B.A. 201B: Macroeconomics in the Global Economy

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Web Site: The syllabus is on the core course web site and also on my web page at http://haas.berkeley.edu/~yellen/BA201b.html

E-mail Communication: Communication outside of class will be conducted via e-mail. Students should add themselves to the class and section aliases as soon as possible. The class aliases are: ba201b-3 (ba201b-4). The section aliases are ba201b-301 (ba201b-401).


Overview: This is a survey course in macroeconomics with strong emphasis on international applications. The first objective of the course is to develop simple models of the economy which provide insight into the determinants of long-run trends and short-run fluctuations in key macroeconomic variables such as: GDP, wage and profit rates, inflation, interest rates, employment and unemployment, budget deficits, exchange rates and trade balances. These macroeconomic factors affect managers in the global economy through their impact on sales growth; pricing power; production costs and profitability; the relative competitive positions of domestic vis à vis foreign competitors; the cost and availability of credit; and the ease or difficulty off hiring and retaining employees. Macroeconomic factors also influence the risks and rewards of global investments, both direct and portfolio.

The second objective is to apply these models to understand and interpret current and historical macroeconomic developments, primarily in the industrialized OECD countries, but also in key emerging markets. The course will explore such policy issues as the implications of population aging for growth and government budgets in industrial countries; the scope for policies to boost productivity growth and mitigate income inequality; the causes and policy options to combat high unemployment in Europe; the potential for policy to stimulate the Japanese economy; and the dilemmas facing Central Banks confronted with possible asset bubbles. The course will also discuss the causes of recent international financial crises and examine a variety of strategies that have been suggested to reduce the likelihood of future crises, including international architectural reforms, capital controls, flexible exchange rates and dollarization.
Students are required to read the business section of a major newspaper (*The Financial Times* is particularly recommended) or periodical (such as *The Economist*) in order to stay abreast of macroeconomic developments in the world economy. Knowledge of global macroeconomic developments is a course requirement and will be tested in exams.

**Course Evaluation:**
- Final exam: 40%
- Midterm Exam: 25%
- Applied group project: 20%
- Class participation: 15%
- Optional Problem Sets: 0%

Grades will be based on a comprehensive final exam administered on May 12, 2000 from 5-8 PM., a midterm exam, currently scheduled on March 8, an applied group project, and class participation. Optional problem sets, will be distributed via e-mail each week. Answers will also be distributed via e-mail. The problem sets will not be graded, and will not be awarded formal credit. However, the names of students who hand in problem sets will be recorded, and students on the margin of receiving a higher grade will benefit from completing problem sets. Students are permitted and encouraged to work on these problem sets in groups.

Students are expected to participate in class discussion and the instructor reserves the right to utilize cold-calling. In-class participation grades will be allocated on the basis of quality and quantity of participation. Prompt daily attendance in class is required and students are expected to complete the assigned reading before class. Students are required to use name cards and to sit in the same seat throughout the semester.

**The Group Project**

An applied group project is an integral part of the course. It is DUE ON MAY 1. The project should be an application of macroeconomic tools to a situation of interest to the student. The ideal length of the project is approximately 12-15 pages of text, along with presentation of the relevant associated data. Case studies of significant historical economic events (such as financial or exchange rate crises, recessions, or hyperinflations) are acceptable; students can also provide current analysis of the macroeconomic dilemmas facing a particular country, or explain how macroeconomic shocks have impinged upon a particular industry or sector of the economy (housing, capital goods, exports). Students are encouraged to study countries foreign to themselves. Each group must hand in a one paragraph outline of the project to the instructor no later than March 24—the class immediately prior to the Spring Break. This outline should contain the tentative title of the project, group members, the idea of the project, data and literature sources, etc.

An ideal group consists of five members, but groups can be somewhat larger or smaller. In the event that a person does not believe that all other members of her/his group have contributed fairly to the project, each person has the option to assign scores (from 0 [worst] to 10 [best]) to the
members of the group other than him/herself. There is no obligation to submit such an evaluation; non-submission will be interpreted as fair work by all other group members. These peer evaluations will be taken into account by the instructor in assigning project grades.

What is a Good Project?

A good paper usually: a) asks a well-defined question; b) identifies an appropriate theoretical framework to organize the data and c) applies actual data to figure out the answer. Data and secondary sources should be well documented and cited appropriately. An academic (rather than a journalistic) style is appropriate, with full citations, well-documented data sources, a solid conceptual framework, and well-labeled graphs and tables. Examples of good questions include the following:

1. What caused the Mexican devaluation of 1994?
2. What were the consequences of the Polish “big bang” of January 1990?
3. What effects did German Unification have on France?
4. What are the sources of high growth in South-East Asia?
5. Is Vietnam a good investment for American companies?
6. What caused the Argentine recession of 1995?
7. What caused the Thai devaluation of 1997?
8. What are the current macroeconomic prospects for Russia?
9. Was Malaysia right to impose capital controls in 1998?
10. How should international investors react to the ideas for IMF reform?
11. What consequences will EMU have for Ireland?
12. How did Argentina react to the Brazilian flotation of January 1999?
13. Does it matter to the U.S. economic outlook whether growing budget surpluses are used to pay down debt, cut taxes or increase expenditures on health care or other government programs?
14. Why is the Japanese economy experiencing such slow growth and what policy options are there for improving the outlook?
15. What economic impacts would you expect as a consequence of population aging in Europe? (Japan?) (the United States?)
16. Should China devalue its currency?

A wide range of macroeconomic data and country analysis is available in the library and on the WEB. A list of references to some useful websites may be found on my webpage at [http://haas.berkeley.edu/~yellen/BA201b.html](http://haas.berkeley.edu/~yellen/BA201b.html). The International Monetary Fund (IMF) publishes International Financial Statistics on a monthly basis, which contains data for most macroeconomic variables of interest for its member countries as well periodic global analysis in its World Economic Outlook. The country reports prepared for its Article IV consultations with individual countries are also now available on the Web. The Organization for Economic Cooperation and Development (OECD) produces semiannual global forecasts and analysis of its member countries as well as annual Economic Surveys for most member countries, and summarizes data across countries in Main Economic Indicators. The Clausen Center for
International Business and Policy also purchases several data sets that are available from the Computer Center or the Library (including the World Resources Data Base, the Global Economic Data Base, World Data, International Financial Statistics, and the National Trade Data Bank). The Clausen Center also provides on-line access to Datastream through a dedicated terminal in the Bakar Computer Center. The Central Banks of virtually all countries produce bulletins (as well as annual yearbooks) which have data and discussion of current economic developments. My web page contains references to indices of Central Bank web sites. The economics groups of many major investment and commercial banks (Morgan Stanley, Deutsche Bank, Bank of America etc.) also produce economic analysis of particular countries and the global economy which are available on the web. A handy source of U.S. economic data is Economagic. Timely analysis of economic releases for the U.S. and a few industrial countries can be found at the Dismal Scientist. Nouriel Roubini’s Web Site on the Asian Crisis is an invaluable guide to sources of information on the global economy. Roubini’s website also contains a draft of his textbook on global macroeconomics (joint with David Backus). This is recommended as a supplement to Mankiw.
Course Outline

tentative class times planned

Students are strongly urged to read Mankiw in advance of the relevant lecture.

I. Introduction to Critical Concepts  [one lecture]

Real and Nominal GNP; the National Income and Product accounts; the Consumer Price Index; the unemployment rate and Okun's Law.

Mankiw, Chapters 1 and 2.

II. Long-Run Economic Relationships

A. National Income: Production, Distribution, and Allocation  [two lectures]

Potential output; the determination of wage and profit rates; income distribution; savings, investment, budget deficits and interest rates.

Mankiw, Chapter 3.

B. Economic Growth, Productivity and Savings  [three-four lectures]

Theory of long-run growth. The Solow growth model. Technological change and capital accumulation; accounting for the sources of economic growth; international differences in growth rates; the worldwide productivity slowdown; evidence on the “new economy”

Mankiw, Chapters 4 (including Appendix) and 5

C. The Long-Run Level of Unemployment  [two lectures]

Determinants of the natural rate of unemployment. Differences in the natural rate of unemployment across countries and over time.

Mankiw, Chapter 6.

D. Inflation, Money and Interest Rates  [two lectures]


Mankiw, Chapter 7.
E. Exchange Rates and the Current and Capital Accounts \textit{[two lectures]}

Determinants of net exports and capital flows; real and nominal exchange rates; fiscal shocks and the current account balance; international debt.

Mankiw, Chapter 8, including Appendix.

\textbf{MIDTERM:} Wednesday, March 8, 2000 \textit{[one class]}

III. Short-Run Economic Fluctuations

A. Introduction to Aggregate Demand and Aggregate Supply \textit{[one lecture]}

Mankiw, Chapter 9.

B. Determination of Aggregate Demand: The IS-LM Model \textit{[two lectures]}

The multiplier model. Short-run determination of income and interest rates.

Mankiw, Chapter 10.

C. The Closed Economy IS-LM Model. \textit{[two lectures]}

The sources of business cycle fluctuations; the short-run impacts of monetary and fiscal policies on interest rates and income.

Mankiw, Chapter 11.

D. The Open Economy IS-LM "Mundell-Fleming" Model \textit{[three lectures]}

Monetary and fiscal policy under fixed and flexible exchange rates. Mundell’s Holy Trinity; Exchange rate regimes. EMU (European Monetary Union.); currency crises.

Mankiw, Chapter 12.

E. Short-Run Aggregate Supply. \textit{[two lectures]}

Alternative theories of wage and price setting. The Phillips Curve. Supply shocks. Tradeoffs Between Inflation and Unemployment

Mankiw, Chapter 13.
F. Stabilization Policy \[one lecture\]

Rules vs. discretion; automatic stabilizers; expectations and the Lucas critique; credibility and time inconsistency; Central bank independence; dealing with uncertainty.

Mankiw, Chapter 14.

G. Budget Deficits and Debt \[one lecture\]

Mankiw, Chapter 15.

IV. The Microeconomic Foundations of Aggregate Demand (these topics will be covered as time permits.)

1. Consumption \[one lecture\]
   
   Mankiw, Chapter 16.

2. Investment \[one lecture\]

   Mankiw, Chapter 17.

3. Money Supply and Demand \[one lecture\]

   Mankiw, Chapter 18.