The purpose of this course is to develop the analytical framework required for understanding the way changing macroeconomic conditions in the world economy affect the environment faced by modern decision makers and business leaders. Issues related to central banks’ behavior (quantitative easing, interest rate adjustment and other), economic growth, inflation, interest rates behavior, exchange rates determination, global competitiveness, unemployment and the external sector (international reserves and the like) will be explored. At the end of the course it is expected that students will be able to critically assess how possible developments in the world economy -- such as the change in the monetary policy stance by the European Central Bank or the Federal Reserve, for example -- will affect the business environment relevant to their specific industry.

This course has two important characteristics: First, its emphasis is decisively and unmistakably international. The vast majority of examples and case studies will deal with the international economy. The approach taken here recognizes, from the very beginning, that teaching macroeconomics from a closed economy perspective does not make much sense. Second, this course is eminently practical; concepts and models will only be discussed to the extent that they have direct bearing in the understanding of real life situations. An important consequence of this practical perspective is that students will be required to undertake a number of empirical projects throughout the course.

I expect that all students will actively participate in class discussions.

There is no text book; instead there are a series of articles. There are two types of readings: (1) Analytical and academic articles that provide background for our class discussion; and (2) technical reports by investment banks that deal with current developments in the world economy. The latter are in “real time,” in the sense that they will cover issues that are important during that particular week.

A word about reading: There is quite a bit of material to read. Everything is important, but some articles are more important than others. You should learn how to differentiate between “important” and “very important.” If in doubt, ask me or the TA.
Every academic assigned reading is on line. All you need to do is follow the links. Every report/article/paper “in real time” covering the contingency will be posted on the course’s website.

**Grading Policy**

- There will be two exams.
- Three (group) homework assignments.

The final grade will be determined in the following way:

- Midterm 20% (May 10)
- Final 40%
- Class Participation 20%
- Homework 20%

If you are unable to take the midterm, the final exam will count for 70% of the grade (unless you make a special arrangement with me). The Final will be a “take home” exam.

I will not “cold call” on you, but I expect everyone to participate actively in class discussions. Class participation will be critical in determining the fate of marginal grades cases.

It is possible that one of the sessions will be on-line, rather than on campus. If that is the case, I will let you know well in advance, so you can plan your travel, other courses, and other activities.

**Office Hours**

My office is located in C-508, and my phone number is 206-6797. My E-mail address is sedwards@agsm.ucla.edu.

**Organization of the Course and Syllabus**

The course is organized in several “modules.” Each module covers a specific set of concepts and tools. Modules do not necessarily correspond to specific sessions or weeks. Covering some modules may take more than one session, covering other modules may only take part of a session. The time devoted to each module is not pre-determined; it depends on how the class proceeds, on how many questions students have and how many current applications we discuss.
COURSE OUTLINE

In what follows I provide a detailed outline of the topics that we will cover in this course. There is no correspondence between the different topics and the week in the quarter. We will move at our own pace, often covering more than one topic in one week. However, I do provide the approximate time to be spent in each module.

MODULE 1: Introduction to global macroeconomics (Approximately half a session)

A. Concepts and issues
The global economy and risks
  - Credit
  - Political
  - Currency
Macroeconomics vs. microeconomics
Macroeconomics and forecasting
Closed vs. open economy perspectives
Long vs. short run analyses.
Partial vs. general equilibrium analysis
Macroeconomic data, basic relations and concepts
GNP
GDP
Consumption
Investment
Government expenditure
Net exports and trade balance
Savings

B. Readings:

How Would Modern Macroeconomic Schools of Thought Respond to the Recent Economic Crisis?


Useful Websites:

http://www.bea.gov/ (Bureau of Economics Analysis - data on GDP and other macro data)

MODULE 2: INFLATION, DEFLATION AND MONETARY POLICY (approximately one session)

A. Concepts and issues
Price indexes
CPI
PPI
Core inflation
Sixteen percent trimmed mean CPI
How inflation affects business decisions

MODULE 3: MONETARY POLICY AND CENTRAL BANKS (Approximately one session)

A. Concepts and issues
Base money
M1
M2
Money multiplier
Federal Funds target interest rate
Open market operations
Yield curve and the transmission mechanism of monetary policy
International comparisons
Can emerging countries have an independent monetary policy

B. Readings:


MODULE 4: INFLATION, UNEMPLOYMENT AND MONETARY POLICY: THE “TAYLOR RULE” (Approximately half a session)

A. Concepts and issues
Taylor rule
Monetary accommodation
Taylor rules in the real world
How to use the Taylor Rule to estimate the “natural” rate of interest

B. Readings:


MODULE 5: TRADITIONAL THEORIES OF INFLATION (Approximately half a session)

A. Concepts and issues
The Quantity Theory of Money
Velocity of circulation
Full employment
The demand for money
- Transactions motive
- Precautionary motive
- Unit of account
Opportunity cost of holding money
Inflation as a Tax
Interest rates, yields and bonds

Readings:
Interview with Former Federal Reserve Vice Chairman Roger W. Ferguson, Jr. in http://www.minneapolisfed.org/pubs/region/00-06/ferguson.cfm?js=0

MODULE 6: MODERN THEORIES OF INFLATION: THE ROLE OF THE GLOBAL ECONOMY (Approximately half a session)

A. Concepts and issues
The law of one price
Goods arbitrage
Purchasing power parity (PPP)
Absolute version of PPP
Relative version of PPP

B. Readings:

Michael R. Pakko and Patricia S. Pollard, “For Here or To Go? Purchasing Power Parity and the Big Mac” in http://research.stlouisfed.org/publications/review/96/01/9601mp.pdf


MODULE 7: ALTERNATIVE EXCHANGE RATE REGIMES AND INFLATION (Approximately half a session)

A. Concepts and issues
Alternative exchange rate regimes
Pegged exchange rates
Monetary approach to the balance of payments
Pricing to market
Deviations from PPP
Inflation and the exchange rate
 Tradable and non-tradable goods
The relative price between tradable and non-tradable goods (the Real Exchange Rate)

B. Readings:
M, chapters 15, 19 (19.1).

MODULE 8: BALANCE OF PAYMENTS ACCOUNTING (Approximately half a session)

A. Concepts and issues
Imports
Exports
Trade balance
Service account
Transfers
Financing account
International reserves
Balance of payments

B. Readings:

“International Economic Accounts”, in
(You need to be familiar with the structure of the accounts, however you don’t need to know all of the details)

http://www.bea.gov/international/

"What Is the Balance of Payments?", Norman S. Fieleke in
http://www.bos.frb.org/economic/special/balofpay.pdf

Balance of Payments Statistics Newsletter

MODULE 9: CURRENCY RISK AND EXCHANGE RATES IN THE LONG RUN
(Approximately one session)

A. Concepts and issues
Real exchange rate (RER)
RER and exports
RER and imports
RER and sustainable current account balance
From the RER to the NER

B. Readings:


MODULE 10: INTEREST RATES, EXCHANGE RATES AND ASSET MARKETS IN THE GLOBAL ECONOMY (Approximately one session)

A. Concepts and issues
Nominal interest rate
Real interest rate
Fisher equation
Risk neutrality
Risk aversion
Currency risk
Uncovered interest rate differentials
Carry trade
Exchange rate volatility and “news”

B. Readings:
Interest Rates and the Economy http://money.howstuffworks.com/interest-rate.htm

MODULE 11: FISCAL POLICY: STIMULI AND THE MULTIPLIER (Approximately half a session)

A. Concepts and issues
Fiscal multiplier
Crowding out
Countercyclical macroeconomic policy
Historical discussion (Great Depression and other historical episodes)
Deficits and debt
Sustainable long term deficits and debt sustainability

B. Readings:


MODULE 12: UNEMPLOYMENT (Approximately half a session)

A. Concepts and issues
Labor force
Rate of participation
Discouraged worker
Additional worker
Natural unemployment rate
Labor market distortions and unemployment

B. Readings:


MODULE 13: THE GOLDMAN-SACHS MODEL OF ECONOMIC GROWTH (Approximately one session)

A. Concepts and Issues
Aggregate production function
Sources of Growth
Capital Accumulation and Growth
Employment creation and growth
Total factor productivity (TFP) growth
Determinants of TFP
  - Trade policy.
  - Educational policy.
Savings
Private savings
Public savings
Savings and growth as a consistency check
Foreign savings and the trade deficit
B. Readings:

