The Global Economy (B01.2303)
Syllabus

Course Description:

This course is about examining the performance and characteristics of the global economic environment as well as the state of things in its key component countries. Some emphasis will be given to the U.S. economy and its role within the global context, but the scope of our inquiry will be decidedly global.

The purpose of the course is to provide you not only with useful facts about the actual performance of the world’s key economies but also help you develop critical thinking about the interaction between the numerous forces at work that determine the performance of the various key economic regions.

Central bank policymaking, the acceleration of inflation pressures around the world recently, and the potential challenges confronting the U.S. economy in an environment burdened by the credit market turmoil and a sliding dollar will be some of the key issues we will be focusing on.

The crucial benefit that I believe you will derive from this course is that your ability to interpret daily developments in the financial markets and the economy—particularly, if you work in a direct market environment (trading, sales, research)—will be greatly enhanced. Moreover, you will be able to grasp more fully the nuances and inter-connection of the various factors— that you read about in stories in the financial press and elsewhere— driving key trends on inflation, interest rates, and exchange rates across the major economies.

The class will have an unmistakable “real world” feel to it— it will be very hard to miss it! This will be reflected both in the manner we will be approaching the various topics, the course materials used, as well as in my standard practice of devoting the first 20-30 minutes or so of the class to the discussion of current
events. Depending on how interesting developments in the economy and markets have been each week, the “current events” part of the class can be extended—but this will also depend on the degree of your own participation in such a discussion.

Prerequisites and Reading Materials

You would be expected to be reasonably comfortable with basic principles of macroeconomics and, to a lesser degree, international finance. For those of you who have no background in economics at all, you may find useful the text *Macroeconomics and the Global Business Environment* by David Miles and Andrew Scott (Wiley 2005). We will not be making extensive use of math or calculus in this class.

There will be no textbook used for this course. You are strongly urged to read at least two of the following publications on a regular basis: The Wall Street Journal, The New York Times (not only the Business Section but also articles on the economy that occasionally appear on the first page), Financial Times, The Economist.

I would also strongly recommend that you consult on a weekly basis the publications on the U.S and world economy (and, particularly, *Global Data Watch*) that are available on JP Morgan’s economic research website: (http://www.jpmorgan.com/pages/jpmorgan/investbk/research/global_economic_research)

Additional material for each class will be posted on Blackboard.

Grades

Your final grade will consist of the following components:

**Class participation** 10% (this will count only in a positive way; that is, it can help you in the case of a borderline grade, but it will not drag the rest of your grade down). No attendances will be taken, as I assume that you are all adults.

**Group project** 10%

**Group presentation** 15%

**Midterm exam** 30%
Final exam  35%

If you miss the midterm, you will have two options: either skip it altogether and take just the final exam, increasing its relative weight in your total grade to 65% (!), or, take a make-up oral exam. Assessing the pros and cons of such a decision is entirely your call.

The exams will include questions that will require answers in the form of short essays; there will be no multiple-choice questions. 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 will need more time to compose the answers in your mind first rather than actually writing them down.

The final exam will be on the last scheduled class date (December 18).

Final grades will adhere to the School's guidelines, according to which no more than 35% of the class will receive an A or A- combined.

Some more housekeeping notes:

In the midterm and final exams, you will be allowed to have only a single page of notes and a basic calculator, but no devices that can transfer anything wirelessly.

If you do need to use a laptop to take notes in the class, please choose a seat in the last row.

Office Hours/Communication:

Given that most of you work until shortly before the class begins, I will not be holding regular office hours every week. However, you will never have any problem getting in touch with me, as you can email me and I will always try to reply within 24 hours. In doing so, I will either answer your question by email, or by calling you back to discuss it on the phone, or by setting up an appointment to meet. We should also be able to chat either just before the beginning of the class or right afterwards.

On my end, I will also be using Blackboard routinely for purposes of making announcements related to the class, as well as to communicate any message to a specific group working on a project.

Honor code
At the Stern School, we believe that honesty and integrity are necessary for a rewarding educational experience. Those qualities form the basis for the trust among members of the community (students, faculty, and administrators) that is essential for educational excellence. The Honor code was instituted several years ago by students, and requires each student to act with integrity in all academic activities and to hold his or her peers to the same standard.

In this course, you may discuss assignments with anyone- in fact, we encourage it- but any written assignments or presentations should be your work, or your group’s. On exams, you may bring in and consult a piece of paper (standard paper size, single side), but your answers should be entirely your own work.

We also hold ourselves to a high standard of professional behavior. In the interest of having a high-quality experience for all, you are expected to come into the class on time (both at the start of the class and after the break) and stay until the end of the class. Also, we request that all cell phones be turned off upon arrival to the class.

**Students with disabilities**

If you have a qualified disability that requires academic accommodation during this course, please contact the Moses Center for Students with Disabilities (CSD, 212 998-4980) and ask them to send me a letter or email verifying your registration and outlining the accommodation they recommend. If you need to take an exam at the CSD, you must submit a completed Exam Accommodation Form to them at least one week prior to the scheduled exam time to be guaranteed accommodation.

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*(Session 1- Sept.18)*

**Business cycle dynamics**

Is the U.S. economy skidding a recession? The greater inherent stability of the U.S. economy in the last 20 years or so compared to the ’70s and early ’80s. The concept of Gross Domestic product.
(Sessions 2 and 3- Sept. 25, Oct. 2)
**An overview of the U.S. economy- Basic structure of the Federal Reserve**

Key economic indicators and measures of economic performance. A closer look at labor market, consumer spending, inflation, manufacturing, and housing market statistics. The Board of Governors and Federal Open Market Committee.

(Session 4- Oct. 16)
**Fed monetary policy**

Practical aspects of the Fed’s implementation of monetary policy. Bank reserves, open-market operations, federal funds targeting. Inflation expectations and the Fed’s inherent limitations in keeping the economy out of trouble.

(Session 5, October 23)
**Global inflation.**

*Guest speaker: Bruce Kasman, Chief Economist, JP Morgan*

*Also, our own discussion on the following topics:*
The resurgence of inflationary pressures around the world. Evaluating the seriousness of the threat.

What do the key proxies of inflation expectations and financial markets tell us about the risk of an inflation comeback?

The run-up in food and energy prices and some counter-intuitive complications for the commodity-exporting countries in this phase of the cycle.

(To be continued in the first half of Session 6)

(Session 6, second half- Oct.30)
**MID-TERM EXAM**

(Session 7- Nov.6)
**Monetary policy in other parts of the world**
The European Central Bank (ECB) and Bank of Japan (BOJ). Why can monetary policy diverge among major blocks of countries in any given period? An overview of the euro zone and Japanese economies.

**Presentations (2)**

**(Session 8- Nov. 13)**
**The changing role of the U.S. economy in a global context.**

Global financial turmoil and transmission mechanisms across different regions. The 1997 episode of financial crisis and the 2007-08 credit market adventures.

**Presentations (2)**

**(Session 9- Nov. 20)**
**The emergence of China and India as major economic powers in the last 10 years.**

The challenge of sustaining high growth rates over time and its implications. The case of the still undervalued Yuan.

**Presentations (2)**

**(Session 10- Dec. 4)**
**International trade and exchange rate determination.**

Do trade deficits really matter for the soundness of the currency of that country? The role of interest rate differentials among key countries. Central bank intervention in the foreign exchange markets.

**Presentations (2)**

**(Session 11- Dec. 11)**
**The Fed and the value of the dollar.**

Advantages and disadvantages for the economy of a country with a strong currency. The Fed’s minimalist approach toward the dollar.
Presentations (2)

(Session 12- Dec. 18)
FINAL EXAM