

UNIVERSITY OF SOUTHERN CALIFORNIA
Marshall School of Business
FBE 526 MACROECONOMIC ANALYSIS FOR BUSINESS
Selo İmrohorođlu
COURSE SYLLABUS
Spring 2007, JKP 204, Monday and Wednesday 5:00-6:20 pm.

INSTRUCTOR

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OFFICE HOURS

Office hours are 11:00-12:00 pm on Monday and Wednesday, or by appointment. Most of you are working so it might be difficult to make my office hours. Just get in touch with me to set up an appointment if you want to talk to me. I am around a lot but have other tasks that are research related that might keep me outside my office so it is always a good idea to set something up ahead of time. The fastest way to reach me is via e-mail.

PREREQUISITES

Some of you have taken a macroeconomics course. We will go deeper into some of the core macroeconomic issues and cover some advanced reading material. This effort will require high school level algebra and statistics. We will spend some time reviewing these tools.

COURSE OBJECTIVES

Managers in a global marketplace care about sales growth, competitiveness of the company, cost of capital, labor market conditions, and the bottom line. Macroeconomic policies and events directly influence how these factors are determined. Labor productivity, fiscal and monetary policies, business fluctuations, trends in labor force participation and social insurance programs, budget deficits and federal debt are among the set of factors that influence the risks and rewards from business investments.

This macroeconomics course provides a conceptual framework to understand these factors, to measure and interpret them using actual U.S. data, and to discuss how we can apply macroeconomic principles to evaluate future trends in business conditions.

Understanding what popular press writes about macroeconomics is a major goal of this course. For the most part, this will disappoint you as the quality of what is written is poor. In addition, we will discuss the fiscal and monetary authorities' statements, which are typically very educational. I will list two examples below:

Before the National Italian American Foundation, New York, on November 28, 2006, Chairman of the Federal Reserve Board, Ben S. Bernanke said:

“...Over the next year or so, **the economy appears likely to expand at a moderate rate**, close to or modestly below the economy's long-run sustainable pace..... **Growth in potential output is determined to a large extent by two factors: the trend growth rates of the labor force** (that is, the number of individuals available to work) and of labor productivity (that is, the amount of output that each worker can produce). Looking forward, **core inflation seems likely to moderate gradually** over the next year or so. Some of the factors that pushed up core inflation in the recent past--in particular, energy prices and shelter costs--appear likely to be more neutral in the coming year, and inflation expectations remain contained..”

“Overview of the President’s Budget”, published by the Office of Management and Budget states:

“ ... The 2007 Budget continues policies that have helped fuel economic growth. In 2001 and again in 2003, the President signed **major tax relief benefiting workers, families, and businesses**. Thanks to this tax relief, and the hard work of America's entrepreneurs and workers, **our economy is strong**. Over the past year, inflation-adjusted Gross Domestic Product is estimated to have grown at a strong annual rate of 3.6 percent. **Economic expansion** has produced more than **4.6 million new jobs** since May 2003, reduced unemployment to 4.9 percent, and raised homeownership to all-time highs...”

What do these statements really mean? What is the historical context? What policies and factors determine these “good” economic outcomes? Why can’t we just follow these “right” policies and experience economic expansions all the time? Why do we have unemployment? Why do the Europeans have much higher unemployment?

These are some of the questions we will address in this course. Our primary goal will be to understand the economic environment in which businesses operate and how business is affected by changing economic conditions and policies. We will develop a simple theoretical framework to make the discussion meaningful. The course will have a **significant bias** toward understanding the **fiscal and monetary policy of the U.S. government** and the challenges facing our economy in the future.

REQUIRED READINGS

Textbook: *Macroeconomic Update Edition* by Andrew A Abel and Ben S. Bernanke, Addison-Wesley Longman, 2005, ISBN-10: 0321394186, ISBN-13: 9780321394187; or [Macroeconomics Update Edition, SafariX eTextbook, 5/E](#) ISBN-10: 0321301005, ISBN-13: 9780321301000.

I will post copies of my PowerPoint slides and other relevant material on the course web site

<http://marshallinside.usc.edu/simrohoroglu/teaching/526/spring2007/fbe526mainpagehtm.htm>

The study guide that accompanies this book is available on the web at <http://www.coursecompass.com/ccindex.html> . Every student who buys a new copy of the book receives a prepaid subscription to MyEcon Lab which contains the study guide. The details about how to access MyEcon Lab can be found in the book.

In addition, several articles from the economic and financial press are required. Links to these articles will be published in blackboard and are intended to provide an applied perspective to the concepts that will be covered in lectures. We will discuss some of these articles in class. You will be responsible for all articles, even those that are not discussed in detail in class. There may be direct questions from these articles in exams and quizzes. In addition, I highly recommend that you read regularly sources of economic and business news. Probably the best source of weekly news is The Economist <http://www.economist.com>. It is a British publication with extensive U.S. and world coverage, and it has a substantial student discount. The Wall Street Journal is of course a prime source of information: <http://www.wsj.com>. The New York Times has broad coverage and good analysis; <http://www.nytimes.com/>. Its online subscription is free. The Economist and the WSJ have substantial student discounts available at <https://www.economist.com/academic> and <http://online.wsj.com/registration/student>.

STATEMENT ON TECHNOLOGY USE

Please note that communication devices such as cell phones, Blackberries, etc. capable of sending and or receiving electronic communication and all entertainment devices such as iPods or other MP3 players are to be turned off and kept off throughout the class session. Receiving or sending communication or entertainment during class disrupts the learning environment and is rude to those around you. Laptops can be used only with the express permission of the professor. When you are permitted to use your laptop for note-taking purposes, Internet connections are prohibited unless otherwise stated by the professor. There will be no use of laptops during examinations.

CLASS ETIQUETTE

As in other courses, I need your cooperation to ensure orderly conduct of the lectures.

- Please arrive on time. If you are going to be late on a particular day, for a valid reason, please let me know in advance.
- If you have to leave early on a particular day, for a valid reason, please let me know in advance; also, try to find a seat near an aisle to minimize disruption to others. You may not come and go as you please.
- For the exams, please arrive on time and take your seat promptly. You may start only when I announce the start of the exam and you must stop and hand-in your exams when the exam ends.
- Private discussions, including scribbling notes, among students are disruptive to others. If you have a question or something to contribute to the class discussion please share it with all of us.

EVALUATION OF STUDENTS' WORK

Requirement	Grade Value
Midterm Exam	30%
Group Project	20%
Final Exam	50%

The final course grade is based on a “curve”. I adhere to the Marshall School guidelines which suggest an average grade of 3.5 out of 4.0 for MBA elective courses.

EXAMS

The final exam is comprehensive; about 25% of the final exam will cover the material before the midterm. Both exams are closed-book, closed-notes exams, with a combination of multiple choice, short answer, and problem/essay questions. You may use a calculator, but sharing one is not permitted. Also, devices capable of wireless transmission are not allowed. I will provide you with the necessary formulae but you will be responsible for the assigned chapters, any material covered in class, and the assigned readings. The exams are intended to assess how well you understand the basic ideas and principals, and how you can apply them for some specific business related scenarios. The midterm exam is a 75-minute exam; the final exam is a 2-hour exam.

Any violation of the code of academic honesty will be treated severely.

GRADE APPEAL

If you are not satisfied with your exam grade for objective reasons, you may appeal to me in writing, within one week after the exam is handed out. Be clear and specific about the answers that you feel needs to be re-graded and about your reasons for requesting re-grading. As a result of re-grading your score may increase or decrease.

MAKE UP EXAMS

Current department policy to which I adhere is the following:

No make-up midterm or final exams will be allowed. If for any reason a student must miss an exam, he/she will be given a ‘0’ for that exam. If there are extenuating circumstances that prevent the student from taking an exam, he/she must discuss the reason with the instructor before the time of the exam. Current department policy is that a student will not be given a make-up exam unless he/she obtains a written permission from

the instructor in advance. In addition, a student must be able to document the extenuating circumstance.

GROUP PROJECTS

“How should the world invest an extra \$50 billion over the next four years to do the most good?”

In 2004, experts, specialists, and eminent economists gathered in Copenhagen to produce the Copenhagen Consensus. They identified ten challenges facing the world and used economic principles (cost benefit analysis (CBA), discounting, calculating the value of statistical life (VSL), etc.) to prioritize these ten challenges. Because resources are scarce, these different challenges should be ranked, just like competing projects within a company or spending proposals from competing departments within the Federal government are prioritized.

Global Crises, Global Solutions (Cambridge University Press, 2004, ISBN 0 521 60614 4), edited by Bjorn Lomborg, presents the ten challenges, ten papers to address these challenges, twenty perspective papers that discuss the proposed solutions, two for each challenge, and the rankings of a panel of eight experts.

The ten challenges are climate change, communicable diseases, conflicts and arms proliferation, access to education, financial instability, governance and corruption, malnutrition and hunger, migration, sanitation and access to clean water, subsidies and trade barriers.

The group project involves “... i) a brief overview of the dimensions of the challenge, ii) identify between one and five practicable opportunities to address the challenge, and, iii) make an extensive overview of the CBAs in the literature and apply it to the different opportunities.

Each project will be about 12-15 pages long and will be presented in class. The number of students per group will be about 4. Once groups are formed, I will randomly assign a challenge to each group.

Educational Objectives:

- 1) To evaluate the challenges already identified by economists.
- 2) To analyze the financial environment, business and labor practices, fiscal and monetary policies, projected demographic trends, discount rate estimates, and value of statistical life estimates to evaluate different challenges.
- 3) To apply concepts and tools from this course to an actual and important real life challenge.

Deliverables:

1. A hardcopy of your group project due in class 5:00 PM on April 18.
2. An electronic copy of your report to be e-mailed to me at selo@marshall.usc.edu by 5:00 PM on April 18.
3. A ten-minute oral presentation to be delivered during classes on April 18 and April 23.

Format of Group Project Report and Presentation

The format of the group project report and presentation should be 1) a one-page executive summary, 2) up to 15 pages of text (single-spaced, using a normal sized font) discussing the challenge and opportunities, 3) detailed supporting exhibits, and 4) a list of your sources of information. The entire document should not exceed 20 pages.

RETURN OF PAPERS AND EXAMS

Graded paperwork that is unclaimed by a student will be discarded after 4 weeks. Students who miss class sessions when paperwork is returned are responsible for arranging for an appointment to retrieve the material. Disputes over graded material should be brought to the professor's attention as soon as possible.

BLACKBOARD CONNECTION

All course material will be on the course web site

<http://marshallinside.usc.edu/simrohoroglu/teaching/443/spring2007/fbe443mainpagehtm.htm>

Your grades will be posted on Blackboard. In addition Blackboard is my principal means of communication with you outside class. Therefore, it is important that,

1. you can get on Blackboard,
2. you automatically have your e-mail messages forwarded to your favorite e-mail account so that you can receive them promptly,
3. your e-mail account is functioning and not full.

GETTING HELP

If you have questions about any aspect of the course, you can always ask me. If it is a quick question, you can catch me before or after the class, or during the break in between. If you want more time or privacy, you can come to my office hour. If you cannot make my office hour, you can contact me for an appointment.

The best way to reach me is by e-mail. I check it all the time. The worst way is to call me as I do not check my phone messages nearly as often as I check my e-mail.

STATEMENT ON ACADEMIC INTEGRITY

USC seeks to maintain an optimal learning environment. General principles of academic honesty include the concept of respect for the intellectual property of others, the expectation that individual work will be submitted unless otherwise allowed by an

instructor, and the obligations both to protect one's own academic work from misuse by others as well as to avoid using another's work as one's own. All students are expected to understand and abide by these principles. *Scampus*, the Student Guidebook, contains the Student Conduct Code in Section 11.00, while the recommended sanctions are located in Appendix A. <http://www.usc.edu/dept/publications/SCAMPUS/gov/> Students will be referred to the Office of Student Judicial Affairs and Community Standards for further review, should there be any suspicion of academic dishonesty. The Review process can be found at: <http://www.usc.edu/student-affairs/SJACS/>

STATEMENT FOR STUDENTS WITH DISABILITIES

Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to me (or to TA) as early in the semester as possible. DSP is located in STU 301 and is open 8:30 a.m. – 5:00 p.m., Monday through Friday. The phone number for DSP is (213) 740-0776.

COURSE SCHEDULE AND READING ASSIGNMENTS

Date	Topic	Assignment Due
Week 1:		
1/08	Course Introduction. –T.1 Review of Math – T.2	Ch 1; Articles 1a, 1b Appendix A
1/10	Measurement of Economic Performance –T.3	Ch 2; Articles 2a, 2b, 2c, 2d
Week 2:		
1/15	Martin Luther King Day, No Class	
1/17	Production & Income –T.4	Ch 3.1, 3.2, 3.3; Articles 3a, 3b
Week 3:		
1/22	The Labor Market –T.5	Ch 3.4 – 3.5
1/24	The Labor Market –T.5	Articles 4a, 4b
Week 4:		
1/29	Consumption & Saving –T.6	Ch 4.1, App. 4-A
1/31	Why do people save? –T.6	Articles 5a, 5b
Week 5:		
2/5	Investment; Goods Market Equilibrium	Ch 4.2, 4.3, Article 6a
2/7	Balance of Payments –T.7	Ch 5.1, 5.2, 5.3, 5.4 5.5
Week 6:		
2/12	Economic Growth –T.8	Ch 6, Articles 7a, 7b, 7c
2/14	Economic Growth –T.8	Articles 7d, 7e.
Week 7:		
2/19	Presidents Day, No Class	
2/21	Business Cycle Facts –T.9	Ch 8, Ch 10.1
Week 8:		
2/26	Business Cycle Theory –T.9	Articles 8a, 8b
2/28	Forecasting Business Cycles	Lost Decade
Week 9:		
3/5	Review	
3/7	Midterm	

Date	Topic	Assignment Due
<i>Week 10:</i>		
3/19	The Role of Government in the Economy	Ch 15.1, 15.2, 15.3
3/21	Spending and Taxation – T10	Articles 10a, 10b, 10c, 10d
<i>Week 11:</i>		
3/26	Social Security	Lecture Notes
3/28	Demographic Transition and Social Insurance	Prescott’s Slides
<i>Week 12:</i>		
4/2	Money and Prices	Ch 14 and Lecture Notes
4/4	Inflation and Why It is Bad	Articles 11a, 11b, 11c
<i>Week 13:</i>		
4/9	Monetary Policy & the Fed –T.11	The Great Depression
4/11	Hyperinflations and Stabilizations	Article 11d
<i>Week 14:</i>		
4/16	Group Project Presentations Demographics and Reform	
4/18	Group Project Presentations	
<i>Week 15:</i>		
4/23	Group Project Presentations and Ranking of the Challenges	
4/25	Review	
<i>Final Exam:</i>		
5/2 W	4:30-6:30 PM JKP 204	

Note: All details in this handout are subject to change with adequate notice. The University’s official “Schedule of Classes” supercedes all items such as final exam schedules, etc., which are reproduced here only for your convenience.

LIST OF ARTICLES

1. [Topic 1] Introduction, Review of Analytical Tools
 - a. "[The Benevolence of Self-Interest](#)," *The Economist*, December 12, 1998.
 - b. "[The Dismal Science? Hardly!](#)" *The Wall Street Journal*, June 4, 2003.
 - c. "The Dismal Science", by William Easterly, *The Wall Street Journal*, November 15, 2005.
2. [Topic 3] Measurement of Economic Performance
 - a. "[National Economic Trends](#)," Federal Reserve Bank of St. Louis, August 2005.
 - b. "[National Data - Selected NIPA Tables](#)," Bureau of Economic Analysis 2005.
 - c. "Economic and Financial Indicators," *The Economist*, Latest issue.
 - d. "Emerging Market Indicators" *The Economist*, Latest issue.
 - e. "The Economic Outlook", Remarks by Chairman Ben S. Bernanke Before the National Italian American Foundation, New York, New York November 28, 2006
3. [Topic 4] Production and Income
 - a. "[Productivity and Technology](#)," The Federal Reserve Bank of St. Louis, National Economic Trends, May 1997.
 - b. "[Statistical illusions: Productivity in Europe and America](#)", *The Economist*. London: Nov 10, 2001. Vol.361, Iss. 8247; pg. 99.
 - c. "Capitalism and Friedman", *The Wall Street Journal*, November 17, 2006.
4. [Topic 5] The Labor Market
 - a. "[The Great Hollowing-out Myth](#)," *The Economist*, February 19, 2004.
 - b. "[Not so fair pay](#)," *The Economist*, June 27, 1998
5. [Topic 6] Consumption and Saving
 - a. "[Rebates Boost Income but not Spending](#)," *The Wall Street Journal*, August 31, 2001.
 - b. "[How Households Responded to Tax Rebates of 2001](#)," *NBER Digest*, April 2005 (optional).
6. [Topic 7] Balance of Payments
 - a. David Backus, Espen Henriksen, Frederic Lambert, and Chris Telmer, "Current Account Fact and Fiction," Board of Governors, Federal Reserve System, October 2005.
7. [Topic 8] Economic Growth
 - a. "[The Growth Machine](#)," *The Economist*, May 18, 2002.
 - b. "[Productivity Is the Gift That Keeps Giving](#)," in *The Regional Economist*, by William Poole, President of the Federal Bank of St Louis.
 - c. "Industrial Revolution: Past and Future," *The Region*, 2003 Annual Report, Federal Reserve Bank of Minneapolis.
<http://minneapolisfed.org/pubs/region/04-05/essay.cfm>
 - d. "Giving Aid Effectively", by Nancy Stokey, *The Region*, The Federal Reserve Bank of Minneapolis.
 - e. "Productivity", Remarks by Chairman Ben S. Bernanke Before Leadership South Carolina, Greenville, South Carolina, August 31, 2006

8. [Topic 9] Business Cycles
 - a. The Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel 2004, Information for the Public,
<http://nobelprize.org/economics/laureates/2004/public.html>
 - b. The Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel 2004, Advanced Information,
<http://nobelprize.org/economics/laureates/2004/ecoadv.pdf>
 - c. Experimenting with the Kydland-Prescott Model,
<http://bigfoot.uib.no/models/bc/>
 - d. NBER Business Cycle Dates
 - e. Chicago Fed National Activity Index, December 2006.
9. [Topic 10] Fiscal Policy
 - a. “[The Price of Profligacy](#),” *The Economist*, January 25, 2003.
 - b. “[Re-Engineering Retirement](#),” *The Economist*, December 14, 2002.
 - c. “Rubin’s Tax Gambit”, *The Wall Street Journal*, November 14, 2006.
 - d. “Q & A with Milton Friedman, *The Wall Street Journal*, November 15, 2006.
10. [Topic 11] Monetary Policy and the Fed
 - a. George T. McCandless Jr. Warren E. Weber, “[Some Monetary Facts](#)“, Federal Reserve Bank of Minneapolis Quarterly Review, Vol. 19, No. 3, Summer 1995, pp. 2–11
 - b. “[Interview with Ben S. Bernanke](#),” *The Region*, Federal Reserve Bank of Minneapolis, June 2004.
 - c. Monetary Aggregates and Monetary Policy at the Federal Reserve: A Historical Perspective”, Ben Bernanke.
 - d. “Inflation in Latin America: A New Era?”, Comments by Ben Bernanke, February 11, 2005.

The full text of all the press articles can be downloaded from
<http://proquest.umi.com/login> from a USC machine or through the VPN.

Appendix I
PEER EVALUATIONS
FBE 526 Spring 2007

Please allocate 100 points among your team members, including yourself, to reflect each person's relative contribution to your team. Write the name of each member of your team, including yourself, in the spaces below and then assign points to each person. Make sure the points add up to 100. If I do not receive a peer evaluation from you then I will assume that all members contributed equally to the project.

	<u>List Name of Person</u>	<u>Points</u>
Yourself	_____	_____
Team Member	_____	_____
Team Member	_____	_____
Team Member	_____	_____
Team Member	_____	_____
Team Member	_____	_____
Total:		<u>100</u>

Explanation

Please explain why you divided up the points the way you did. This explanation is an important component of the peer evaluations, so please take the time to provide a thorough explanation. Peer evaluations that have a good explanation will be taken more seriously than those that do not.