

**NEW JERSEY INSTITUTE OF TECHNOLOGY  
SCHOOL OF MANAGEMENT**

**Course Title:** Global Macro Economics    **Course Number:** FIN 610-101

**Instructor:** Bill Rapp

**Semester:** Fall 2016

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**Office Hours:** Friday 3:45-5:45pm

or by appointment

**Class Schedule:** FrIday 6-9

**Classroom:** Kupfrian 202

**Course Materials:** Macroeconomics by Olivier Blanchard and David R. Johnson, 6th edition (ISBN 978-0-13-306163-5); C. Kindleberger's and R. Aliber's Manias, Panics and Crashes (6th edition, 2011). Plus Readings and Handouts on Class Website: Moodle

**Course Description:**

Finance 610, Global Macro Economics, is an introductory graduate course designed primarily for entering master's students that will also be taking other core Master's courses such as accounting. The course introduces students to various concepts relating to macroeconomics and the financial environment from both a theoretical and institutional perspective. Thus fiscal and monetary policy and actions are covered but are taught using a macroeconomic model that helps identify how particular actions affect the money and goods economies as well as specific financial institutions. Thus the course presents a framework for thinking about the financial effects of certain events at both the micro and macro level. The course takes the perspective of policy makers facing various economic issues such as inflation or recessions and business executives trying to understand and respond to these events as well as the government's policy initiatives. While the course considers many types of economies, firms and organizations, the emphasis will on large developed market economies such as the US, the EU and Japan and the companies operating therein.

Various examples will be used throughout the course to illustrate certain concepts and to reflect the interaction between financial markets and institutions and what is happening in the physical economy. While most of the analysis is focused on the US, the global context is addressed in the

latter part of the course. The examples discussed require students to examine a range of situations having diverse outcomes in how they affect particular businesses.

Students will see that making business decisions in different financial environments is not easy and will frequently have different impacts depending on the competitive context.

Because the course is taught on an intensive hybrid class schedule it really requires students to keep pace with the assignments and necessitates that students spend several hours outside each week to complete the assignments. Course participation requires not just knowledge of the material and coming to class, but also critical and creative thought regarding applying this knowledge within specific situations and then discussing and explaining this with other students.

**Outcomes:** Upon course completion students should have advanced and integrated their skills in important financial and economic areas listed below covering: Analysis and Communication; Economic and Financial Environment and the Business/Economics Interface.

### **Learning Goals & Learning Outcomes:**

#### **Learning Goal 1: Analytical & Problem Solving Skills**

***Learning Outcome 1.1** Students will demonstrate problem solving skills by proposing solutions to financial, economic and business problems.*

***Learning Outcome 1.2** Ability to use theory and data to analyze and evaluate economic and financial models to understand real economic and financial situations*

#### **Learning Goal 2: Communication Skills**

***Learning Outcome 2.1** Students will demonstrate effective communication through evidence based written and oral arguments and solutions presented cogently and concisely.*

#### **Learning Goal 3: Team Participation Skills**

***Learning Outcome 3.1** Students are able to work in teams to address and solve problems.*

#### **Learning Goal 4: Management of Technology**

***Learning Outcome 4.1** Students will learn to analyze the impact of technology in the macro-economic environment*

#### **Learning Goal 5: Globalization of Business**

***Learning Outcome 5.1** Students will understand the impact of globalization on the complexities of the global macro-economic environment and its financial institutions*

**Course Policies:** Absent a medical excuse verified by the Dean of Students assignments are expected to be turned in on-time according the Syllabus below and students are responsible for the material covered in class.

**Course Deliverables:**

Projects & assignments (Team and Individual)  
Developing Thoughtful Solutions to Economic Problems  
Presentations  
Response to class discussions & participation  
Exams  
Explanatory Paper  
Peer evaluation

**SYLLABUS  
FIN 610-101  
Fall 2016  
(Bill Rapp)**

**GLOBAL MACROECONOMICS**

*Because this is designed for entering master's students in management it assumes students understand basic economic principles and are prepared to do the study required in an intensive learning context.*

The course will combine history and theory with concrete policies using institutional and market examples to provide an integrated perspective on issues relating to the financial environment within which the economy functions and businesses operate. Its focus is on the enormous and continuing changes in financial institutions and markets and their impact on companies and countries. Current economic events highlight the effect of such changes. In addition to the text readings on macroeconomics, money markets, and government policies, the class will examine in detail the origins and consequences of specific financial bubbles.

Time will be spent on the development of a particular model for assessing the interaction and consequences of various events on financial markets and the physical economy whether those are an increase in interest rates, a larger budget deficit or a rapid increase in oil prices.

Topics covered:

1. Beginning with the observable facts of consumption, savings, government expenditures, taxes, interest rates and investment the class will examine how and why various changes have specific consequences depending on the other variables.
2. Over time this model will be extended and made more complicated and global in order to consider international trade and wealth effects.

3. This analysis leads naturally to an examination of how changes in various policies or business behavior can occur and the relationship between such shifts and their impact on specific country, industry or firm policies and strategies.

Discussion is important in that students are expected to have done the readings and to have prepared comments and questions before coming to class based on various course materials.

Further though the student presentations and the text's case studies will cover some of the same material, they will do so from different perspectives to convey alternative analyses and interpretations. To promote class interaction, the class will be divided into teams and each team will be asked to comment, ask questions and prepare certain problems on the material for particular weeks during the semester. These assignments will also be posted in the class calendar found on the class Moodle website. You can check the class calendar on the class Moodle website as well as this Syllabus for the schedule of these assignments.

**If a student wishes to meet with the instructor, please come during regular office hours, Fridays 3:45-5:45PM (3020 CAB) or e-mail for an appointment.**

**Since doing the readings and class attendance including listening to the on-line lectures are critical to effective class interaction, it is important everyone is prepared to participate. Also, to insure students are keeping up, there will be periodic team problems taken from the Blanchard and Johnson text, a take-home mid-term, a short 5-page paper related to the US 2008-2009 financial crisis, and a take-home final exam. Please read this Syllabus carefully and note the times for these assignments!**

In addition, students should try to gain some knowledge of the major institutions, political issues, and financial risks we will be discussing in class by reading major business magazines such as Fortune or The Economist or business related articles in major newspapers.

During the week students are encouraged to post on-line comments in the "Forum" section of the class Moodle website. You can contact me by e-mail if you have problems posting. If students need to arrange a team meeting, you can do this by e-mail or the Moodle website.

**Grades** are composed of team problems (15%), midterm exam (25%), the financial crisis paper (25%) and final exam (35%). A D is 59.5-69.4; C is 69.5-77.4; C+ is 77.5-79.4; B is 79.5-87.4, B+ is 87.5-89.4; A is 89.5 or over. **With respect to your answers on the midterm, crisis paper and final exam, these are individual assignments and no common or group answers will be accepted for any part. Further, any material from the text should *not* be quoted but must be paraphrased in your own words!**

The texts for the course are Macroeconomics by Olivier Blanchard and David R. Johnson (B&J), 6th edition (ISBN 978-0-13-306163-5) and Robert Aliber's and Charles Kindleberger's (A&K) Manias, Panics and Crashes, 6<sup>th</sup> edition (ISBN 978-0-230-36535-3).

**If you have questions, please ask them in class, on-line or come during my office hours on the 3d floor of School of Management (Room 3020). You can also call for an appointment 973-596-6414 (office) or e-mail me at rappw@njit.edu.**

**Students should read OB Chapters 1 and 2 before the second week!**

Week 9/9/16 **Introduction and overview of the course with review of the Syllabus. The globalization of the financial environment and financial policies – US, EU, Japan. Macroeconomic variables in the short and medium run. Teams assigned.**

B&J Chapters 1 & 2 – class in 202 Kupfrian

*Team assignments posted on class website by Monday September 12<sup>th</sup>, 2016.*

Week 9/16 **Composition GDP, Demand and Supply Goods and Services, Equilibrium Output, Savings and Investment, Role Government, Introduction Macroeconomic Model**

Reading: B&J Chapter 3 – No class - first on-line lecture with link posted on Moodle

Week 9/23 **Financial Markets, Demand Money, Supply Money, Real versus Nominal Prices, Determining Interest Rates, Role Monetary Policy, Federal Funds Rate.**

Reading: B&J Chapter 4 – Class Kupfrian 202

Week 9/30 **Connecting Goods and Financial Markets, IS-LM Model, Assessing Impact Monetary and Fiscal Policies.**

Reading: B&J Chapter 5 [skip Chapter 6]

**In class 202 Kupfrian Team 1** does Problem 3a, page 105; **Team 2** does Problem 3e, page 105, and Question 9a on page 106; **Team 3** does Problems 4a,b & c on pages 105-106.

Week 10/7 **Connecting Output, Prices and Financial Policies, AS-AD [Aggregate Demand and Aggregate Supply] model, Short and Medium term equilibrium, Neutrality of Money, Fiscal Policy effects, Commodity Price effects.**

Readings: B&J Chapter 7 – **no class** but lecture link will be posted on Moodle

Week 10/14 **Inflation, Unemployment, and the Crisis.**

Reading: B&J Chapters 8 & 9 – in class **Team 4** does Problems 6a,b, c, d & e on page 158, and **Team 5** Problems 8a&b on page 158.

Week 10/21 **Mid-term Exam - Tests handed out and reviewed in class. It will be posted as well on the class website.**

**Test must be returned by e-mail to rappw@njit.edu by following Friday the 28<sup>th</sup>. No common or group answers will be accepted and material from the text should be paraphrased in your own words!**

**Long-term Growth, Aggregate Production, Total Factor Productivity [Capital, Labor, Technology], Returns Scale, Experience, Saving, Capital Accumulation, Wealth Effects, Education and Training, Experience.**

Readings: B&J Chapters 10 & 11 covered in class Kupfrian 202

**Team 1** does problem 2 on page 222 and problem 3a-d on page 222

Week 10/28 **Technological Progress, Interaction Capital, Technology, Labor and Output, R&D, Role Economic and Political Stability. Midterm Exam Due!!**

Reading: B&J Chapter 12 [skip Chapter 13]; **No class.** Lecture will be posted on-line

Week 11/4 **Role Expectations, Nominal versus Real Interest rates, Valuing Capital Assets, Discounted Values. Financial Markets, Bond Yields and Pricing, Stock Prices, Present Values, Price Earnings Ratios, Projecting Cash Flows, Risk and Return.**

Reading: B&J Chapters 14 & 15 covered in class in 202 Kupfrian

**Team 2** does problem 3 on page 310 and problem 2 on page 334

Week 11/11 **Open Markets Goods and Financial Services, Effect IS-LM Model, Monetary and Fiscal Policies Impact Foreign Exchange, Budget and Payment Deficit or Surplus, J-Curve, Role Foreign Savings, Foreign Exchange and Real Interest Rates**

Reading: B&J Chapter 18; plus A&K Chapters 1-2 [Financial Intermediaries and their Role in Financial Asset Bubbles]; Posted FX Crib Sheet and Problem Set

**Team 3** does problem 2a-c on page 354 and problem 3 on page 373 in class 202 Kupfrian

Week 11/18 **Expectations, Consumption and Investment, Volatility, Output and Policy**

Reading: B&J Chapters 16 & 17 – **class on Friday the 18<sup>th</sup> but *No class Wednesday November 23, 2016*** due to **Thanksgiving Break** with *On-line lecture posted*

**Relation Output, Interest Rates, and Exchange Rates**

Reading: B&J Chapter 20 [skip Chapter 21] plus A&K Chapters 5-6 [skip 7 & 8]

Week 11/25 – **Thanksgiving Break**

Week 12/2 **Output, Interest Rate, Exchange Rate, Policies in Open Markets**

Reading: B&J Chapter 19 plus A&K Chapters 3-4 [Manias, Panics and Crashes]

**Team 4** does problems 5a&b on page 398 and problem 1a-e on page 419 in class explaining briefly why it is T or F.

**Take home final distributed in class and posted on Moodle. IT IS DUE by e-mail attachment (rappw@njit.edu) Monday December 19<sup>th</sup> or by fax (914-923-1416)**

## Week 12/9 Macro Policies In the Business Cycle - Depressions, Slumps, Bubbles

Reading: B&J Chapter 22, Chapter 23 plus A&K Chapter 9 – class in Kupfrian 202

**Team 5** does Questions 4 a, b, c and d on page 440; **Team 1** does Question 3 page 440 and Questions 3 a, b and c on page 397. **Team 2** does Question 1 on pages 489-490; **Team 3** explains in words [no diagrams] answers Question 2 a&b on page 490; **Team 4** does Questions 1 a-j on pages 513-514; **Team 5** does Questions 3&4 page 514 and Question 6a on page 441.

*Last class – make-up time and review*

12/19 *Financial Crisis paper due regarding how 2008-2009 collapse of US sub-prime mortgage lending market and its aftermath reflects K&A paradigm: format should be to explain the KAM model, then identify the initial dislocation triggering the bubble, etc.*

**Final Exam and paper ARE DUE by e-mail attachment (rappw@njit.edu) or by fax (914-923-1416) Monday December 19<sup>th</sup>, 2016.**