Global Economic Environment II: Macroeconomic Policy

Spring 2022   B8250-001-002-003

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Office Hours: Friday morning, by 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 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

Pilar Romero Checa, promerocheca22@gsb.columbia.edu
Gabriela Airaldi, GAiraldi22@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 6 classes. The last class will be used for a take-home 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 February 4. *No new material will be presented in this session; it will simply serve to review important material covered in class.* During the review 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. There will be a final review session on Thursday February 24 held by me. This last review session, just before the final exam, will constitute an overall review of the material covered in the course.

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 take-home exam will take place on Tuesday March 8th and Wednesday March 9th. The exam will be 1.5 hours long. You will have a window of two days to decide when to take the exam. You will download the exam from Canvas and upload your answers on Canvas. You will have 20 minutes to download and print the exam and 20 minutes to scan and upload your answers. Thus, overall, you will have 2 hours and 10 minutes. If for some reason you have problems uploading the exam, please email a copy to me and the teaching assistants. 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>MA1</th>
<th>MA2</th>
<th>MBF11</th>
<th>MBF12</th>
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| (Lecture 1 – first half) | Introduction to business cycles | • Course introduction  
• Business cycle facts: Output, inflation, interest rates and unemployment | Ch. 8 (200-213) | | | |
| (Lecture 1 – second half) | The AD/AS Framework | Ch. 9 | Ch. 9 | Ch. 20 | Ch. 20 |
| • Macro Forecasting  
• The production function and the Long-Run Aggregate Supply (LRAS) curve  
• The Aggregate Demand (AD) curve: The IS curve | | | | | |
| (Lecture 2 – first half) | The AD/AS Framework: Part II | Ch. 10 (240-250)  
Ch. 11  
Ch. 10 (251-262)  
Ch. 11  
Appendix of Ch. 22 | Ch. 12 (284-291)  
Ch. 13 (332-339)  
Ch. 12 (299-307)  
Ch. 13 (348-355)  
Appendix of Ch. 22  
Appendix of Ch. 22 | | | |
| (Lecture 2 – second half) | Inflation Expectations and Monetary Policy | Student Debate 1 | Ch. 11  
Ch. 12 (284-291)  
Ch. 13 (332-339)  
Ch. 12 (299-307)  
Ch. 13 (348-355)  
Appendix of Ch. 22  
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Ch. 12 (299-307)  
Ch. 13 (348-355)  
Appendix of Ch. 22  
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Appendix of Ch. 22 | | | |
| Review session on AD/AS | | | | | | |
| (Lecture 3 – first half) | The Volcker Disinflation | Student Debate 2 | Ch. 12 (291-302)  
Ch. 12 (307-319)  
Ch. 22 (525-536)  
Ch. 22 (531-542) | | | |

**MA**=Macroeconomics: Policy and Practice (1st or 2nd Ed.); **MBF**=The Economics of Money, Banking and Financial Markets (11th and 12th Ed.).
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<th>(Lecture 3 – second half)</th>
<th>Sources of Business Cycle Fluctuations</th>
<th>PS #1</th>
<th>Ch. 10 (251-256, 260-265)</th>
<th>Ch. 10 (263-268, 273-278)</th>
<th>Ch. 5 (101-107)</th>
<th>Ch. 5 (102-108)</th>
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<tr>
<td></td>
<td>• The Money Market Equilibrium and Real Interest Rates</td>
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<td></td>
<td>• Sources of Business Cycles: Demand and Supply Shocks</td>
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<td><strong>Student presentation 2:</strong> Will the U.S., Japan or France default on their debt in the next two decades?</td>
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<th>(Lecture 4 – first half)</th>
<th>Macroeconomic Stabilization Policy</th>
<th>Student Debate 3</th>
<th>Ch. 8 (213-217)</th>
<th>Ch. 8 (221-225)</th>
<th>Ch. 23 (553-562)</th>
<th>Ch. 23 (559-568)</th>
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<td>• Monetary and Fiscal Policy as Stabilization Tools</td>
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<td>• The Keynesian vs. the Classical View</td>
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<td>• The Modern Consensus View</td>
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<td><strong>Student presentation 3:</strong> Is the COVID-19 Pandemic a Supply or a Demand Shock?</td>
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<th>Monetary Policy in Action</th>
<th>Case 1: Monetary policy in action</th>
<th>Ch. 13 (312-314, 327-332)</th>
<th>Ch. 13 (327-330, 343-348)</th>
<th>Ch. 16 (366-371)</th>
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<td>• Structure of Central Banks</td>
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<td>• Monetary Policy Objectives</td>
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<td>• Conventional Monetary Policy</td>
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<td>• Challenges and Limitations of Policy</td>
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<td><strong>Case 1:</strong> Monetary policy in action: The FOMC meeting of 1992</td>
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| (Lecture 5 – first half) | Asset Prices and Macroeconomics | Student Debate 4 | | | | |
|--------------------------|---------------------------------|------------------|| | | |
|                          | • The Yield Curve |                  | | | | |
|                          | • The Response of Bond and Stock Prices to Macroeconomic Shocks |                  | | | | |
|                          | **Student presentation 4:** Considering the recent increase in inflation, is US monetary policy too “Dovish?” |                  | | | | |

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<th>(Lecture 5 – second half)</th>
<th>Exchange rates regimes; Debts and deficits</th>
<th>PS #2</th>
<th>Ch. 17 (459-463)</th>
<th>Ch. 17 (400-403)</th>
<th>Ch. 17 (404-407)</th>
<th>Ch. 17 (404-407)</th>
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<td>• Exchange rates and Open Economy AD/AS</td>
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<td>Rest of Ch. 17 is optional</td>
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<td>(Lecture 6 – first half)</td>
<td>Financial markets and macroeconomic news</td>
<td>Case 2: <em>The Big News</em></td>
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<td>Review session and evaluations</td>
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**FINAL EXAM**
March 4-5 (1.5 hours take-home exam)

