read Mishkin & Eakins, Chapter 16, Mills, *Systematic Deception*, and Mills, *The Corruption of the Analysts*.

(29) Thursday, May 4, 2006 from 10:00 AM to 1:00 PM

Final exam