Overview

This course will examine the interaction between the performance of the economy and key financial markets—namely bonds, equities, foreign exchange, and commodities. To clearly differentiate it from other courses available at Stern that focus on the financial crisis, this course will adopt a much broader approach to the relationship between the economy and markets, and its connection with the current financial crisis will be only tangential.

The course is designed to appeal to MBA students majoring either in finance or economics, and especially to those who have a job-related involvement in the financial services industry. An additional constituency that may also find it appealing is students, who, although they may be working in different industries, have a keen interest in developing a better understanding of stories and developments that they read about on a daily basis around them. Course prerequisites would be Global Economy, and Foundations of Finance, or comparable courses.

The approach to the subject will primarily 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. A basic analytical framework discussing those relationships will also be presented in a limited fashion.

Special emphasis will be given on the bi-directional nature of the relationship between macroeconomic activity and the markets, as well as on the destabilizing effect that the behavior of the latter can have on the economy. For example, the burst of the stock market bubble in 2000-2001 and its role in the 2001 recession, the stimulative effect on economic activity that a major and sustained bond market rally can have, etc.

The inquiry will be global in its scope, particularly in regards to the commodities and foreign exchange markets, but will also have an unmistakable focus on the U.S. economy.

An additional angle to be explored is the interaction among various markets themselves, the most infamous being the bonds/stocks relationship and reasons for which their presumed antagonistic dynamic can often break down. Another example would be the impact of a sustained run-up of commodity prices on bond yields, and so on.

Required reading/Grading procedures

Given the decidedly “real world” feel of the course, no textbook will be used. To keep the class sessions both “live” and lively, the reading material for the students will consist mostly of selected articles from the financial media (like, the Wall Street Journal, Financial Times, The Economist, Bloomberg, Reuters, etc), authoritative websites (U.S. Treasury Department,
Federal Reserve System, Federal Reserve Bank of New York, the European Central Bank, Commodities Research Bureau, etc), research publications by major financial institutions (like UBS Global Equity Research, JP Morgan Global FX Strategy, etc). Students will be strongly encouraged to use Bloomberg as a key source for financial market data.

Two or three guest speakers, who are financial market practitioners, will be invited to give talks on their respective areas of expertise.

At the beginning of each class, there will be a discussion of current events in the economy and key markets during the preceding days, attempting to link those events to the material covered in the class.

Students will have the following four resources available in order to study and meet the course’s requirements and adequately prepare for the exams: a) reading material posted on Blackboard on a weekly basis, b) their own class notes, c) a very short PowerPoint summary of the key points discussed in each class made available to them each week, and, d) video links to class sessions.

Sample Topics

- Why economic indicators move markets.
- Why is the bond market more closely attuned to the various economic reports than other markets.
- How Fed policy impacts bond yields and equities
- How sensitive is economic activity to the level of interest rates
- The “household effect” as the main transmission mechanism between stocks and economic activity.
- The limited impact of foreign exchange market developments on the economy.
- Commodity prices and their effect on economic activity
- The relationship between bonds and equities: Is it really an antagonistic one?
- The role of “noise” in overriding economic fundamentals.