Global Economic Environment II: Macroeconomic Policy

B8250

Professor Francesco Bianchi francesco.bianchi@duke.edu
Office: Uris Hall 823 on Mondays 6:00-7:30 PM
Phone: (212) 854-0248

Spring 2020

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

Inigo Arana, IArana20@gsb.columbia.edu

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 31**. *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 28 or Monday March 2**. 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 March 4 (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%
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<tr>
<th>#</th>
<th>Course Topic</th>
<th>Assignment Due</th>
<th>Read (prior to class)</th>
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<td><strong>MA1</strong></td>
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<td>(1)</td>
<td><strong>Introduction to business cycles</strong></td>
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<td>Ch. 8</td>
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<td></td>
<td>• Course introduction</td>
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<td>• Business cycle facts: Output, inflation, interest rates and unemployment</td>
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<td><strong>The AD/AS Framework</strong></td>
<td>Ch. 9</td>
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<td>• Macro Forecasting</td>
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<td></td>
<td>• The production function and the Long-Run Aggregate Supply (LRAS) curve</td>
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<td>• The Aggregate Demand (AD) curve: The IS curve</td>
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<td><strong>The AD/AS Framework: Part II</strong></td>
<td>Ch. 10</td>
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<td>• The Aggregate Demand (AD) curve: The IS curve and the Monetary Policy (MP) curve</td>
<td>Ch. 11</td>
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<td>• The Aggregate Supply (AS) curve: Okun’s Law and the Phillips Curve</td>
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<td><strong>Inflation Expectations and Monetary Policy</strong></td>
<td><strong>Student Debate 1</strong></td>
<td>Ch. 11</td>
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<td>• The Expectations Augmented Phillips Curve</td>
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<td>Ch. 12</td>
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<td>• Inflation expectations and the AS curve</td>
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<td>• General Equilibrium</td>
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<td>• The Effects of Monetary Policy</td>
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<td>• <strong>Student presentation 1:</strong> Will the U.S. unemployment rate be 3% or lower by the end of 2020?</td>
<td>Student Debate 1</td>
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<td><strong>The Volcker Disinflation</strong></td>
<td><strong>Student Debate 2</strong></td>
<td>Ch. 12</td>
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<td>• The Great Inflation of the 1970s</td>
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<td>Ch. 12</td>
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<td>• The Volcker Disinflation</td>
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<td>• <strong>Student presentation 2:</strong> Will the U.S., Japan or France default on</td>
<td>Student Debate 2</td>
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### Sources of Business Cycle Fluctuations
- The Money Market Equilibrium and Real Interest Rates
- Sources of Business Cycles: Demand and Supply Shocks

### Macroeconomic Stabilization Policy
- Monetary and Fiscal Policy as Stabilization Tools
- The Keynesian vs. the Classical View
- The Modern Consensus View

### Monetary Policy in Action
- Structure of Central Banks
- Monetary Policy Objectives
- Conventional Monetary Policy
- Challenges and Limitations of Policy

### Asset Prices and Macroeconomics
- The Yield Curve
- The Response of Bond and Stock Prices to Macroeconomic Shocks

### Exchange rates regimes; Debts and deficits
- Exchange rates and Open Economy AD/AS
- Fixed vs. flexible exchange-rate regimes
- The fiscal outlook

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| (6) Sources of Business Cycle Fluctuations | PS #1 | Ch. 10 (251-256, 260-265) | Ch. 10 (263-268, 273-278) | Ch. 5 (101-107) | Ch. 5 (102-108) |
| (7) Macroeconomic Stabilization Policy | Student Debate 3 | Ch. 8 (213-217) | Ch. 8 (221-225) | Ch. 23 (553-562) | Ch. 23 (559-568) |
| (8) Monetary Policy in Action | Case 1: Monetary policy in action | Ch. 13 (312-314, 327-332) | Ch. 13 (327-330, 343-348) | Ch. 16 (366-371) | Ch. 16 (369-374) |
| (9) Asset Prices and Macroeconomics | | | | | |
| (10) Exchange rates regimes; Debts and deficits | PS #2 | Ch. 17 (459-463) | Ch. 17 (400-403) | Ch. 17 (404-407) | Ch. 17 (432-447) | Ch. 17 (404-407) | Ch. 17 (432-447) | Ch. 18 (427-441) | Ch. 18 (432-447) | Ch. 18 (432-447) | Ch. 18 (432-447) |
### Financial markets and macroeconomic news

- **Case 2: The Big News**

### In-class exam

#### Overall review of the course

**FINAL EXAM**

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