The Global Economy (COR1-GB.2303)

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Office Hours: By appointment

Section 10: M, 6:00–9:00, KMC 3-65 T.A. Matt Coupland (mpc406@stern)
Section 11: T, 6:00–9:00, KMC 2-65 T.A. Saurabh Pankaj (saurabh.pankaj@stern)

Course Description

This class is about Macroeconomics, the sub–field of Economics that studies the evolution and the determinants of aggregate quantities such as GDP, unemployment, international trade, government debt, ... and of prices such as exchange rates, interest rates, ... Among the cool questions that macroeconomists ask are: (i) why are some countries very rich and others are very poor? (ii) what causes inflation? (iii) is international trade beneficial to everybody? (iv) does a large federal budget deficit today imply high interest rates in the future? (v) why sometimes countries plunge in devastating financial crisis?

Why should MBA students take a full semester of Macroeconomics? There was never an easier question to answer: No matter what career you chose or you are contemplating to choose, you will have to take decisions whose success depend on the future evolution of variables such as exchange rates, inflation rates, interest rates, GDP, employment, .... I have not used the expression “future evolution” by chance. In order to take sound decisions, knowing the status quo is not enough. One needs to forecast how these prices and quantities will evolve in the future. For the sake of illustration, let’s look at a couple of examples, by considering the three most common occupations of Stern graduates: finance industry, corporate job, and consulting.

Finance. Assume you work for a hedge fund investing in emerging markets. The risk–return profile of securities traded in such markets depend to a very large extent on the growth prospect of the respective countries, both in the short– and in the
long–run. As far as the short–run is concerned, you will have to assess the likelihood that a country will keep its exchange rate pegged to the dollar, or the chance that it will fall in a financial crisis. With regard to the long run, you will have to gauge whether the conditions for economic development will persist in the future.

*Corporate / Consulting.* Assume you work (or consult) for a US–based technology company that is facing growing demand from Europe. How should the company respond? Should it build new capacity? If yes, should it locate a new plant in Europe, or expand capacity in the United States? Conditional on choosing Europe, which country should it invest in? Among the factors that are likely to influence your decisions are projections about (i) the evolution of demand for your product in Europe (how much does it depend on the dynamics of GDP?); (ii) the evolution of exchange rates (if you locate in the US, most of your expenses are going to be denominated in US dollars, while your revenues will be in a foreign currency); (iii) the level of tariffs; (iv) labor market conditions; (v) taxes.

To put it differently, this course is designed in such a way that by the end of the semester, you will be able to:

(i) Comment intelligently on global economic events and trends.

(ii) Assess and critique the opinions of market analysts and journalists. Is their analysis based on sound theory? Is it supported by the data?

(iii) Understand the different perspectives brought to economic policy by people around the world.

**The Stern Approach**

Macroeconomics is a “strange” field. A body of ideas that were mainstream forty years ago are now dismissed by the research community either because recent data have shown them to have counterfactual implications, or because they have been proven to be internally inconsistent. Unfortunately, these ideas still constitute the framework upon which most journalists, analysts, and commentators base their conclusions and recommendations. Academic research in macroeconomics is now advancing at a very fast pace. At Stern we strive to bring its most recent developments to the classroom, with the purpose of giving our students a competitive advantage. We can follow this approach because the faculty itself is engaged on the frontier of research.

**Prerequisites**

The class is going to be challenging and will require a substantial amount of work. Your proficiency will depend in part on your knowledge of elementary but important
notions of economics, statistics, and mathematics. I encourage you to spend a couple of hours working your way through the “Mathematics Review,” a concise overview of the math tools we’ll be using.

**Help**

There may be times when you will need a little help. If this happens, I strongly encourage you to come to see me. If you email me, I’ll try my best to get back to you by the end of the day. You can also contact any of the teaching assistants. They are very talented and knowledgeable.

**Course Materials**

The course materials consist of:

- **Book.** It is entitled “The Global Economy” and will be provided to you free of charge the first day of class. It gathers lecture notes written by the Macro Team at NYU Stern over the last decade or so. Updated versions of the book will be available at [https://github.com/DaveBackus/Amazon_Global_Economy](https://github.com/DaveBackus/Amazon_Global_Economy) under the Creative Commons Attribution-ShareAlike 3.0 Unported License.

- **Lecture notes.** This is supplementary material that will be handed to you during the semester in both e– and p– format.

- **Other readings.** To maximize your payoff from taking this class, you must read the international business press as we go along. My suggestions? The Economist, the Financial Times, and the Wall Street Journal.

- **Slides.** I will distribute them on the day I show them in class. After that, they will be available for download from NYU Classes. Notice that, by definition, slides are not self-contained. I distribute them with the purpose of reducing the time devoted to note-taking.

- **Deliverables.** Quizzes and homework assignments will be posted on NYU Classes well before they are due.

For every class meeting, you will be assigned a set of readings. It is a requirement of the course that you complete them before coming to class.
Coursework and Evaluation

- **Class attendance and participation.** Attendance is required. Your participation enhances both your and your classmates’ learning experience. You can participate both by asking some questions, and answering others. Your grade will be based on the quality (not quantity) of your contributions to class discussions.

- **Quizzes.** These are very short assignments which you’ll be able to complete on NYU Classes and whose main purpose is to give you one more incentive to complete the readings before class. The due dates are indicated in the calendar. Given the stated goal of these assignments, (i) you are not allowed to discuss your answers with your classmates and (ii) late submissions will not be accepted for any reason.

- **Homework.** Homework assignments constitute unique opportunities to review and apply the principles and tools developed in class. I strongly encourage you to work in team. However, remember that there are good and bad ways to work with classmates. Tackle all the problems on your own and then discuss them with your colleagues: good. Split the problems in such a way that you do not actually see most of them: bad. You are required to hand in your assignments electronically, through NYU Classes. If you work with others, please hand in only one copy of the solution, noting the names of the authors on the first page. The due dates are indicated in the calendar.

- **Exams.** There will be a midterm and a final exam. Both will last 80 minutes, will be closed-book, and will be based on all the material covered to date. The midterm will be held in class on November 10 (Section 10) and 11 (Section 11). You are allowed to bring a double-sided prepared sheet and a calculator. The final will be a take-home exam. You will be able to take it at a time of your choice, within a 3-day window during the last week of the term. Prior to each exam, you will be assigned a practice exam.

- **Re-grading.** Any request of re-grading must be advanced to me (not to the TAs) no later than one week after the assignment or exam is returned to the class.

Your grade for the course will be based on your performance on all of these deliverables, weighted as follows:

- Quizzes (Best 9 of 11) 5%
- Class Participation 10%
- Homework (Best 4 of 5) 25%
- Midterm Exam 30%
- Final Exam 30%
Final grades will follow the School’s guideline for core courses: no more than 35% of the class will receive an A or A–. This guideline was introduced several years ago at the request of students, who wanted to make sure that different sections of the same course would be graded to the same standard.

Honor Code

At Stern we believe that honesty and integrity are necessary for a rewarding educational experience. These qualities form the basis for the strong trust among members of the community (students, faculty, and administrators) that is essential for educational excellence. The Honor Code requires each student to act with integrity in all academic activities and to hold his or her peers to the same standard.

We also hold ourselves to a high standard of professional behavior. Accordingly, lateness, using cell phones, holding private conversations, using your laptop for anything but note-taking, and indeed any behavior that disrupts me or your colleagues will be considered inappropriate. Repeated violations of this standard will affect your participation grade.

NYU Classes

By now you are probably familiar with NYU’s course management software. During the term, you will be able to use it to view all classes (I will post links to the streaming videos), download notes, slides, readings, and homework assignments, deliver your solutions to the problem sets (.pdf, .doc, .xls formats only), send me anonymous feedback, and check your grades in a confidential manner.

Disability

If you have a qualified disability and will require academic accommodation during this course, please contact the Moses Center for Students with Disabilities (CSD, 998–4980) and provide me with a letter from them verifying your registration and outlining the accommodations they recommend. If you will need to take an exam at the CSD, you must submit a completed Exam Accommodations Form to them at least one week prior to the scheduled exam time to be guaranteed accommodation.

Feedback

Your feedback is very important to me. Your comments, suggestions, and critiques, on every aspect of the class, are welcome at any time during the term. You can address
them to me in the form you prefer: in person, by email, or by snail mail. Finally, by clicking on the website’s button “Feedback,” you will be directed to a feedback form that allows you to send me your comments and suggestions in an anonymous fashion.

If you find out you like macroeconomics

Don’t worry, many have had the same problem and gone on to lead productive and financially rewarding lives. Even better, you can pursue your interest in electives that build on the material in this course. Here is the list of classes taught during the academic year 2014/2015. You can expect a very similar line-up for next year.

- Global Perspectives on Enterprise Systems – George Smith or Richard Sylla or Joe Foudy (Fall & Spring)
- Economic and Business History of the United States – George Smith (Fall)
- Advanced Macroeconomics – Tom Sargent and Lars Ljungqvist (Fall)
- Monetary Policy, Banks, and Central Banks – Tobias Adrian (Fall)
- Financial Crisis and the Policy Response – Kim Schoenholtz (Fall)
- The Economy & Financial Markets – Anthony Karydakis (Spring)
- Real World Analysis of Economic Data – Peter D’Antonio (Spring)
- Growth in the Developing World and the Global Economy – Michael Spence (Fall)
- International Macroeconomics: Policy, Theory, and Evidence – Nouriel Roubini (Fall)
- Global Economic Trends and Policy Challenges – Gian Luca Clementi (Spring)
- Development of Financial Institutions and Markets – Richard Sylla (Spring)