## **Columbia Business School**

## **B8250** Global Economic Environment II: Macroeconomic Policy

### Fall 2021

### Professor Shang-Jin Wei

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**Times:** Tuesdays and Thursdays, 8:30-10:00 am (section 1) or 10:20-11:50 am (section 2)

The first session is on September 7, and the last session is on October 14.

**Venue:** Uris Hall 301

Office Hours: by email appointment

**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 conduct and implementation of monetary and fiscal policies, in the U.S. and other economies around the world.

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 edition, Publisher: Prentice Hall, 2014. 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 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](http://www.economist.com/)   
[The](http://www.wsj.com/) Wall Street Journal

[The Financial Times](http://www.ft.com)   
[The New York Times](http://www.nytimes.com/)

**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. *No**new material will be presented in this session; it will simply serve to review important material covered in class.*The 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 several student debates (assignment **type A**). Each debate will take place in class and will last 20 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 4 minutes, followed by a 2-minute rebuttal to the rival group’s point and a 8-minute class discussion. The schedule, groups, a list of topics, as well as background material and guidelines for the preparation of the presentation will be posted on Canvas.

**Cases**  
There will be 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** (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 (hand-drawn graphs are acceptable) 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 **Thursday October 14** (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: 90 points**
* **Problem sets and cases: 20 points**
* **Student debates: 20 points**
* **Class participation: 20 points**

**Total: 150 points**

**Class Schedule**

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| **#** | **Course Topic** | **Assignment Due /Student Debate** | **Read (prior to class)** | |
| **Macroeconomics:**  **Policy & Practice** | **Economics of MBFM** |
| **(1)** | **Introduction**   * Course overview * Business cycle facts |  | **Ch. 8**  (207-221) |  |
| **(2)** | **The AD/AS Framework: Part 1**   * Macro Forecasting * Long-Run Aggregate Supply (LRAS) * The Aggregate Demand (AD) curve: The IS curve | Would a more generous maternity leave lead to an outward shift in LRAS in India? | **Ch. 9** | **Ch. 20** |
| **(3)** | **The AD/AS Framework: Part 2**   * The Aggregate Demand (AD) curve: The IS curve + Monetary Policy (MP) * Okun’s Law and the Phillips Curve | Does trading with China lead to more unemployment in the United States? | **Ch. 10**  (251-262)  **Ch. 11** | **Ch. 21**  **Appendix of  Ch. 22** |
| **(4)** | **Inflation Expectations and Monetary Policy**   * The Expectations Augmented Phillips Curve * Inflation expectations & the AS curve * General Equilibrium * The Effects of Monetary Policy | Would exchange rate depreciation lead to a higher inflation in Brazil? | **Ch. 11**  **Ch. 12** (299-307)  **Ch. 13** (348-355) | **Appendix of Ch. 22**  **Ch. 22** (515-532)  **Ch. 23** (568-573) |
|  | **Review session on AD/AS** |  |  |  |
| **(5)** | **The Volcker Disinflation**   * The Great Inflation of the 1970s * The Volcker Disinflation | Will the US dollar lose its dominant global role in the next 30 years? | **Ch. 12** (307-319) | **Ch. 22** (531-542) |
| **(6)** | **Sources of Business Cycle Fluctuations**   * **The Money Market Equilibrium and Real Interest Rates** * Sources of Business Cycles: Demand and Supply Shocks | **PS #1**  Does China determine Australia’s business cycle? | **Ch. 10** (263-268,  273-278) | **Ch. 5** (102-108)  **Ch. 11** (471-475) |
| **(7)** | **Macro Stabilization Policy**   * Monetary and Fiscal Policy as Stabilization Tools * **The Keynesian vs. the Classical View** * **The Modern Consensus View** * **Student presentation 3**: *Should the Federal Reserve cut rates now?* | **Student Debate**  Would Biden’s tax increase lead to a recession?  Reading: Summer on the Biden package | **Ch. 8** (221-225)  **Ch. 13** (330-342) | **Ch. 23** (559-568) |
| **(8)** | **Monetary Policy in Action**   * Structure of Central Banks * Monetary Policy Objectives * Conventional Monetary Policy * Challenges and Limitations of Policy * **Case 1**: *Monetary policy in action: The FOMC meeting of 1992*   Would General Ne Win’s (Myanmar) disinflation strategy work? | **Case 1: Monetary policy in action**  Will Japan’s inflation rate rise above 2% by end of 2021? | **Ch. 13** (327-330, 343-348) | **Ch. 16** (369-374)  **Ch. 23** (567-568) |
| **(9)** | **Exchange rates regimes; Debts and deficits**   * Exchange rates and Open Economy AD/AS * Fixed vs. flexible exchange-rate regimes * **Student presentation 4**: *Should the Federal Reserve change its Statement on Longer-Run Goals and Monetary Policy Strategy?* | **Student Debate**  Is India’s demonetization reform an economic success? | **Ch. 17** (459-463) |  |
| **(10)** | **Currency Board:**   * The fiscal outlook | **PS #2**  Will the Euro appreciate against the dollar in the next 12 months? | **Ch. 17** rest of the chapter | **Ch. 17** (404-407)Rest of Ch. 17 is optional  **Ch. 18 Optional** (432-447) |
| **(11)** | **The Science and Art of Macroeconomic Policy Making: Taking Stock** | Should HK give up its dollar-linked exchange rate system? |  |  |
| **(12)** | **FINAL EXAM (in-class exam)** |  |  |  |
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