

Global Economic Environment II: Macroeconomic Policy

B8250 Spring 2021

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Office Hours: Mondays 6.00-7.30 PM

General Course Information

Course Description

This course is a sequel to the core course Global Economic Environment. Building on the fundamentals introduced in that course, we develop a conceptual framework to explain the complex interactions between macroeconomic policy, asset prices and business cycle fluctuations.

We examine in particular the determinants of key economic variables such as real output, inflation, employment, interest rates, exchange rates, and their interactions in today's global economy. We examine the determinants and implications of budget deficits, as well as the conduct and implementation of monetary policy, in the U.S. and in other market economies around the world. Special attention is given to the interactions between macroeconomic forces and asset prices.

Since an important goal of this course is for students to become informed and sophisticated consumers of economic news, the issues discussed in this course draw heavily from current events and real-world examples.

Note: GEE II is a co-requisite for the course "Global Economic Environment III: Financial Markets and the Macroeconomy" (B8251). GEE II may be taken *prior to or concurrently with* the course GEE III (B8251).

Knowledge of the GEE II material is only required for the second half of GEE III. Taking the two courses concurrently is not only possible, but has advantages. By taking GEE II in the A-term concurrently with GEE III, students will have this material fresh in their minds when they make use of it in the second half (B-term) of GEE III.

Course Objectives

To acquire a solid theoretical and applied understanding of the macroeconomy and its relationship to financial markets and the economic environment in which firms operate. To develop a critical and sophisticated view of economic policy questions.

Teaching Assistants

TBD

Course Materials

Recommended reading: Parts 4 and 6 of **Macroeconomics: Policy and Practice**, by Frederic S. Mishkin, 2nd or 1st edition, Publisher: Prentice Hall, 2014. The first edition (2010) is also fine. Multiple copies of the textbook are on reserve at the Watson library in Uris hall.

Alternatively, if you bought or are planning on buying the book **The Economics of Money, Banking, and Financial Markets** (by Frederic S. Mishkin, 12th or 11th edition, Publisher: Prentice Hall, 2014) for the course B8251, it contains almost all of the relevant readings and thus is sufficient for the purposes of this course.

Handouts: Various handouts will be distributed throughout the semester to supplement the material covered in the book. These include class notes, supplemental readings, and newspaper articles.

In addition, you are encouraged to read the economics pages of at least one of the following publications on a regular basis:

[The Economist](#)

[The Wall Street Journal](#)

[The Financial Times](#)

[The New York Times](#)

Course Requirements and Grading

Lectures

There will be 12 classes. The last class will be used for an in-class exam. See the calendar on Canvas for the schedule.

Friday Review Sessions (optional)

See the calendar on Canvas for the schedule

Optional review sessions will be held on Fridays starting on **Friday January 15**. *No new material will be presented in this session; it will simply serve to review important material covered in class.* There will be a final review session on **Friday February 12**. This last review session, just before the final exam, will constitute an overall review of the material covered in the course. During these sessions, the TAs will review key concepts seen in class and go over some of the homework problems. They will also be available to answer your questions.

Student debates

Over the course of the term, there will be four student debates (assignment **type A**). Each debate will take place in class and will last 15 minutes. It will involve two student teams who are asked to take a pro or con position on a topic related to the course. Each group will present its position in 3 minutes, followed by a 2-minute rebuttal to the rival group's point and a 5-minute class discussion. The schedule, groups, a list of topics, as well as background material and guidelines for the preparation of the presentation can be found on Canvas.

Cases

There are two case assignments, which consist of questions to be written up as well as questions to be prepared for general class discussion. These will be done **in groups of up to six students** (assignment **type A**). Only one write-up per group needs to be handed in electronically on Canvas, before the beginning of the lecture. Late cases will not be accepted. All group members should be prepared to discuss the answers in class.

Problem sets

With the goal of providing you with a better understanding and a greater appreciation of the concepts and tools covered in this course, I will assign two problem sets. These will constitute a useful preparation for the exam. You must hand in the problem sets electronically on Canvas (a scan of handwritten answers is ok) and answers will be posted soon after. You may consult with your classmates for these problem sets, but each student should hand in his or her own **independently written** answers (assignment **type B**). No answers to problem sets should be exchanged physically or electronically. Late problem sets will not be accepted.

Participation

You are expected to contribute to the learning of your classmates through constructive class discussion. Good participation is defined as:

- Being on time and present in each class.
- Actively participate in class discussions, pulling in insights from readings and the news.
- Arrive prepared to class and expect cold calling.
- No usage of electronic devices.

Exam

There will be a final examination. The final exam will take place on **Wednesday February 17** (in-class exam, same time and location of other classes). This exam will be **closed book**, however two double-sided (8 ½"-11") "cheat-sheets" will be allowed. These may contain any notes you choose to write on them. Final exams will not be returned, but will be available for reviewing after the end of the semester.

Regrade policy: *All requests for fixing grading errors must be submitted to me in writing within one week after the grades are posted, and must be very specific. If you ask to fix a grading error, we have the option to regrade your entire exam.*

Grading

- **Final exam: 60%**
- **Problem sets and cases: 20%**
- **Student debates: 10%**
- **Class participation: 10%**

Class Schedule

MA=Macroeconomics: Policy and Practice (1st or 2nd Ed.); **MBF**=The Economics of Money, Banking and Financial Markets (11th and 12th E.).

#	Course Topic	Assignment Due	Read (prior to class)			
			MA1	MA2	MBF11	MBF12
(1)	Introduction to business cycles <ul style="list-style-type: none"> Course introduction Business cycle facts: Output, inflation, interest rates and unemployment 		Ch. 8 (200-213)	Ch. 8 (207-221)		
(2)	The AD/AS Framework <ul style="list-style-type: none"> Macro Forecasting The production function and the Long-Run Aggregate Supply (LRAS) curve The Aggregate Demand (AD) curve: The IS curve 		Ch. 9	Ch. 9	Ch. 20	Ch. 20
(3)	The AD/AS Framework: Part II <ul style="list-style-type: none"> The Aggregate Demand (AD) curve: The IS curve and the Monetary Policy (MP) curve The Aggregate Supply (AS) curve: Okun's Law and the Phillips Curve 		Ch. 10 (240-250) Ch. 11	Ch. 10 (251-262) Ch. 11	Ch. 21 Appendix of Ch. 22	Ch. 21 Appendix of Ch. 22
(4)	Inflation Expectations and Monetary Policy <ul style="list-style-type: none"> The Expectations Augmented Phillips Curve Inflation expectations and the AS curve General Equilibrium The Effects of Monetary Policy Student presentation 1: <i>Will the U.S. unemployment rate be 3.4% or lower by the end of 2020?</i> 	Student Debate 1	Ch. 11 Ch. 12 (284-291) Ch. 13 (332-339)	Ch. 11 Ch. 12 (299-307) Ch. 13 (348-355)	Appendix of Ch. 22 Ch. 22 (509-525) Ch. 23 (562-567)	Appendix of Ch. 22 Ch. 22 (515-531) Ch. 23 (568-573)

Review session on AD/AS						
(5)	The Volcker Disinflation <ul style="list-style-type: none"> The Great Inflation of the 1970s The Volcker Disinflation Student presentation 2: <i>Will the U.S., Japan or France default on their debt in the next two decades?</i> 	Student Debate 2	Ch. 12 (291-302)	Ch. 12 (307-319)	Ch. 22 (525-536)	Ch. 22 (531-542)
(6)	Sources of Business Cycle Fluctuations <ul style="list-style-type: none"> The Money Market Equilibrium and Real Interest Rates Sources of Business Cycles: Demand and Supply Shocks 	PS #1	Ch. 10 (251-256, 260-265)	Ch. 10 (263-268, 273-278)	Ch. 5 (101-107) Ch. 11 (465-469)	Ch. 5 (102-108) Ch. 11 (471-475)
(7)	Macroeconomic Stabilization Policy <ul style="list-style-type: none"> Monetary and Fiscal Policy as Stabilization Tools The Keynesian vs. the Classical View The Modern Consensus View Student presentation 3: <i>Should the Federal Reserve further cut rates in 2020?</i> 	Student Debate 3	Ch. 8 (213-217) Ch. 13 (314-327)	Ch. 8 (221-225) Ch. 13 (330-342)	Ch. 23 (553-562)	Ch. 23 (559-568)
(8)	Monetary Policy in Action <ul style="list-style-type: none"> Structure of Central Banks Monetary Policy Objectives Conventional Monetary Policy Challenges and Limitations of Policy Case 1: <i>Monetary policy in action: The FOMC meeting of 1992</i> 	Case 1: <i>Monetary policy in action</i>	Ch. 13 (312-314, 327-332)	Ch. 13 (327-330, 343-348)	Ch. 16 (366-371) Ch. 23 (561-562)	Ch. 16 (369-374) Ch. 23 (567-568)
(9)	Asset Prices and Macroeconomics <ul style="list-style-type: none"> The Yield Curve The Response of Bond and Stock Prices to Macroeconomic Shocks Student presentation 4: <i>Should the Federal Reserve change its Statement on Longer-Run Goals and Monetary Policy Strategy?</i> 	Student Debate 4				

(10)	Exchange rates regimes; Debts and deficits <ul style="list-style-type: none"> Exchange rates and Open Economy AD/AS Fixed vs. flexible exchange-rate regimes The fiscal outlook <p>Student presentation 5: <i>Was the trade war between China and the US necessary and useful for the US?</i></p>	PS #2 Student Debate 5	Ch. 17	Ch. 17 (459-463) Rest of Ch. 17 is optional	Ch. 17 (400-403) Rest of Ch. 17 is optional Ch. 18 Optional (427-441)	Ch. 17 (404-407) Rest of Ch. 17 is optional Ch. 18 Optional (432-447)
(11)	Financial markets and macroeconomic news <ul style="list-style-type: none"> Case 2: <i>The Big News</i> 	Case 2: The Big News				
(12)	In-class exam					
	Overall review of the course					
	FINAL EXAM Wednesday March 4 (in-class exam)					
	<p>MA1: Macroeconomics: Policy and Practice, by Frederic S. Mishkin, 1st Edition, Publisher: Prentice Hall, 2011.</p> <p>MA2: Macroeconomics: Policy and Practice, by Frederic S. Mishkin, 2nd Edition, Publisher: Prentice Hall, 2014.</p> <p>MBF: The Economics of Money, Banking and Financial Markets, by Frederic S. Mishkin, 11th edition, Publisher: Prentice Hall, 2014.</p>					