

# UGBA 101B: Macroeconomics in the Global Economy

## Prof. John M. Veitch

### I. Administrative Details

**Class Sessions:** Tuesday, Thursday 8:00-9:00 am in Cheit C220

**My Office Hours:** Tuesday 11:00 – 12:00 pm, Thursday by appointment, in F502

**My email:** [jmvcfa@gmail.com](mailto:jmvcfa@gmail.com)

**Your GSI: PJ O’Neil**

**Your GSI’s email:** [pj\\_oneil@berkeley.edu](mailto:pj_oneil@berkeley.edu)

**GSI Section:** Friday 8:00-9:00 am Wuster 102

**GSI Office Hours:** Friday TBD

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## II. Course Description

This course is oriented towards examining real world domestic and international macroeconomic events and policies. We use simple models to analyze these events and, hopefully, shed light on the interactions of the various sectors of the economy that contribute to this behavior. The goal of this course is to enable you to analyze macroeconomic phenomena in a structured manner, and to express this analysis in a coherent way. This model building approach provides a cohesive framework for understanding the factors and policies that influence output, unemployment, interest rates, exchange rates, and inflation. We will use this framework to discuss how theory can be used to evaluate strategic business decisions that are influenced by changes in the macro economy through class projects and current events.

Class meetings are intended to be informal lectures. As the material we cover is often difficult, and we cover it fairly quickly, it is advisable that you come to each class prepared. This will not only help you to follow the lectures more easily, but will be appreciated by both the instructor and your fellow students. The techniques we use are primarily geometric, although some algebra will be used in the models.

**About Me:** My name is John Veitch. Please call me John.

I'm a full professor of finance and I direct the Master of Science in Financial Analysis (MSFA) program at the University of San Francisco. I'm also a CFA charterholder and for 10 years was the Education Director of the CFA Society of San Francisco. I was Chair of the Economics Department at USF for many years before moving over to the School of Management. I have taught at UC Berkeley's Haas School of Business in the undergraduate business, MBA, and EMBA programs.

## III. Course Materials

### Texts:

N. Gregory Mankiw, *Macroeconomics*, 9<sup>th</sup> edition, Worth Publishers 0-7167-5237-0

The Mankiw text contains many short case studies to illustrate the macroeconomic models under discussion. Students are strongly urged to read the text in advance of the lectures.

The class notes for each session are available on the course website in the form of PowerPoint slides. You will find it beneficial to work through these slides prior to the class. You should also use them as the basis for taking notes in class.

## IV. Course Policies and Procedures

**Evaluation** The method of evaluation is:

Quizzes (5)	15%
Group Project – Deliverable 1	5%
Group Project – Deliverable 2	10%
Group Project – Deliverable 3	10%
Exam #1	15%
Exam #2	40%

### Assigned Problems

Questions and problems assigned each session in this syllabus are **NOT** required to be handed in at the next class session. They provide a way to attain a good grasp of the analytical models that we are using in the courses.

### Group Project

- Your team will apply macroeconomic theories to help to The Electric Company (TEC) choose a location for its Terafactory. Each deliverable below should include both a theoretical framework and data that are relevant to decision about the Terafactory's location. Students are encouraged to study countries that are foreign to their experience.
- The project is to be undertaken by a group of four or 5 students, although the group may be slightly smaller or larger (subject to approval).
- The focus of each deliverable is on applying the analytical approaches we learned in the most recent classes to a stylized business decision.
- Your task is to evaluate two **viable** countries, in different areas of the world, as the base for worldwide production and distribution of your product.

### Deliverable #1: The Countries (no more than 4 double-spaced pages)

**Due – Thursday, January 26<sup>th</sup> in class**

Deliverable #1 requires you to choose your group members AND choose the two countries your group will analyze in this project. Briefly outline the main strategic considerations that drive TEC's production decision to ensure that the countries you are choosing are potentially good locations. Provide a brief overview of each country including any relevant historical, political, or societal aspects that make each a desirable place for TEC to locate its Terafactory.

Please choose countries on different continents (where Latin America counts as one continent). Also, if you choose a very large nation such as China, India, Brazil or Russia, indicate the region you are considering. Your goal is to choose two very different countries, each of which provides an interesting opportunity to locate the Terafactory.

### Deliverable #2: The Long Run (no more than 6 double-spaced pages)

**Due – Thursday, March 2<sup>nd</sup> in class**

Analyze each country's historical record of economic growth; the factors that have influenced this growth, and provide projections for future growth based on current conditions and anticipated future conditions.

The key to this analysis is looking at how the long run trends in your countries relate to TEC's decision for locating the Terafactory. If the current conditions are negative or positive, how likely are they to change? Focus only on those attributes and trends that *matter for the decision of where to locate the Terafactory*. For example, if you were looking at locating a factory that required only low-skilled labor, how important is the education system to your decision?

### Deliverable #3: The Short Run (6 pages)

#### **Due – Thursday, April 27<sup>th</sup> in class**

Describe the economic, political, and social conditions in each of your countries over the next 2-3 years. Describe how current fiscal and monetary policies may effect GDP, government borrowing, financial markets, inflation and exchange rates.

As in the previous deliverable, you need to decide which of the factors are important to your decision. If one of the countries you are looking at has a fixed exchange rate and there is pressure to re-value, how does that affect your decision, if at all? What if the country just elected a left-wing populist leader? Does this help or hurt the Terafactory?

Some of the analytical models necessary for this analysis are dealt with in classes near the end of the semester, so it may benefit you to read ahead.

### **Exams**

**If you have or anticipate a conflict with the exam schedule – either Exam #1 or Exam #2 - you should DROP this course now and retake it in another semester.** Conflicts include other exams, nonrefundable airline tickets, weddings, or other commitments that require you to leave campus before Exam #2.

Each exam will cover the materials assigned for that section of the course (including the lecture before each exam). Although the exams are not intentionally cumulative, macroeconomics is, by its very nature, cumulative.

**Exams will be closed book and closed notes and are to be done without any outside help. No calculators, laptops, beepers, cell phones, other electronic devices, or “cheat sheets” are allowed during exams. You should not bring scratch paper into exams; it will be provided. However, you will need a set of colored pens or pencils.**

There should be no communications between students during exams, either one way (looking at or copying someone else’s work) or two-way (sharing answers with or helping out another student).

There are no scheduled make-up exams. Students who miss an exam for any reason must communicate with me by email or phone no later than the start of the exam. You will need to provide valid medical and/or legal documentation explaining why you were unable to take the exam on schedule. Except under the most extreme circumstances, if you do not have an excused absence **before** the exam starts and you do not take the exam, you will receive a zero (0) on the exam.

Graded exams will be returned in discussion section. **Exam scores will be posted on the course website. It is your responsibility to make sure that they are correct. Any discrepancies should be reported to you GSI immediately.**

### **DSP Exam Accommodations**

**If you are entitled to special accommodations on exams you MUST make an appointment to speak with me no later than the end of the first week of the semester.** You will eventually need to provide an evaluation form from the Disabled Students’ Program office.

## IV. Course Policies and Procedures

### Attendance

Attendance will NOT be taken in either class or discussion section. You do not need to contact either your GSI or me if you will miss class.

### Classroom Etiquette

Please attend your assigned lecture and sit as much as possible in the same seat. You can switch sections occasionally if necessary but you must let everyone assigned to the class take their seats first.

Each class begins on time and with all students present. Each class goes to the end of the assigned time. Please do not come late or leave early unless you have spoken or emailed me.

No laptops or mobile devices to be used in class, and certainly no use of phones.

Macroeconomics is best learned by writing things down by hand.

### Discussion Sections

**Discussion section is important.** Lectures move quickly. Discussion section with your GSI is a key part of learning the material.

1. Your GSI will go over the material in the text and from the lectures and answer any question you may have. News articles may also be discussed in section.
2. Your active participation in section will enhance your understanding of the course material which will be helpful on the exams.

**For your first discussion section**, please write a letter of introduction to your GSI. This should include:

1. Your name,
2. Your year,
3. Your major or intended major,
4. Why you are taking this course, and
5. Any other information that you would like your GSI to know about you.

This letter will help your GSI to get to know you better and more quickly.

### Website

We will use the standard Haas online system as our course website. This site will include this syllabus, my lecture notes, review exams and answers, exams and answers (after the fact) for this semester, and any other information relevant to the class.

## V. Code of Ethics/Assignment Affirmation:

In concert with the Berkeley Campus Code of Student Conduct, academic dishonesty will not be tolerated. Academic dishonesty is “all forms of academic misconduct including but not limited to cheating, fabrication, plagiarism, or facilitating academic dishonesty.”

Any evidence of cheating will result in a score of zero (0) on that assignment or exam. Cheating on the final exam will result in an “F” for the course. Incidences of cheating will also be reported to Student Judicial Affairs, which may administer additional punishment.

Cheating includes but is not limited to bringing notes or written or electronic materials into an exam, using notes or written or electronic materials during an exam, copying or editing off another person’s assignment, copying off another person’s exam, allowing someone to copy off of your assignment or exam, and having someone else do an assignment or take an exam for you.

***On every exam, you will be asked to sign the following test affirmation: “The answers on this test are entirely my own work. I neither gave nor received any aid while taking this test. I will not discuss the questions on this test until after [end of exam period] on [date of exam].”***

**Failure to sign this affidavit will result in a “zero” for that examination.**

## VI. Schedule of Classes

WEEKS 1 & 2	TOPIC	READING ASSIGNMENTS	SUGGESTED EXERCISES
“The Basics” Jan 17, 19	Data of Macroeconomics <ul style="list-style-type: none"> <li>• output, prices, and unemployment</li> <li>• circular flow of income/expenditure</li> </ul> Understanding Unemployment <ul style="list-style-type: none"> <li>• Unemployment LR &amp; SR</li> </ul>	Chapter 1 – “ <i>Science of Macro</i> ” Chapter 2 – def’ns “ <i>Data of Macro</i> ”, Chapter 7 – def’ns “ <i>Unemployment</i> ”	Assigned P = Problems Q=Questions  P: 2.10, 2.11, 7.4, 7.6
Static LR Model Jan 24, 26	Production, Distribution & Allocation <ul style="list-style-type: none"> <li>• Supply and demand for output</li> </ul> Monetary policy essentials <ul style="list-style-type: none"> <li>• Banks and Central Banks</li> </ul>	Chapter 3 “ <i>Nat’l Income</i> ” Chapter 4 – all “ <i>Monetary Policy</i> ”	Assigned P: 3.1, 3.11, 4.2
<b>Jan 26</b>	<b>Group Project – Deliverable 1 Due</b> <ul style="list-style-type: none"> <li>• <b>Picking your countries</b></li> </ul>		

### Questions for Weeks 1 & 2

1. List three ways in which real Gross Domestic Product might understate a country’s real output and/or its real income measures.
2. List three ways in which real Gross Domestic Product might mis-estimate a country’s standard of living.
3. Does CPI inflation over or understate the “true” level of inflation? Does core CPI do a better job of measuring the “true” level of inflation? What about inflation as measured by the GDP deflator?
4. What role does government play in determining real interest rates in the long run? What role do households play? What role does the international sector play?
5. As a country becomes more developed, its production shifts from manufactures towards services. Does this shift make a nation’s national income accounts more accurate or less accurate measures of economic activity? Be specific.
6. How might government policies designed to “help” the unemployed actually increase the level of unemployment? What type of policies might actually help reduce unemployment?

WEEK 3	TOPIC	READING ASSIGNMENTS	SUGGESTED EXERCISES
“LR Open Economy Macro”  Jan 31, Feb 2	Long Run International Macroeconomics <ul style="list-style-type: none"> <li>• Exchange rates</li> <li>• Model of a Small open economy</li> </ul> International Trade <ul style="list-style-type: none"> <li>• Comparative Advantage</li> </ul>	Chapter 6 – all “ <i>Open Economy</i> ”  Trade slide deck	Assigned P: 6.1, 6.8, 6.10, 10.3

WEEKS 4 & 5	TOPIC	READING ASSIGNMENTS	SUGGESTED EXERCISES
“The Long Run – Pt I” Feb 7, 9	Long Run Growth <ul style="list-style-type: none"> <li>Modeling economic growth</li> <li>Dynamic equilibrium &amp; convergence</li> <li>International comparisons of growth</li> </ul>	Chapters 8 & 9 – all “Econ. Growth I & II”	Assigned P: 8.5, 8.6, 9.3
“The Long Run – Pt II” Feb 14, 16	Long Run Money, Inflation & Interest Rates <ul style="list-style-type: none"> <li>Money, prices &amp; inflation</li> <li>Inflation &amp; interest rates</li> </ul>	Chapter 5 – all “Money & Inflation”	Assigned P: 5.5, 5.7

### Questions for Weeks 4 & 5

1. What are the large, overarching issues that economists look at as preconditions for economic growth? What role do politics, history, and society play in economic growth?
2. Are abundant natural resources necessary for economic growth? If no, do they help economic growth or hinder it?
3. What role does physical and human capital play in economic growth? How well do economists (or accountants for that matter) measure the variables that impact economic growth?
4. Is a less-developed country that exhibits high rates of economic growth a “good” country for your business to expand into? Why or why not?
5. Comment on the following statements:
  - a. High rates of inflation in a country are always the “fault” of the Central Bank.
  - b. High inflation that is fully anticipated does not affect real economic activity, only affects nominal variables.
  - c. Differential inflation rates between countries do not affect their international trade flows.

WEEK 6	TOPIC	READING ASSIGNMENTS	SUGGESTED EXERCISES
Feb 21	Tuesday, Feb 21 – In class Review	Chapters 2-9	
Feb 23	<b>Thursday, Feb 23 – Exam 1 “The LR” in class</b>		

WEEKS 7 & 8	TOPIC	READING ASSIGNMENTS	SUGGESTED EXERCISES
Exam Ans & “The SR” Feb 28, Mar 2, 7, 9	Feb 28: Review answers to Exam 1 Intro to SR Fluctuations <ul style="list-style-type: none"> <li>Aggregate Demand &amp; Supply</li> <li>Short-Run vs. Long-Run</li> </ul>	Chapter 10 – all “Econ. Fluctuations”	Assigned
<b>March 2</b>	<b>Group Project – Deliverable 2 Due</b> <ul style="list-style-type: none"> <li><b>LR evaluation of your countries</b></li> </ul>		



WEEK 9&10	TOPIC	READING ASSIGNMENTS	SUGGESTED EXERCISES
“SR Closed Economy – AD Curve” Mar 14, 16, 21, 23	Goods Market & the IS Curve Money Market & the LM Curve <ul style="list-style-type: none"> <li>Fiscal &amp; monetary policy</li> </ul> IS-LM & Aggregate Demand Curve	Chapter 11 – 12 “ <i>Agg Demand</i> ” Chapter 19 – “ <i>Gov’t Debt</i> ”	Assigned P: 12.1, 12.8 Q: 19.5, 19.7

### Questions for Weeks 9 & 10

1. What role does government fiscal & monetary policy play in determining AD and AS?
2. What role does government fiscal & monetary policy play in determining IS and LM Curves?
3. How have recent government fiscal & monetary policies attempted to influence the both AD-AS and IS-LM curves?
4. What are the potential sources of instability an economy faces related specifically to IS, LM, AD or AS curves. What type of government policies could offset them?

WEEK 11	TOPIC	READING ASSIGNMENTS	SUGGESTED EXERCISES
“SR Closed Economy – AS Curve” April 4, 6	Aggregate Supply Curve <ul style="list-style-type: none"> <li>Market imperfections &amp; SR AS</li> <li>Tradeoffs between inflation &amp; unemployment</li> </ul>	Chapter 14 – all “ <i>Aggregate Supply</i> ”	Assigned P: 14.5, 14.8

### Questions for Week 11

1. Explain how the Phillips curve leads to the negative relationship between unemployment and the inflation rate and how it would shift over time.
2. You are appointed head of the Central bank for a country that is currently experiencing high inflation. What policies would you implement to lower inflation? What aspect of your policy would be important for its success?
3. “Oil price rises (shocks) do not, in themselves, lead to higher long run inflation.” Discuss. What is necessary for higher long run inflation to emerge from an oil price rise?
4. You are a Central Banker in a year when oil and food prices raise significantly. What policies do you implement if you are concerned about maintaining stable prices in the long run?

WEEK 12-13	TOPIC	READING ASSIGNMENTS	SUGGESTED EXERCISES
"The Short Run Open Economy" April 11, 13 April 18, 20	Open Economy IS-LM <ul style="list-style-type: none"> <li>• deriving Mundell version of IS-LM</li> <li>• IS-LM and flexible exchange rates</li> <li>• IS-LM and fixed exchange rates</li> <li>• Interest rate differentials &amp; EXR's</li> </ul>	Chapter 13 – all <i>"Open Economy IS-LM"</i>	Assigned Q: 13.1, 13.2 P: 13.1

### Questions for Week 12 & 13

1. Why is monetary policy less effective with fixed exchange rates than with flexible?
2. Why is fiscal policy less effective with flexible exchange rates than with fixed?
3. Mankiw p. 394-5 problems 1 and 3.
4. Why might the Chinese renminbi strengthen over the next few years? Why might it weaken?
5. What is a current event in the last 2 weeks related to exchange rates or trade (or current account) deficits or surpluses? Can you relate a news article's implied theory of causes or effects with what we study in this class?

WEEK 14	TOPIC	READING ASSIGNMENTS	SUGGESTED EXERCISES
Final Evaluation April 25, 27	Automatic Correction vs. Active Policy Intervention.	Chapter 18 – all <i>"Stabilization Policy"</i>  Chapter 20 – all <i>"Financial Crises"</i>	
<b>April 27</b>	<b>Group Project – Deliverable 3 Due</b> <ul style="list-style-type: none"> <li>• <b>SR evaluation of your countries</b></li> </ul>		

### Questions for Week 14

1. Under what (if any) definitions of "budget" or of "balance" would you agree: "A federal balanced budget amendment would be good"?
2. What (if any) is a good rule for monetary policy, or is it best to rely on discretion?
3. Consider a major fiscal policy (spending, tax-cut, or tax-increase) proposal from a nation in which you have not lived. What are the good and bad points of the proposal?
4. Attach a recent news articles about long-term sustainability of government deficits outside the United States. Discuss if you agree or disagree with its theory of causes or effects of deficits.

WEEK 15	TOPIC	READING ASSIGNMENTS	SUGGESTED EXERCISES
Review May 2, 4	Review of SR Closed and Open Economy Results		