B Econ 579AB
Applied Global Macroeconomics
Davidson
Spring 2019

Class Days: April 1 to June 3; Mondays 6 pm to 7:40 pm PCAR 295
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SYLLABUS OUTLINE

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Applied Global Macroeconomics and You

The participant in this course is a business student who has had a previous exposure to macroeconomics. The goal of the course is to gain more experience and knowledge by working with the key global macroeconomic concepts and theories that are necessary components of business planning and strategy. The global macroeconomic environment is in constant flux. It is not enough to study your competitors, suppliers, and customers – an effective business leader must understand how this environment is changing and how it impacts business outcomes and policies.

Whether you make decisions about marketing, finance, human resources, supply chains, or other areas of business, you are constantly impacted by global macro. Press releases and other published announcements provide daily detail and reminders of how global indicators are changing and how they may be impacting you and your company. Business planners must be able to filter this information so that it has meaning for decisions.

This course combines instructor lectures with discussion sessions and problem-based learning so that participants master concepts and apply them. The main reading material is a publication of the International Monetary Fund (IMF) – *the World Economic Outlook September/October 2018*. This IMF publication was chosen because it is an excellent example of how economists write for an audience of policy makers and executives. Practice with this kind of publication should give all participants a chance to sharpen their global macroeconomic skills. To emphasize the applied nature of this course, each session will be divided into three parts:

- o Data Discussions* (data will mostly come from selected tables and graphs from the IMF document and appendices supplemented by other sources)
- o Analysis Discussions* of the IMF document content
- o Brief Review** of the relevant concepts/theories for the topic of the next class topic.

*Homework assignments list questions that will help you prepare for the Data and Analysis Discussions. These questions ask you to examine charts, graphs, and the written analyses from the required IMF reading. Homework questions for each class are found on the Detailed Syllabus below.

**To prepare for the Brief Review please see the textbook used in your previous macroeconomics course or my file on Canvas MacroNotes. Alternatively you can do a Google search under key words listed on the class schedule.

Homework

- Starting in the third week, each class will have a homework due at the beginning of each class.
- Homework questions are found below on the Detailed Schedule.
- Do either the data or the analysis homework. Just do one each class.
- That's a total of 8 required homework assignments
- Grades will be pass, redo, or not done. Redo means you can try a second time for a pass. Redos must be finished within one week of the original due date.
- Your course homework grade will depend on the number of pass grades
  - 8 passes = 100 points
  - 7 passes = 96 points
  - 6 passes = 92 points
  - 5 passes = 88 points
  - And so on
- Homeworks should be no more than one or two pages in length with normal fonts and spacing. Try to write a "short story" that uses the information in the tables or text to answer the questions posed. Try to get away from listing details in favor of integrating the information into a "story." Use your own words and please indicate (with quotes, italics, etc) any time you take extended phrases and/or whole sentences from the IMF or any other report.

- Note: The IMF Report is a not easy reading. You will not understand everything written. Try to focus on the main messages of the IMF and not all the details.

Final Exercise: June 3 to June 10

The take home exam and an associated reading will be handed out at the end of the June 3 class. Exam questions will be based on a report similar to the IMF Report used in this class. Exam questions will resemble those used in the data and analysis homework. Students should do the exam alone without assistance from anyone. You should email it to davidso@indiana.edu before 8am on June 10.

Grades

Final Exam	150 points (50%)
Homeworks	100 points (33%)
Class Participation	50 points (17%)
Total	**300 points (100%)**

Reading Materials (See Course Website)

- IMF World Economic Outlook, October 2018 which includes the A Appendix Tables   On Canvas and at https://www.imf.org/en/Publications/WEO/Issues/2018/09/24/world-economic-outlook-october-2018

- IMF auxiliary web B Appendix Tables   On Canvas and at

   Can be found at the above link by scrolling down.

- Optional reading materials – *Macroeconomics: Understanding the Global Economy,* 3rd edition (2012) by Miles, Scott and Breedon and/or *MacroNotes* by Larry Davidson web version: http://macronotesmba.com/

- Other optional reading materials – mentioned in the Slides for Global Macroeconomics

- Participants are encouraged to find and read <u>articles</u> relative to Global Macroeconomics in such publications as the *Financial Times newspaper*, the *Wall Street Journal*, The *Economist* Magazine, and *Business Week*.

Quick Schedule (details below)

April 1	April 8
Course Intro	**Intro to the IMF Report**
Overview of the US Economy	**Analysis, Tables, Graphs**
April 15	**April 22**
Output, Prices &Aggregate Demand	**Monetary Policy**
April 29	**May 6**
Fiscal Policy	**Output, Prices & Aggregate Supply**
May 13	**May 20**
International Macro	**BOP: Current Account**
May 27	**June 3**
BOP: Financial & Capital Account	**Exchange Rates & Final Exam Discussion**

Detailed Schedule

April 1 Course Introduction and Current US Situation (Key Macro Indicators)

Course Introduction
Measuring the US Economy in the last 8 years
Data and Charts (St. Louis Fed)
Summary of US Economic Challenges

April 8 Introducing the IMF Report, Tables, and Summary

The IMF Report Oct 2018: Seeking Sustainable Growth: Short-Term Recovery and Long-Term Challenges

Front Matter (especially Preface, Foreword, and Executive Summary)

Demand versus Supply

Chapters (1-4)

Tables and Figures in the text

Appendix Tables A and Appendix B

Review for next class: aggregate demand in the context of a model of national output and prices, equilibrium, demand shocks, role of policy

April 15 Aggregate Demand and Policy

Turn in 1 homework: Your answers to the questions on Data or Analysis

Data: Country/World Indicators Introduction   IMF Tables A1-A4, Table 1.1

> Is the world slowdown over? Can you compare and contrast the performances in advanced and Emerging Economies? Write a short essay answering these questions using only the data tables listed above and focusing on some of these key terms: Real GDP, Output Per Capita, Real Total Domestic Demand, GDP components (C+G+I, Final Domestic Demand, Stock Building, Foreign Balance), World Trade Volume, Commodity Prices, Consumer Prices, LIBOR

Analysis: From the IMF Foreword and Executive Summary

Explain the IMF discussion as it relates to all the following areas

- Global Macroeconomic situation and outlook
- From a global perspective, what have been the <u>key changes</u> in output, and other key indicators?
- Most Notable <u>Recent strengths/weaknesses</u>/
- <u>Causes</u> of recent changes
- <u>Risks </u>that the forecast might turn out differently from forecast

Review for next class: Money, central banks, money demand, money supply, interest rates, exchange rates, aggregate demand, output, inflation, food and energy prices, core inflation

April 22 Monetary Policy

Turn in 1 homework: Your answers to the questions on Data or Analysis

Data: Monetary Indicators Tables B11, A5-A7, and Figures 1.2, 1.3, and 1.4, Box 3.2 (Chapter 3)

Write a short essay about monetary policy and inflation. From the <u>data</u> can you spot interesting or notable changes in money and inflation? How important are food and energy in describing observed changes in inflation? Can you compare experiences of emerging and advanced countries?

Analysis: IMF Report Focus on Monetary Policy

- Chapter 1 contains summaries of the IMF's recommendations about money and inflation. Chapter 3 is devoted to monetary issues in emerging markets.
- What is <u>causing</u> inflation/disinflation? What special role is being played by inflationary expectations and the so-called anchoring of inflationary expectations.
- What does the IMF <u>recommend for monetary policy</u> in advanced economies? Why did they recommend this? What does the IMF think that the <u>ECB</u> should be ready to do in the way of accommodative policy?
- <u>Compare</u> the IMF's recommendations for monetary policy in emerging markets relative to more advanced economies.

Review for next class: Government spending, revenue, deficits, debt, aggregate demand, short-run, long-run; structural balance, output gap, net lending

April 29 Fiscal Policy

Turn in 1 homework: Your answers to the questions on Data or Analysis

Data: Fiscal Indicators   Fig 1.13, Fig 1.21, Table A8, Tables B7, B8, B9

From the data on fiscal indicators, write a short story that explains past and recent changes in <u>structural </u>balances as well as <u>overall deficits and debt</u>. What parts of the world seem most <u>threatened</u> by growing government debt? Which places seem to be doing <u>better</u> than the rest?

Analysis: Fiscal Policy

In the Introduction and then again in Chapter 1 (pages 23-32) the IMF lays out a lot of analysis and policy advice. Focusing on fiscal policy explain the overall tone or <u>advice</u> of the IMF for the world. Then explain <u>differences </u>in fiscal policy advice for Advanced, Emerging, and any specific countries singled-out by the IMF. What does it mean for a country to have "<u>fiscal space</u>"? What are <u>growth friendly</u> tax and expenditure policies and how do they differ from the usual fiscal policies?

Review for next class: Aggregate supply in the context of a model of national output and prices, short-run shocks, long-run trends, labor participation, investment, productivity, business costs, unit labor costs

May 6 Supply and Supply-side Economics: Short-Run Shocks and Long-Run Trends

Turn in 1 homework: Your answers to the questions on Data or Analysis

Data: Aggregate Supply Indicators Figures 1.2, 1.3, 1.10, 1.12, 1.22 and Table B3

How do the figures and table tell a story about short-run supply shocks and longer-run trends in world? What were the primary drivers of supply changes in the short-run in the recent past? What factors underlie longer run changes in potential output? What key factors are driving the IMF's 2019 forecasts for unit labor costs in Table B3?

Analysis: Aggregate Supply and Policy

Starting on Page 11 and going through much of the chapter, the IMF focuses on factors impacting aggregate supply (or structural factors) for both Advanced and Emerging Market countries. What key supply factors are discussed for these world areas? How do they differ? What recommended policies are distinctly aggregate supply oriented?

Review for next class: Trade and comparative advantage, protectionism, trade liberalization, free trade agreements, world trade, exchange rates basics, bilateral exchange rates, real exchange rates, real effective exchange rates, terms of trade

May 13 Introduction to International Macro

Turn in 1 homework: Your answers to the questions on Data or Analysis

Data: Trade Indicators: Tables B10, B12, B13, Table A9, Figure 1.5

Describe changes in the growth of world trade in the years just before and since the great recession. During those years, what happened to the terms of trade of key advanced nations? How might these changes impact global competitiveness?

Analysis: Global Trade

On page 11 of Chapter 1 the IMF begins its analysis of global trade. Describe recent changes in world trade, including the causes of the changes. How do these changes factor into the IMF outlook for the next couple of years?

Review for next class: Current Account, Exports, imports, goods, services, income flows, primary income flows, secondary income flows, balance, imbalances

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May 20 Balance of Payments: Current Account

Turn in 1 homework: Your answers to the questions on Data or Analysis

Data: Current Account Tables A10-A12, Table B15, Figures 1.14, 1.15

The USA and Germany appear to be mirror images with respect to current account balance. Sticking to the tables, what explains the difference in typical current account balance? Looking at the experience of many countries, how were their current accounts impacted by the great recession? Focusing on changes since 2010 and especially in IMF forecasts for the future, which regions or countries will show the most improvement in current account balances? Which ones will show the most deterioration?

Analysis IMF Report Global Imbalances

Starting on page 16, the IMF begins a discussion about the External sector. After a brief explanation of changes in trade, they focus on current account imbalances. What is a global imbalance? Have current account imbalances widened or narrowed? Which countries are most responsible for these changes noted? What role will exchange rates play in the near future according to the IMF?

Review for next class: Financial and Capital Account, inflows, outflows, balances, imbalances, portfolio investment, direct investment, statistical discrepancy, net lending, saving, investment, net debt, net investment

May 27 Balance of Payments: Financial and Capital Account

Turn in 1 homework: Your answers to the questions on Data or Analysis

Data: Financial and Capital Account Tables A13, A14, Figures 1.8, 1.16

Compare and contrast the financial and capital account changes for Advanced Nations, Emerging and Developing Asia, and Latin America and the Caribbean. Focus on the overall balance as well as the roles played by portfolio investment and direct investment. Note—in these tables a negative sign means an outflow.

Analysis: IMF Report Are Global Financial Imbalances at a Turning Point

Again, on page 18 the IMF discussed global imbalances. In this question we look at the discussion and part 2 of Figure 1.16. Describe what has happened to financial imbalances with debtor and creditor nations. What explains these changes? What does it mean to say that debtor nations remain vulnerable to changes in market sentiment? If the US Fed continues to raise interest rates, how might his action affect stock imbalances in debtor countries? What policies are advocated by the IMF to reduce vulnerabilities?

Review for next class: Market for foreign exchange, demand for currency, supply of currency, market equilibrium, managed exchange rates, speculation

June 3 Exchange Rate Model of Change

Turn in 1 homework: Your answers to the questions on Data or Analysis

Data: Exchange rates Appendix Table B10, Figure 1.5

The table lists dollar exchange rates and real effective exchange rates from 2010 to 2018. Describe changes in the following country dollar rates: Yen, Canadian dollar, and the euro. Then list, according to the real effective exchange rates, which currencies appreciated the most during that time period. Which ones depreciated the most?

Analysis*: Take sides and be ready to defend one of these two positions

Explain and defend why you think the dollar might (1) appreciate by 2% or more in 2019 or Explain and defend why you think the dollar might (2) depreciate by 2% or more in 2019

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*Try to answer some of the following questions as you take a side about the dollar appreciating or depreciating in the future.

Discuss recent past factors affecting the value of the dollar using the BOP accounts.

Did the dollar appreciate or depreciate in the past year?

Explain why it changed in the way you described.

How will the future be different from the past?

What will be the main factors impacting the dollar in the coming year?

How will these changes in the value of the dollar impact companies?

Discussion of Final Exam

Attendance, Professionalism, and the Academic Integrity

Class Attendance Class attendance is critical to participation in the learning experience and is *required* aside from circumstances related to (1) illness or (2) a critical work event with your sponsoring employer that cannot be rescheduled. If you are not able to attend a particular class session, please email me in advance. Regardless of the rationale, please note that you are responsible for the learning experience that takes place in your absence; please first work with a colleague to address any material you may have missed and then engage me if you have lingering questions about course content.

Professionalism Each student is expected to be fully engaged in class content and respectful of fellow students' and your instructor's attempts to do the same. During class discussions you should be willing to support your point of view and—at the same time—be willing to listen hard to what others have to say, even when their view differs from yours. You are encouraged to consider the impact of comments that may be distracting from the class such that each comment you offer potentially adds value to the overall dialogue in each class and over the entire quarter.

While you are free to use technologies that are directly related to class (e.g., a notebook computer for note taking or accessing a supporting Excel file or web page), please otherwise refrain from use of computer, phone, PDA, and similar technologies during class, other than use that would facilitate the purpose or objectives of the class. Use of technology other than for engaging in the activities associated with the class is distracting for you, your fellow students, and your instructor. Please also note that participation grades are based on quality of participation in class; high quality participation requires all of your attention and focus during class time.

Academic Integrity I employ the principles and procedures espoused by the University of Washington Student Conduct Code and the Foster School of Business Honor System to maintain academic integrity in the course. The Code establishes the expectation that students will practice high standards of professional honesty and integrity. In particular, implementation of the Code at the Foster School of Business prohibits cheating, attempted cheating, and plagiarism—including improper citations of source material—as it pertains to academic work. If you are unclear about how the Code applies to assignments for this course, for example, what kind of assistance is permissible for homework, whether you may study with classmates for an exam, how to cite source material gather from the internet, etc., please ask for clarification. Suspected violations will be handled by the Foster School Honor System (http://www.foster.washington.edu/academic/mba/currentstudents/Documents/Honor%20Code/Honor%20Code%20Booklet%202011-12.pdf) and in compliance with the University of Washington Student Conduct Code