New York University  
Stern Graduate School of Business  
Fall 2015

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Representative Syllabus (prior semester)

Econ-GB.2344 Fall 2015: The Economy and Financial Markets

Overview

This course examines the interaction between the performance of the economy and key financial markets- namely bonds, equities and foreign exchange.

The approach to the topics will consist of a more pragmatic, “real-world” framework that focuses on the dynamics and “noisy” realities that often drive financial market behavior in the short-run and, often, over the medium-term. A basic analytical framework discussing those relationships will also be presented where appropriate.

Special attention will be given to the bi-directional nature of the relationship between macroeconomic activity and markets, as well as on the destabilizing effect that the behavior of the latter can have on the economy. Our discussions will be decidedly global in their scope, given the unmistakably close interconnectedness of financial markets around the world, but emphasis will definitely be placed on the U.S. and domestic market developments.

An additional angle to be explored is the interaction among various markets themselves, like the bonds/stocks relationship and reasons underlying shifts in those relationships.

Prerequisites and Reading Materials

You would be expected to be at least somewhat familiar with basic principles of macroeconomics and, to some degree, key investment decision-making. We will not be making much use of math/calculus in this class.

Given the decidedly “real world” feel of the course, neither a textbook nor prepared class notes will be used. To keep the class sessions both “live” and “lively”, the reading material will consist mostly of selected articles from the financial media (like, the Wall Street Journal, the New York Times, Bloomberg, Reuters, etc), and other official websites (Fed, U.S. Treasury,
European Central Bank, etc). You are also strongly urged to read at least two of the following on a regular basis: The Wall Street Journal, the New York Times (not only the Business Section, but also articles on the economy that often appear on the first page), or the Financial Times.


Also, you will find it quite useful to visit the following two websites on a regular basis: www.bloomberg.com, and www.reuters.com

At the beginning of each class, there will typically be a discussion of current events in the economy and key markets during the preceding days, a practice that will gradually help us link consistently the “real world” events to the material covered in the class. At times, depending on your interest, those discussions can take up a bigger part of the class.

Articles will be posted on NYU Classes, on an ongoing basis. Also, the class sessions will be recorded and a video link will always be posted on NYU Classes within a day or two following each class.

Grades

The final grade will consist of the following components:

Class participation 15%

Group presentation 35%

In-class essays 25%

Group paper 25%

Please make every effort not to miss the in-class essays on the last day of classes, as no make-up will be available.

The in-class essays will consist of 2 questions that will require an answer of moderate length (no more than 1 page each). The questions will be placing a high premium on your ability to think critically about issues and synthesize, in an articulate manner, knowledge and tangible background information you already have on those issues. You will probably find that you need more time to compose the answers in your mind first, rather than actually writing them down.

All group presentations will need to be turned in, by email, by the afternoon of the first set of
scheduled presentations (November 16), regardless of the exact date when your group is actually scheduled to present. The presentation itself should not exceed 15 minutes and there will be a 5-minute discussion afterward.

The group project will be due on November 30 and should be about 5 pages long without taking into account the graphs/tables (6 pages if double-spaced). The group paper will need to be submitted on the NYU Classes site (Turnitin) and also handed in the form of a hard copy to me.

Office Hours/Communication

You should always be able to find me in the office from around 5:15 PM until just before the class on Monday. However, you will never have any problem communicating with me at all times, as I am usually quite good at replying to emails promptly.

On my end, I will be using NYU classes and direct email routinely for purposes of making announcements related to the class.

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Sessions 1 and 2 (September 21 and 28)

- Overview of the current economic environment in the U.S. The state of the global economy.
- The Eurozone in the aftermath of its debt crisis.
- The Fed's quantitative easing and the issues lying ahead.

Sessions 3 through 6 (October 5, 12, 19, 26)

- Why is the bond market more sensitive to the high frequency economic data than other markets?
- The role of inflation expectations and the behavior of the yield curve. The TIPS market and other gauges of inflation expectations; evaluating their reliability.
- The limitations of fundamentals in explaining the behavior of bond yields.
- Defying conventional wisdom: Strong economic activity and low bond yields can, at times, co-exist.
- The basics of the U.S. Treasury market. The key role of foreign investors.
- The myth about budget deficits and their relationship to bond yields: A surprising lack of connection in the U.S. context
- Credit spreads and what they tell us.

\^ GUEST SPEAKER (October 26), Paul Sheard, S&P, Global Head of Research
Session 7 (November 2)

• How sensitive is actually economic activity to the level of interest rates?

  ◆ GUEST SPEAKER (November 2), Tom Luddy, Managing Director and Portfolio Manager, JP Morgan Asset Management (Equities)

Session 8 (November 9)

• Economic activity and the equity market: A bi-directional relationship
• The household wealth effect as a critical link

Session 9 (November 16)
* Bonds and equities: At times, a complex interplay
• How closely correlated are bond and equity markets in the U.S. with those elsewhere in the world?

(2 presentations)

Session 10 (November 23)

• Foreign exchange markets, their key drivers, and their impact on economic activity. The Fed and the dollar. The case of the Chinese yuan
• The role of interest rate differentials

(2 presentations)

Session 11 (November 30)

Discussion on topics of your interest

(2 presentations)

Session 12 (December 7)

(2 presentations)

IN CLASS ESSAYS