

Business Economics 501 A/B and C/D

Analysis of Global Economic Conditions

SPRING 2021 SYLLABUS

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Office Hours:
Tuesday, 5:00-6:00
and by appointment

Course Description

This course examines the macroeconomic environment in which firms operate. The goal is for you to understand how macroeconomic forces and policies affect the overall health of a nation's economy and hence the business decisions that you make. The course will give you the tools to understand the key drivers of economic growth, inflation, unemployment, business cycles, fiscal policy, monetary policy, and trade policy, both in the US and in other countries.

Course Learning Objectives:

The course will help you to:

- ★ Explain what the headlines do and do not tell us about macroeconomic statistics such as GDP growth, inflation, and unemployment.
- ★ Understand the press releases from the Federal Reserve's policy-making committee.
- ★ Follow debates about the size of the government budget deficit and government debt.
- ★ Compare and contrast current macroeconomic policies in the US with policies in other major countries and regions, such as China, Japan and the Eurozone.

Remote Instruction Class Format

The course will have live zoom sessions for 2 hours at the scheduled class times (login information will be posted on Canvas under the Zoom link). Following the lecture, Prof. Glassman will stay online for informal Q&A. Zoom sessions will be recorded, and recordings will be available on Canvas (with a delay) under "Panopto Recordings". Warning: sometimes technical issues make recordings incomplete.

There is a Canvas Module accompanying each class session.

The Modules list asynchronous content:

- Required readings
- Optional readings
- Pre-recorded content in the form of narrated powerpoint decks. Unless otherwise indicated, you are expected to watch the narrated powerpoints before class.
- Required Activities, such as watching a video or posting on a Discussion Board.

Required readings should be completed before class.

Be prepared to discuss "Application Cases" in class.

The Modules also provide links to powerpoint slide decks covered in class (generally posted the day before class).

Course Requirements

Approx. % of final grade

Problem sets	40%
Final exam (take-home: posted 6/2, due 6/8)	40%
Group presentation (various dates)	15%
Class attendance and participation	5%

Attendance and participation

To get full credit for attendance, you must attend at least 80% of class sessions.

To get full credit for participation, you must contribute* to class at least 6 times during the quarter.

*A participation contribution can take the form of saying something in class or posting a comment on an instructor-created Discussion Board.

Group Presentations

There is one group presentation in the course. You can choose your own group of 4-7 students. A sign-up sheet will be available the first week of class. Each group will select one of the topics listed below and prepare a 5-7 minute presentation. The presentation will take place at the beginning of class on the date listed. The presentation must include a slide deck, which should be posted on Canvas in the associated Group Presentation Discussion Board by the due date. Each group should be prepared to answer questions following the presentation.

There will be a single grade for the group.

All of the presentation topics illustrate concepts that we cover in this course and the presentations should make reference to those concepts.

Feel free to ask your instructor for research suggestions or for comments on draft presentations.

Group Presentation Topics and Due Dates (in parentheses)

Topic 1 (April 12 and 14) What is “green GDP” – what is added to/subtracted from “regular” GDP? Describe the experiences of at least two countries that have tried to measure green GDP.
Topic 2 (April 19 and 21) In November 2016, the Indian government announced the demonetization of 500 and 1000 rupee notes. What was the goal of the demonetization, and how was it related to the underground economy? How did demonetization affect India’s GDP and the government’s ability to collect tax revenue?
Topic 3 (April 19 and 21) In March 2020, \$1200 stimulus checks were sent out, and \$600 stimulus checks were agreed to in December 2020. What do we know about what recipients did with that money – specifically, how much went to consumption and how much went to saving?
Topic 4 (April 26 and 28) The Tax Cuts and Jobs Act, passed in December 2017, cut corporate tax rates. What were the intended effects on business investment? What actually happened to business investment and why?
Topic 5 (April 26 and 28) Why has US productivity growth been low since the Great Recession? Describe some of the explanations that have been proposed. How does low productivity growth affect potential US economic growth in the future?
Topic 6 (May 3 and 5) The US Department of Labor’s unemployment insurance weekly claims reports (also known as “initial jobless claims” or “initial unemployment claims”) have gotten a lot of attention during the pandemic. How is this weekly number calculated? How accurate and how useful is it in describing US labor market conditions?
Topic 7 (May 3 and 5) How and why has the US labor force participation rate changed since the Great Recession and as a result of the coronavirus pandemic?
Topic 8 (May 10 and 12) What caused the 2007-2008 hyperinflation in Zimbabwe and what were the effects on the economy? How did Zimbabwe end the hyperinflation? What is the inflation situation today?
Topic 9 (May 10 and 12) What caused hyperinflation in Venezuela starting in 2016? What measures has the government taken in response? What are the prospects for inflation in Venezuela in 2021?
Topic 10 (May 17 and 19) What determines the value of Bitcoins? Are Bitcoins the same as money? How is the control of the supply of Bitcoins different from the control of the US money supply? How have central banks around the world reacted to crypto-currencies like Bitcoin?
Topic 11 (May 24 and 26) What kinds of US Treasury securities are issued in the primary market? How are new Treasury securities issued? What determines the mix of maturities outstanding?
Topic 12 (May 24 and 26) What is the US debt ceiling and why does it exist? What happens when we hit the debt ceiling? What are “extraordinary measures”? What is the current situation regarding the debt ceiling?

Help Sessions and Problem Sets

Darwin will hold help sessions weekly on Sundays from 11 to noon. Zoom links will be posted on Canvas.

The help sessions are optional, but they are strongly encouraged. Darwin will review concepts from class, work on problem solving, and answer your questions.

There will be six problem sets, consisting of multiple choice and short essay questions. Problem sets will be posted on Fridays (except for #6) and due one week later. Here is the schedule:

Problem Set Number	Date posted	Date due (at 11:59 pm)
1	April 9	April 15
2	April 16	April 22
3	April 30	May 6
4	May 7	May 13
5	May 14	May 20
6	May 25 (Tuesday)	May 31

Problem set answers should be submitted directly on Canvas. Note that the multiple choice and short essay answers must be posted separately. The lowest problem set grade will be dropped when course grades are calculated.

Problem sets will be posted on Canvas under "Assignments."

Final exam

The exam is take-home and will be posted on the date listed above. The exam will consist of both multiple choice and essay questions. The final exam is due at 11:59 pm on the date is listed above. Plan your schedule accordingly - **no early exams** will be provided under any circumstances.

Submission policies

Late submissions of exams or problem sets are subject to a 50% grade penalty for the first 48 hours after the due date, unless you request (and are granted) an extension before the due date. No credit will be given after 48 hours.

Textbooks and Required Readings

Textbook - available at the University Bookstore:

David Miles, Andrew Scott, and Francis Breedon, Macroeconomics: Understanding the Global Economy, 3rd edition, John Wiley & Sons, 2012.

The other required readings are either posted on Canvas (in the Readings Module) or are readily available online (URLS listed). Additional readings may be provided on Canvas.

Communications

The powerpoint slides for all in-class lectures will be posted on Canvas before each class.

You can contact me by e-mail at dg2854@uw.edu. I check my e-mail regularly on weekdays.

I will use the Canvas website to post announcements, lecture notes, assignments, class recordings, and other course materials.

MBA Program and Class Expectations

Class Attendance:

Class attendance is critical to participation in the learning experience. In accord with Foster MBA Program policy, attendance is required except in cases of (1) illness or (2) unavoidable conflict with a job or internship interview that cannot be rescheduled. Regardless of the reason for missing a class meeting, you should notify your instructor in advance. You are responsible for the learning experience that takes place in your absence. Work with your classmates to address any material you may have missed, and contact the instructor and/or TA should you have remaining questions.

This class has both Monday and Wednesday sections. In the event of conflicts with career events or interviews, you may attend the section in which you are not registered. However, this is expected to happen only occasionally. In addition, you will only get credit for participation in the section in which you are registered.

Student Professionalism in Class:

Each student is expected to be on time and to be prepared for each class meeting, as well as fully engaged in class content throughout the class meeting. Keep your video on during class sessions and only use your electronic devices for class-related activities. Thank you for supporting this policy.

The Honor Code:

I employ the principles and procedures espoused by Foster School of Business MBA Honor System to maintain academic integrity in the course. The Honor Code of the Foster School expressly prohibits cheating, attempted cheating, plagiarism, and lying to administration or faculty as it pertains to academic work. Suspected violations of the Honor Code will be handled by referral of the matter to the Foster MBA Honor Council.

The Honor Code will apply to course deliverables in the following manner:

- In order to maximize the student learning experience, the work you submit should be your own. Except as described below, do not get help from anyone in preparing deliverables for the course. This includes students currently or formerly enrolled in the course as well as others outside Foster. Sharing of course resources with others beyond the narrow range permitted with classmates is also considered a violation of the Honor Code.
- Plagiarism is the use of someone else's words without full attribution (full attribution means use of quotation marks and indication of the source in proper bibliographic form). Close paraphrasing is also considered plagiarism. See <http://depts.washington.edu/pswrite/plag.html>. The "someone else" is anyone from published authors to fellow students to the class instructor. My policy is to give a grade of 0 to any duplicate or plagiarized work.
- Problem Sets: you may consult with other students about the *interpretation* of questions while preparing homework assignments, but I expect you to select/write the answers yourself.
- Exams are individual endeavors. You are welcome to read any printed or online resources, but do not consult with any other person (including other students) as you prepare your exam answers. I expect your written answers to be entirely in your own words. Any quotations, even from class materials, should have quotation marks and source citations.

If you have any uncertainty about how the Honor Code applies to a specific deliverable in the course, please ask before taking action; when it is not possible to ask before acting, please err on the side of the most cautious interpretation.

Washington state law requires that UW develop a policy for accommodation of student absences or significant hardship due to reasons of faith or conscience, or for organized religious activities. The UW's policy, including more information about how to request an accommodation, is available at [Religious Accommodations Policy \(https://registrar.washington.edu/staffandfaculty/religious-accommodations-policy/\)](https://registrar.washington.edu/staffandfaculty/religious-accommodations-policy/). Accommodations must be requested within the first two weeks of this course using the [Religious Accommodations Request form \(https://registrar.washington.edu/students/religious-accommodations-request/\)](https://registrar.washington.edu/students/religious-accommodations-request/)."

SCHEDULE OF TOPICS, READINGS, AND ASYNCHRONOUS ACTIVITIES

The topics and readings given below are subject to change (with prior notice). Each reading should be completed before the date given. All readings are *required* unless otherwise indicated.

- All Chapter references are from the Miles, Scott, and Breedon textbook. Note that I have assigned only a subset of chapter sections.
- Other required readings are available online (posted on Canvas or at the URL given).
- Additional readings may be assigned.
- The Canvas modules indicate which readings are for Tuesday and which for Thursday.
- Links for narrated powerpoints and activities are in the Canvas modules.

**Week 1 Introduction to macroeconomics
Aggregate Supply and Aggregate Demand****Reading:**

Textbook, Chapter 1

Chapter 11, pp. 269-270 and section 11.8

Optional reading:

If you are unfamiliar with US economic history or would like a refresher, the following are recommended background readings:

The site below presents an overview of US economic history through the end of the 1990s. Unless you have a particular interest in the 18th and 19th centuries, I suggest that you start with the sub-section "The Postwar Economy: 1945-1960" and continue to the end.

<https://usa.usembassy.de/etexts/oecon/chap3.htm>

If you would like to learn more about the history of central banking, you might find this recent article interesting:

<https://www.newyorker.com/magazine/2019/08/05/the-invention-of-money>

For a description of economic conditions leading up to the 2001 and 2008-2009 recessions, see Neil Irwin, "It's Another Rocky August in the Markets. Does It Look Like 1998, or 2007?" The New York Times, August 12, 2019 [posted on Canvas in Readings module]

Activity – watch video (any time in first week):

Course Learning Goals

Watch narrated powerpoint recordings (view before class):

Aggregate supply and aggregate demand 1

Aggregate supply and aggregate demand 2

Aggregate supply and aggregate demand 3

Aggregate supply and aggregate demand 4

Week 2

Business cycles Measuring GDP

Reading:

Chapter 11, sections 11.1-11.5

"Determination of the February 2020 Peak in US Economic Activity," National Bureau of Economic Research, June 8, 2020, <https://nber.org/cycles/june2020.html>

Chapter 2

Patricia Cohen, "The Economic Growth That Experts Can't Count," New York Times, Feb. 6, 2017

David Leonhardt, "G.D.P. Is Broken, but We Can Fix It," New York Times, December 16, 2019.

Optional reading:

Robert Samuelson, "Janet Yellen is wrong. Expansion do die of old age," Washington Post, 2/21/16.

"Top 10 Countries with Most GDP from 1960 to 2017"
<https://www.youtube.com/watch?v=wykaDgXoajc>

World Happiness Report 2020, chapter 1, <http://worldhappiness.report>

Watch narrated powerpoints:

Business cycles 1

Business cycles 2

Introduction to the Federal Reserve 1 (can be watched either before or after class)

Introduction to the Federal Reserve 2 (can be watched either before or after class)

Activity:

The Keynesian and Austrian schools are two of the schools of thought in macroeconomics. Economists at George Mason University imagined a debate between John Maynard Keynes and Friedrich Hayek and made a music video about it. The subject of the debate is whether government spending helped end the Great Recession.

1. Watch the video. You can find it on YouTube at

<https://www.youtube.com/watch?v=GTQnarzmTOc>

2. Think about: Who won the debate? What similarities to the current situation do you see?

Week 3

Components of GDP – consumption Components of GDP – business investment and net exports

Reading:

Chapter 10, sections 10.1-10.2, p. 216, pp. 222-224, sections 10.6-10.7

Betty Joyce Nash, "Shoppers for the long haul: the past, present and future of consumption," Federal Reserve Bank of Richmond Region Focus, v. 14, no. 1. 1st Quarter, 2010, p. 17-19.

<https://fraser.stlouisfed.org/title/3941/item/476947/toc/503445>

Chapter 10, sections 10.8-10.10

Application case: "Microsoft and Nokia: Manufacturing Leaves China," Debra Glassman, January 2016

Optional reading:

Chapter 19, sections 19.1-19.6

Watch narrated powerpoints:

For Thursday: Investment-saving relationship

For Thursday: Inventory investment

For Thursday: Determinants of NX

Activity:

Contribute to the Discussion Board about double-dip recessions.

Week 4

Productivity Measuring unemployment

Reading:

Chapter 3, sections 3.3-3.4 only

Chapter 7, sections 7.1-7.5 (you may skim through the mathematical models in 7.2 and 7.4-7.5)

Alana Semuels, "Automation is increasingly reducing U.S. workforces," Los Angeles Times, October 4, 2010.

Danielle Paquette, "Farmworker Versus Robot," Washington Post , February 17, 2019.
<https://www.washingtonpost.com/news/national/wp/2019/02/17/feature/inside-the-race-to-replace-farmworkers-with-robots/>

Application case: "Amazon Go Stores: Effects of Automation on Employment," Debra Glassman, September 2019

"What full employment really means," economist.com blog, January 29, 2017

Caitlin Kenney, "Why Do The Jobs Numbers Change?" Planet Money Blog, October 5, 2012

<http://www.npr.org/blogs/money/2012/10/05/162361522/why-do-the-jobs-numbers-change?sc=nl&cc=pmb-20121005>

Neil Irwin, "How Low Can Unemployment Really Go?" New York Times, Feb. 28, 2019.

Optional reading:

Chapter 5

Renee Courtois, "The New Normal? Economists ponder whether the 'natural' rate of unemployment has risen," Federal Reserve Bank of Richmond, Region Focus, First Quarter 2010.

http://www.richmondfed.org/publications/research/region_focus/2010/q1/pdf/cover_story.pdf

Planet Money podcast 392, Aug. 6, 2012, "Keeping the Biggest Secret in the U.S. Economy," " <https://www.npr.org/sections/money/2012/08/03/158090937/episode-392-keeping-the-biggest-secret-in-the-u-s-economy>

Watch narrated powerpoints:

Productivity 1

Productivity 2

For after class: Unemployment 1 and Unemployment 2

Activity:

Contribute to the Discussion Board about what kinds of jobs can be automated.

Activity:

Watch this YouTube video of harvesting nuts using tree-shaking machines: "Walnut Harvest at Bella Viva". While you are welcome to watch the whole video, you only need to watch the first two minutes.

The tree-shaking machines replaced unskilled workers who previously harvested walnuts by hand using ladders and buckets (displacement effect). What jobs are created by the advent of the tree-shaking machines? Identify both jobs created by the productivity effect and jobs created by the reinstatement effect.

Week 5

Unemployment, cont'd Inflation

Reading:

Chapter 12, sections 12.1-12.3 and 12.8-12.9

Chapter 13, section 13.3

Planet Money podcast 222, "The Price of Lettuce in Brooklyn":

www.npr.org/blogs/money/2010/10/22/130757997/the-friday-podcast-the-price-of-lettuce-in-brooklyn

(story starts at about the 3:00 mark of the podcast)

"A Visual Guide to Deflation," from Mint.com and WallStats.com, April 8, 2009 (you do not have to read all the comments) <http://visual.ly/visual-guide-deflation>

Optional: A Visual Guide to Inflation, <http://visual.ly/visual-guide-inflation>

Application case: "Holland-America Line and the Great Recession," Debra Glassman, January 2016.

Optional:

Planet Money, podcast "Inflation, deflation," July 1, 2020

<https://www.npr.org/2020/07/01/886036317/inflation-deflation>

Watch narrated powerpoints:

Introduction to inflation

For after class: Inflation 1 and Inflation 2

Week 6

Phillips Curve

Introduction to stabilization policy and the spending multiplier

Reading:

Chapter 15, section 15.1 (skip discussion of figures 15.3 and 15.4), sections 15.3-15.5

Chapter 10, pp. 242-44; re-visit multiplier part of section 10.2

Watch narrated powerpoints:

Introduction to the Phillips Curve

For before or after class: Schools of thought on stabilization policy

Activity:

Monetary policy is the stabilization policy run by the central bank. As preparation for the topic of monetary policy, here is a game that you can play to simulate running the Federal Reserve:

<https://www.frbsf.org/education/teacher-resources/chair-federal-reserve-economy-simulation-game/> (Links to an external site.)

Recall that the Fed has a dual mandate; maximum employment and price stability. In the game, you win by achieving those two goals using just one policy tool - changing the interest rate (specifically, the short-term rate called the Federal Funds rate). The Federal

Reserve chairman has a 4-year term, so that is the length of the simulation. The 'prize' for winning is being re-appointed to another 4-year term.

[Note: your professor has never won the game, but each quarter a few students succeed.]

Think about: what real-life features of macroeconomics are illustrated in the Fed chairman game?

Session 7 Monetary policy – commercial banks and central banks

Reading:

Chapter 12, sections 12.4-12.6

Chapter 13, section 13.1

Chapter 17

Planet Money, "Journey to the Center of the Fed," May 8, 2020,

<https://www.npr.org/2020/05/08/852895616/episode-998-journey-to-the-center-of-the-fed>

Optional:

"A History of Central Banking in the United States," Federal Reserve Bank of Minneapolis."

<https://www.minneapolisfed.org/community/student-resources/central-bank-history/history-of-central-banking>

Watch narrated powerpoints:

Functions of money

Term structure of interest rates

Central banks in history

US bank regulation

Activity:

There are movie depictions of bank runs in *It's A Wonderful Life* and *Mary Poppins*. I am fond of the latter, and I would like you to watch the bank run scene. It is available on Youtube at this link:

<https://www.youtube.com/watch?v=xE5klz0yUT0>

Questions for you to think about:

What caused the run on the bank? Does the movie version have any similarities to real-life, modern-day bank runs?

How did the bank in the movie try to stop the bank run? Was there anything else they could have tried?

Week 8

Monetary policy - money creation; conventional and unconventional policy tools

Reading:

Chapter 16, sections 16.10-16.13

Pradnya Joshi, "Shocks, Recession and 9/11: When the Fed Intervenes," New York Times, March 14, 2017.

Chapter 13, sections 13.8, 13.10, and 13.12

Optional:

"Happy Fed Independence Day," Planet Money episode 898, March 1, 2019; updated March 2021

<https://www.npr.org/2021/03/01/972618276/happy-fed-independence-day-update> (Links to an external site.)

Joseph S. Tracy, "What the Fed Did and Why," speech on June 25, 2010

<http://www.newyorkfed.org/newsevents/speeches/2010/tra100625.html>

Mark W. Olson, "The Federal Open Market Committee and the Formation of Monetary Policy," speech to the American Council on Gift Annuities, Orlando, Florida, May 5, 2004.

<http://www.federalreserve.gov/boarddocs/speeches/2004/20040505/default.htm>

Watch narrated powerpoints:

Forward guidance

Abenomics

Eurozone monetary policy

Activity:

When Alan Greenspan was nearing the end of his term as Federal Reserve chairman, two of the main contenders for his job were Ben Bernanke and Glenn Hubbard. Ultimately, Bernanke was chosen and Hubbard got the consolation prize of becoming dean of the Columbia Business School. (Note: Bernanke and Hubbard were also competitors in the textbook market, as both had authored popular macroeconomics texts.)

At Columbia, MBA students have a tradition of presenting end of year skits. Below is a music video they produced about their dean's competition with Bernanke. What macroeconomic concepts are referenced in this video?

<https://www.youtube.com/watch?v=3u2qRXb4xCU>

Week 9

Monetary policy today Fiscal policy 1

Reading:

Application case: "US Bank and Loan Loss Provisions in 2020," Debra Glassman, November 2020

Jeffrey Cheng, Dave Skidmore, and David Wessel, "What's the Fed doing in response to the COVID-19 crisis? What more could it do?" Brookings Institution, July 17, 2020, <https://www.brookings.edu/research/fed-response-to-covid19/>

Chapter 14, sections 14.1 and 14.3-14.4

Chapter 15, section 15.2

Congressional Budget Office, "Federal Debt: A Primer," March 2020, Summary section only, <https://www.cbo.gov/publication/56309>

Optional reading:

"Is the Fed Monetizing Government Debt?" Federal Reserve Bank of St. Louis Central Banker, April 1, 2013, <https://www.stlouisfed.org/publications/central-banker/spring-2013/is-the-fed-monetizing-government-debt>

Watch narrated powerpoint:

Balanced budget multiplier

Activity:

Contribute to the Discussion Board about the most recent FOMC press release.

Week 10

Fiscal policy 2

Reading:

Chapter 18, sections 18.1-18.6

Peter Baker, "Arthur Laffer's Theory on Tax Cuts comes to Life Once More," New York Times, April 25, 2017.

Optional reading:

David Wessel, "What we learned from Reagan's tax cuts," Brookings blog, December 8, 2017, <https://www.brookings.edu/blog/up-front/2017/12/08/what-we-learned-from-reagans-tax-cuts/>

"How Changes in Economic Conditions Might Affect the Federal Budget," try the Interactive Worksheet at <https://www.cbo.gov/publication/54934>

Martin Wolf, "Greek economy shows promising signs of growth," ft.com, May 19, 2019 [you do not have to read the comments on the article]

Fernando M. Martin and Christopher J. Waller, "Sovereign debt: a modern Greek tragedy," Federal Reserve Bank of St. Louis Review, September, 2012 - p. 321-340. <http://research.stlouisfed.org/publications/review/12/09/321-340Martin.pdf>

"Continental Breakup," This American Life, January 20, 2012 (really good, but requires 57 minutes of listening) www.thisamericanlife.org/radio-archives/episode/455/continental-breakup

Watch narrated powerpoints:

Supply-side economics

Greek debt 1

Greek debt 2

Activity:

One of my favorite Yoram Bauman routines is about fiscal policy. Here it is: <https://www.youtube.com/watch?v=cW9dxFrAk-I>