

Syllabus ITRN 503
Investment and Macroeconomics
Fall 2011

Prof. Mina Kim
Founders Hall 470, Tuesdays 7:20 – 10:00 pm
****No class Sept 6****
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Syllabus

I. Course Description

This course presents macroeconomic theory and applies it towards gaining an understanding of recent events and current policy issues. The insights provided by these theoretical frameworks will enable us to discuss topics such as the most recent US recessions, proposed changes in the international financial architecture, the single currency in Europe, the Asian financial crisis, and the role of government in affecting a nation's employment, wages and economic performance.

Learning outcomes:

The objective of the course is to become and remain informed about policy issues related to the macroeconomy and, even more importantly, to acquire the ability to think about complex issues within the framework of an economic model.

Students will understand the basic concepts and terms of macroeconomics (such as growth, inflation) as they apply to policy analysis (such as monetary policy, fiscal policy, exchange rate policy). Students will understand the issues impacting the effectiveness of monetary and fiscal policy, and be introduced to open economy topics relating to capital flows and exchange rates.

II. Text

The text is N. Gregory Mankiw's *Macroeconomics*, 7th ed.

I will also assign some additional readings that will mostly come from Harvard's collection of case studies. Once I've determined exactly which readings will be required, you can download them from the Web for a small fee (<http://harvardbusinessonline.hbsp.harvard.edu>).

You will be expected to have read all of the assigned readings prior to class time, as these will be discussed in class.

III. Grading/Exams

Grades will be largely determined by two written assignments and a comprehensive final. You will be given problem sets that will be instrumental in your preparation for the final.

Specifically, grades will be determined as follows:

Policy memo I 20%
Policy memo II 25%
Participation 25%
Final Exam 30%

You will be given weekly problem sets to help you prepare for the exam. However, these will be neither collected nor graded.

Important information on grading:

I have high standards and in larger classes, it is unlikely (but by no means impossible) that more than 30 percent of the class will get an “A” or “A-” grade (i.e. sign of good performance in my class). Based on past history, the median grade is likely to be in the range of “B” or “B+”. Grades in this class have to be earned; they are not an entitlement and neither are they negotiable.

Any grading disputes must be submitted in writing no later than one week after an assignment has been returned to you.

Students should be aware that academic integrity is a serious issue for this class. Cheating or participating in cheating on any exam will result in an F for this class. By the same token, plagiarism will not be tolerated.

SPP Policy on Plagiarism:

The profession of scholarship and the intellectual life of a university as well as the field of public policy inquiry depend fundamentally on a foundation of trust. Thus any act of plagiarism strikes at the heart of the meaning of the university and the purpose of the School of Public Policy. It constitutes a serious breach of professional ethics and it is unacceptable.

Plagiarism is the use of another’s words or ideas presented as one’s own. It includes, among other things, the use of specific words, ideas, or frameworks that are the product of another’s work. Honesty and thoroughness in citing sources is essential to professional accountability and personal responsibility. Appropriate citation is necessary so that arguments, evidence, and claims can be critically examined.

Plagiarism is wrong because of the injustice it does to the person whose ideas are stolen. But it is also wrong because it constitutes lying to one’s professional colleagues. From a prudential perspective, it is shortsighted and self-defeating, and it can ruin a professional career.

The faculty of the School of Public Policy takes plagiarism seriously and has adopted a zero tolerance policy. Any plagiarized assignment will receive an automatic grade of “F.” This may lead to failure for the course, resulting in dismissal from the University. This dismissal will be noted on the student’s transcript. For foreign students who are on a university-sponsored visa (e.g. F-1, J-1 or J-2), dismissal also results in the revocation of their visa.

To help enforce the SPP policy on plagiarism, all written work submitted in partial fulfillment of course or degree requirements must be available in electronic form so that it can be compared with electronic databases, as well as submitted to commercial services to which the School subscribes. Faculty may at any time submit student’s work without prior permission from the student. Individual instructors may require that written work be submitted in electronic as well as printed form. The SPP policy on plagiarism is supplementary to the George Mason University Honor Code; it is not intended to replace it or substitute for it.

Special Needs:

If you are a student with a disability and you need academic accommodations, please see me and contact the Disability Resource Center (DRC) at 993-2474. All academic accommodations must be arranged through the DRC.

Online student journal:

New Voices in Public Policy: I will consider nominating the very best papers in this course for publication in New Voices in Public Policy. New Voices is a student- and faculty-reviewed journal that shares SPP's finest student work with the rest of the world.

Final Exam:

If you need accommodations for religious reasons, then please notify me during the first week of the semester.

Course Schedule (subject to revision)

Aug 30	Introduction to Macroeconomics (Chapters 1 and 2)
Sept 6	No Class (A time for a make-up class/assignment will be discussed in class.)
Sept 13	The Goods and Financial Markets
Sept 20	Exchange Rates and the Balance of Payments
Sept 27	The Labor Market
Oct 4	Monetary and Fiscal Policy
Oct 11	No Class (Fall Break)
Oct 18	Monetary and Fiscal Policy (cont.) Policy Memo #1 Due
Oct 25	Theories of Nominal Exchange Rates
Nov 1	Exchange Rate Policy
Nov 8	Currency Crises
Nov 15	Global Financial Crises
Nov 22	Government Debt and Budget Deficits Policy Memo #2 Due
Nov 29	Economic Development – Growth
Dec 6	Economic Development – Reform (Online Instruction)
Dec 13	Final Exam

Assigned Readings and Questions

Class #1: Introduction to Macroeconomics

Mankiw, Chapters 1 and 2

In this class, I will present an introduction to economics, with an emphasis on macroeconomics. This class is particularly designed to assist those with no prior background in economics or with only a very basic grounding.

Questions:

1. What broad questions does macroeconomics address?
2. How does macroeconomics link to microeconomics?
3. How do economists think about the macroeconomy?

Class #2: The Goods and Financial Markets

Mankiw, Chapters 3 and 4

We discuss the basic classical model of national income. Then I introduce the underlying economic concepts of the money creation process, the banking system, and how money supply affects aggregate demand.

Questions:

1. How does fiscal policy influence the allocation of on the economy's resources among consumption, investment, and government purchases?
2. What is money? How is money created?

Class #3: Exchange Rates and Balance of Payments

Mankiw, Chapter 5

Rukstad and Pope, The Decline of the Dollar – 1978, HBS Case Study #9-384-116

Yoffie and Austin, Kennedy and the Balance of Payments, HBS Case Study #9-381-173

I introduce some key macroeconomic variables that measure the interactions among countries in this global economy. We discuss the implications of openness in the goods and financial markets.

Questions:

1. What is an exchange rate?
2. What determines the value of one currency against another?
3. What were the primary forces accounting for the decline of the dollar during 1977 and 1978?
4. What are the Kennedy's balance of payments problems and how are they reflected in the statistics?

Class #4: The Labor Market

Mankiw, Chapter 6

Alfaro, Dessain, and Vachey, French Unemployment: The Crisis Continues, HBS Case Study #9-707-020

We discuss the dynamics of the labor market and the natural rate of unemployment. We examine various causes of unemployment, including job search, minimum-wage laws, union power, and efficiency wages.

Questions:

1. What determines the natural rate of unemployment?
2. Why might the real wage remain above the level where labor supply equals labor demand?
3. What are the primary causes of French unemployment?

Class #5 and #6: Monetary and Fiscal Policy

Mankiw, Chapters 9-11

Moss, Note on Money and Monetary Policy, HBS Case Study #9-797-094

Alfaro and Kanno, Kinyuseisaku: Monetary Policy in Japan, HBS Case Study #9-708-017

Kennedy, Fiscal Policy: Managing Aggregate Demand, HBS Case Study #9-797-076

We develop the IS-LM model of aggregate demand. We use this model to examine how monetary and fiscal policy affects output and unemployment. Topics covered include: what monetary policy can and cannot do, the stabilizing features of the federal budget, and the use of the budget to influence output.

Questions:

1. How are monetary and fiscal policies carried out in the United States today?
2. How does a government use monetary vs. fiscal policies to achieve its goals?
3. How important is managing expectations in conducting monetary policy effectively and efficiently?

Class #7: Theories of Nominal Exchange Rates

Mankiw, Chapter 12

Currency, like any traded good, has a price. This price can undergo dramatic changes over a short period of time. We discuss the determinants of nominal exchange rates. Concepts such as interest rate parity and purchasing power parity are introduced.

Questions:

1. With floating exchange rates, what happens to aggregate income, the exchange rate, and the trade balance when taxes are raised?
2. What happens when money supply is reduced?
3. How would the outcomes change under fixed rather than floating exchange rates?

Class #8: Exchange Rate Policy

Mankiw, Chapter 12

Abdelal and Alfaro, Capital Controls, HBS Case Study #9-702-082

Alfaro and Di Tella, China: To Float or Not To Float, HBS Case Study #9-706-021

In this class, we focus on the implications of different exchange rate regimes, from flexible exchange rates, to fixed exchange rates, currency boards, and dollarization.

Questions:

1. Under what circumstances should a country opt for a fixed vs. flexible exchange rate?
2. Why is it impossible for countries to have free capital flows, a fixed exchange rate, and independent monetary policy?

Class #9: Currency Crises

Pill, Financial Crisis in Asia 1997-1998, HBS Case Study #9-709-004

Di Tella and Vogel, 2001 Crisis in Argentina: An IMF-Sponsored Default, HBS Case Study #9-704-004

In the 1990's, the global economy experienced several episodes of currency turmoil. In this class, I present an introduction to the economic analyses of these crises. We discuss both what we know and what we do not know about currency crises.

Questions:

1. What are the political difficulties associated with the management of economic crises?
2. Why are currency crises hard to predict?
3. What are the key differences between the first, second, and third generation models of currency crises?

Class #10: Global Financial Crisis

Alfaro, Di Tella, Vogel, and Johnson, U.S. Current Account Deficit, HBS Case Study #9-706-002

Alfaro and Kim, The First Global Financial Crisis of the 21st Century, HBS Case Study #9-709-057

The global financial crisis has exposed fundamental weaknesses in financial systems worldwide, demonstrated how interconnected and interdependent economies are today, and has posed vexing policy dilemmas. We discuss the causes and consequences of the global financial crisis that began in the US in 2007.

Questions:

1. What accounts for the sub-prime financial turmoil which burst onto the scene in the summer of 2007?
2. Who is most to blame for the mess?
3. Has the global financial system functioned well or poorly through this episode?
4. Is this sort of instability likely to strike again?

Class #11: Government Debt and Budget Deficits

Mankiw, Chapter 16

McCraw and Pope, A Keynesian Cure for the Depression, HBS Case Study #9-382-065

The debate about the appropriate amount of government debt in the US is as old as the country itself. We examine how government debt affects the economy and the desirability of a balanced budget.

Questions:

1. Why is the government budget deficit hard to measure?
2. How does a debt-financed tax cut affect public saving, private saving, and national saving?
3. Why might a budget deficit be a good policy choice?

Class #12: Growth

Mankiw, Chapters 7 and 8

Pill, Mexico: From Stabilized Development to Debt Crisis, HBS Case Study #9-797-096

In any given year, we observe large differences in the standard of living among countries. We develop a theory of economic growth called the Solow model in order to help us understand what causes difference in income over time and across countries. In particular, we examine how a nation's public policies can influence the level and growth of its citizens' standard of living.

Questions:

1. How can policymakers influence a nation's saving rate?
2. What explains the sharply divergent growth patterns of countries across different continents?

Class #13: Reform

Mankiw, Chapters 7 and 8

Pill, Mexico: Escaping from the Debt Crisis?, HBS Case Study #9-797-105

In order to achieve higher growth, developing countries have reformed their economies to more closely look like to structures of the successful industrial economies. However, the process remains incomplete. We discuss their growing pains and how these countries have attempted to ameliorate them.

Questions:

1. Not all Latin American reformers succeeded equally in strengthening their banks. What made the difference?
2. Does the existence of the IMF encourage irresponsible behavior?
3. Can currency boards make fixed exchange rates credible?