University of Notre Dame

Mendoza College of Business

FIN 515 -- Global Macroeconomic Environment
Spring Semester 2005

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Course Description:

This course is designed to provide students with a structured and analytically sound understanding of how the U.S. economy and other market economies function. Attention is given to understanding measures of economic performance – productivity, economic growth, price stability, unemployment rates, interest rates, exchange rates, and government budget and international trade deficits – to better understand where an economy is in its business cycle and the direction it may be heading. Prominent attention is given to how government (fiscal) policy and central bank (Federal Reserve) monetary policy independently affect U.S. and world economic growth, unemployment, interest rates, exchange rates, and inflation rates. We will also examine factors that influence the supply side of the economy: the labor market, markets for intermediate inputs (such as oil), and the formation of expectations of price inflation. All of this will be discussed in the context of a “global macroeconomic environment” where economies are linked through trade and capital flows.

Course Methodology:

The course will use primarily lectures and class discussion along with readings to help students develop a systematic analytical framework for understanding how the U.S. economy (and like economies) works. In the business world, most information about the state of the economy is absorbed through economic releases, business publications, mass media, and discussions. Accordingly, an important objective of the course is that students be able -- using this systematic analytical framework -- to competently discuss orally and in writing economic activity, which ultimately impinges upon business decisions.

In support of this objective, written evaluations (tests and projects) will be primarily essay in nature. Moreover, class participation will account for a significant amount of the course grade; there will be “cold calls.” Hence, students are expected to have read assigned material before class.
Team projects will provide an opportunity to conduct realistic experiments using the FAIRMODEL – a representative macroeconometric software model employed by many businesses to forecast U.S. economic trends. These are group projects; groups will be the ones assigned by the MBA office and have around five members.

There will be a third major team project running throughout the semester in which you analyze the macroeconomic conditions of a non-U.S. economy your team chooses. By Monday, February 21, each group will report briefly on its economy in the form of a two-page report. For the final part of the course, each group will be expected to prepare a 9-10 page report (double-spaced), including a 60-month retrospective and 30-month economic outlook for their economy and present and defend this analysis in one of the last four classes. Everyone on the team will present; the presentation should include a Powerpoint presentation.

Course Materials:


Course Evaluations:

There will be a 30-minute quiz on Wednesday, February 16.

The first midterm exam will be on Monday evening, February 28 at 7:00 pm (2 hours) in DeBartolo room 102. There are no excused absences. A review session will be held the Sunday afternoon before (February 27, 5pm in DeBartolo 102).

The second midterm exam will be Wednesday, April 13 at 7:00 pm (2 hours) in DeBartolo room 102. There are no excused absences. A review session will be held Tuesday, April 12 at 7:00 pm in DeBartolo 102.

There will be three group projects. The first involves retrieving data online from the U.S. Bureau of Economic Analysis (BEA). The second will involve simulations of the U.S. economy using the Fairmodel. The first problem set will be assigned on January 24 (due Feb. 7) and the second will be assigned on Mar. 21 (due Apr. 4).

The third problem set is a group analysis of an actual (non-US) economy. For this Economic Outlook project (described earlier), all papers will be due on the day of the presentation.
Presentations will start on Monday, April 18. A 2-page preliminary report with full bibliography is due February 21.

The quiz counts 5% of your grade. The first midterm exam will count 20% toward your grade and the second midterm will count 25%. The first project will count 10% and the second project will count 10%. The final project will count 20% of your grade. Class participation will count 10%; I will COLD CALL in class.

Class lectures and discussion will overlap, but not replicate, reading. Tests will cover material from both sources. ATTENDANCE IS REQUIRED. You will receive in hardcopy a set of most slides used in class. But this is designed to COMPLEMENT, not SUBSTITUTE for, lectures. You are allowed NO MORE THAN 3 excused class absences (due either to illness or internship interview; there are NO unexcused absences). TARDINESS COUNTS AS AN ABSENCE. For each absence beyond the three excused absences, students will lose a third of a letter grade from their course grade. Excused absences MUST be sent to me on e-mail PRIOR to absence (or asap); violation of this will constitute a violation of the honor code.

Consistent with MBA policy, laptops are NOT allowed in the classroom during class.

**Honor Code**

Exams will be closed-book. Teams may not discuss or collaborate at all on project; any perceived duplication of teams’ projects will be a violation of the Honor Code. Please respect this seriously as there have been violations in the past.

**Abbreviations:**

Gordon refers to the Gordon *Macroeconomics* textbook.
Outline of Course and Textbook Reading

PART I. A “Minimal” Model of a Macroeconomy

(1) W, 1/12  Introduction; Framework for Analysis  
              Gordon, Preface and Ch. 1 (pp. 3-15)

(2) M, 1/17  Gross Domestic Product, Potential Output, and Inflation  
              Gordon, Ch. 1 (pp. 15-23)

(3) W, 1/19  The Aggregate Production Function and Long-Run Growth  
              Gordon, Ch. 10 (pp. 309-317)

(4) M, 1/24  Measurement Issues in National Income Accounts  
              Gordon, Ch. 2 (pp. 25-38)  
              Project #1 distributed.

(5) W, 1/26  National Income Accounting  
              Gordon, Ch. 2 (pp. 39-57)

(6) M, 1/31  Determinants of Planned Expenditures (Aggregate Demand)  
              Gordon, Ch. 3 (pp. 61-67) and Ch. 15 (pp. 471-481)

(7) W, 2/2  Short-Run Goods-Market Equilibrium  
              Gordon, Ch. 3 (pp. 67-80); Ch. 3 Appendix is recommended

(8) M, 2/7  Interest Rates and Aggregate Demand  
              Gordon, Ch. 4 (pp. 87-97)  
              Project #1 due.

(9) W, 2/9  The Money Market  
              Gordon, Ch. 4 (pp. 98-106)

(10) M, 2/14  Goods- and Financial Market Short-Run Equilibria; IS-LM Analysis  
              Gordon, Ch. 4 (pp. 107-116)

(11) W, 2/16  Using IS-LM Analysis  
              QUIZ

(12) M, 2/21  Strong and Weak Effects of Monetary and Fiscal Policies  
              Gordon, Ch. 5 (pp. 117-131)  
              2-page Country Preliminary Reports due.
Fiscal Policy Effects under Alternative Financing
Gordon, Ch. 5 (pp. 122-146)

Sunday, 2/27 REVIEW SESSION, 5:00-6:30 PM (DeBartolo)

(14) M, 2/28 MIDTERM EXAM #1, 7:00-9:00 PM (DeBartolo)

(15) W, 3/2 Balance of Payments and Exchange Rates
Gordon, Ch. 6 (pp. 151-165)

MIDSEMESTER BREAK (3/5-3/13)

PART II. A “More Realistic” Model of a Macroeconomy

(16) M, 3/14 Purchasing Power Parity and Interest Rate Parity
Gordon, Ch. 6 (pp. 165-180)

Gordon, Ch. 6 (pp. 180-190)

Gordon, Ch. 7 (pp. 193-203)
Project #2 distributed.

Gordon, Ch. 7 (pp. 204-219)

Monday, 3/28 NO CLASS – Easter Break

(20) W, 3/30 Aggregate Demand, Aggregate Supply, and the Labor Market (Part 3)
Gordon, Ch. 7 (pp. 219-225)

(21) M, 4/4 Inflation and Inflation Expectations
Gordon, Ch. 8 (pp. 226-237)
Project #2due.

(22) W, 4/6 Hyperinflations and Disinflations
Gordon, Ch. 8 (pp. 237-244)

(23) M, 4/11 Supply Shocks
Gordon, Ch. 8 (pp. 244-260)
Tuesday, 4/12  REVIEW SESSION, 7:00-8:30 PM (DeBartolo)

(24) W, 4/13  MIDTERM EXAM #2; 7:00-9:00 PM (DeBartolo)

PART III. Country Analyses (Project #3)

(25) M, 4/18  Group Presentations in Class

(26) W, 4/20  Group Presentations in Class

(27) M, 4/25  Group Presentations in Class (Sec 01: class starts at 9 am; Sec 02: class ends at 12:40 pm)

(28) W, 4/27  Group Presentations in Class (Sec 01: class starts at 9 am)