

Spring 2020
Kellstadt Graduate School of Business
DePaul University

ECO 509 – Business Condition Analysis

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Office Hours: Wednesdays 4:00-5:00 (via live Zoom)

Special note: This syllabus is revised & updated for the online format of the class as the University decides to deliver the entire classes via online in the 2020 spring quarter due to Coronavirus outbreak.

Goal of this course: Macroeconomic environment and policies heavily influence business conditions and decisions. So making right decisions requires a thorough knowledge of workings of the macroeconomy. This course explores key macroeconomic relationships and policy issues on productivity, growth, inflation, unemployment, booms and recessions, monetary and fiscal policies, the flow of international trade and capital and the globalization process. We emphasize the use of theoretical frameworks to study how the economy works and their application to actual economic events such as the 2007-09 global financial crisis or policy debates – using, as much as possible, recent examples and empirical research results.

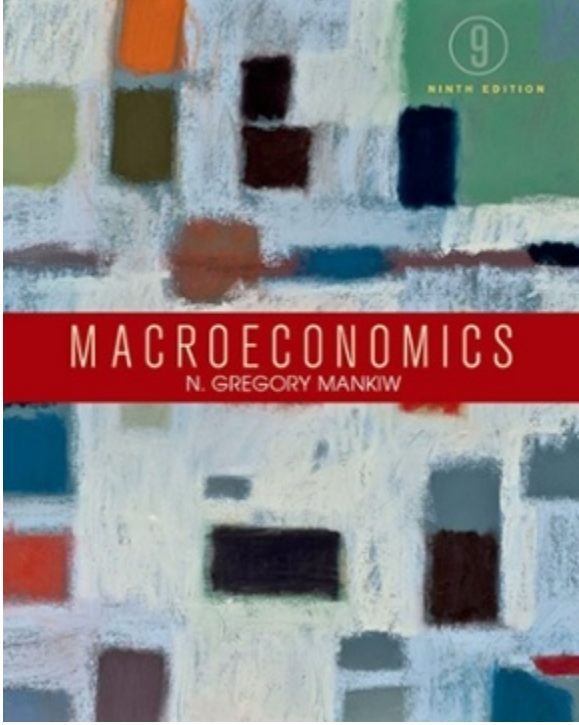
Prerequisites

There are no prerequisites. This course is highly analytical, but the level of mathematics will be kept at the minimum (elementary algebra).

Course Materials

Many chapters in Mankiw textbook will serve as basic readings, which will be supplemented with lecture notes and articles. Also, we extensively cover the U.S. and international data.

- (a) **Recommended Textbook:** N. Gregory Mankiw, **MACROECONOMICS**, 9th edition, Worth Publishers: New York, 2016.
You may use any version (e-book, looseleaf, etc.) or previous editions (8th or 7th).
- (b) **Lecture slides/class handouts** will be posted in D2L (<https://d2l.depaul.edu/>) on a regular basis.
- (c) **Reading Materials:** the URLs (weblinks) for reading materials are provided in this syllabus (simply click on the title of the article). These reading materials would reinforce your understanding of the topics we cover in class, and some of them will be discussed in class. For the exams, however, only the materials covered in class is exam-relevant.



Course Requirements

It is very important to closely follow lectures (online), since the materials covered in lectures form the core of the course.

There will be **3 requirements**: a midterm exam, a final exam, and a group project

(1) A mid-term and a final exam: The **midterm exam** will be given on **April 29, 2019** and the **final on June 10, 2019 (to be confirmed)**. Both exams will be take-home exams (i.e., open-book test). Please note that these dates are tentative.

(2) Group project: A group of students (up to four) will work on a group project (short paper) on a macroeconomic issue of their choice. Once they form a group, each group must talk to me and get approval regarding the topic. A grade on this project will be based on quality of write-up. The members of each group will get the same grade. More details in class.

Grading: Course grade will be determined by the midterm (40%), the final (40%), and group project (20%).

Grading Scale: A=94% and above; $88\% \leq A < 94\%$; $82\% \leq B+ < 88\%$; $77\% \leq B < 82\%$; $72\% \leq B- < 77\%$; $67\% \leq C+ < 72\%$; $63\% \leq C < 67\%$; $59\% \leq C- < 63\%$; $56\% \leq D+ < 59\%$; $53\% \leq D < 56\%$; $50\% \leq D- < 53\%$; and $F < 50\%$.

General policy

You should be aware of and abide by the University's policy on academic integrity (<http://academicintegrity.depaul.edu>). Also, the instructor reserves the right to change the topics or schedules if necessary.

Makeup Exams

In cases of severe illness or other extreme circumstances, a student may request a makeup exam. You must inform me of and obtain permission for the absence prior to the exam time, and provide appropriate documentation. I reserve the right to investigate the legitimacy of the request and to assess a grade penalty, or to award a grade of zero if proper procedure is not followed.

Desire2Learn (D2L)

All class material will be posted on D2L (<https://d2l.depaul.edu/>). All communication will be through D2L, although I will make announcements in class and occasionally send emails as needed. "I DIDN'T CHECK D2L" will not be a valid excuse for missing announcements or assignments

Special Notice on Online Class, Discussion, and Emails

(1) The course will be delivered as "asynchronous" online, which means that I will deliver the lecture via pre-recorded format. So, it will NOT require us to meet up virtually at a set time and day, as you would do with live ZOOM.

That said, to facilitate individual students' questions and concerns, I will hold a virtual office hour so that we can connect in real time via live ZOOM.

(2) Both midterm and final exams will be take-home exams (open-book test). Further details will be provided in advance before the exam is assigned and posted in D2L.

(3) In addition to my recorded lecture (which will be the main medium of delivering the lecture), I will post the regular lecture slides (that I usually use for face-to-face lecture in classroom) in D2L.

(4) Check the D2L frequently, especially “news items” and “contents”, where I post new announcement and class materials for the class, respectively.

D2L will be key source of information about the class and course materials.

Also, I will write emails to the class as well.

(5) Please read the Zoom instruction to make yourself familiar with it so that it comes handy whenever you need it.

(6) Importantly, for general questions about the lecture materials and others, you are encouraged to use “Discussions” in D2L, while reserving the email correspondences only for discussions of personal matters/concerns.

CLASS SCHEDULE*

*The following course schedule is only tentative and may have to be modified if necessary.

Mar 30, Apr 1: Overview of US and Global Economy, and Macroeconomic Indicators

Apr 6, 8: Macroeconomic Indicators (cont'd)

Apr 13, 15: National Income Accounts and Balance of Payments

Apr 20, 22: Productivity and Growth

Apr 27: Productivity and Growth (cont'd)
Money, Inflation, Interest Rates, Bond Markets, and Exchange Rates

Apr 29: Midterm take-home exam (open-book test)

May 4, 6: Money, Inflation, Interest Rates, Bond Markets, and Exchange Rates (cont'd)

May 11, 13: Business Cycle: Aggregate Demand and Supply

May 18, 20: Business Cycle: Aggregate Demand and Supply (cont'd)

May 25: Memorial Day (University officially Closed)

May 27: Business Cycle: Aggregate Demand and Supply (cont'd)

June 1, 3: Monetary and Fiscal Policies, Budget Deficits, and Government Debt

June 10 (to be confirmed): Final take-home exam (open-book test).

Group project paper is due on June 14 (by midnight via email).

Suggested Readings (* indicates a more important reading)

1. Overview of the World Economy, and Macroeconomic Indicators

Readings: *Mankiw, chapter 2.

- U.S. and Global Economic Outlook

[“Federal Reserve issues FOMC statement,”](#) Federal Reserve Board, March 17-18, 2020.

[“Recent Economic and Financial Developments,”](#) Monetary Policy Report to The Congress by the Federal Reserve Board, February, 7, 2020.

[“Federal Reserve Announces Extensive New Measures to Support the Economy,”](#) Federal Reserve Board, March 23, 2020.

[“What's in the nearly \\$2 trillion U.S. Senate coronavirus stimulus?”](#) Reuters, March 24, 2020.

[“U.S. recession chances now at 80% despite Fed emergency moves: Reuters poll,”](#) Reuters, March 19, 2020.

[“Learning from a Century of US Recessions,”](#) US Economics Analyst, Goldman Sachs, Jan. 20, 2019.

[“Global Growth Plunging Into Downturn Over Coronavirus, OECD Says,”](#) New York Times, March 2, 2020

[“US 10-year yield falls below 1 per cent for first time,”](#) Financial Times, March 3, 2020.

- Major Macro Issues

[“Why are interest rates so low?”](#) Ben Bernanke, Mar 30 and 31, Apr 1 and 13, 2015.

[“What tools does the Fed have left?”](#) Ben Bernanke, Mar 18 and 24, Apr 11, 2016.

[“Secular stagnation: facts, causes and cures,”](#) Coen Teulings, Richard Baldwin, Aug 15, 2014.

[“Can tax reform get US to 3 percent growth?”](#) Jason Furman, Nov 3, 2017.

- 2007-09 Financial Crisis and Great Recession

*[“Financial panic and credit disruptions in the 2007-09 crisis,”](#) Ben Bernanke, September 13, 2018.

[“The housing bubble, the credit crunch, and the Great Recession: A reply to Paul Krugman,”](#) Ben Bernanke, September 21, 2018.

[“The Federal Reserve’s response to the financial crisis,”](#) Ben Bernanke, March 27, 2012.

[“The crisis,”](#) Alan Greenspan, Brookings Papers on Economic Activity, Spring 2010.

- Sovereign Debt Crisis in Europe

[“The European sovereign debt crisis,”](#) Philip Lane, Journal of Economic Perspectives, 2012, pp. 49–68

[“European debt crisis,”](#) New York Times (a collection of articles and the chronology of the crisis).

The Economy in the Long Run

2. National Income, and Balance of Payments System

- National Income

Readings: *Mankiw, chapter 3

* [“Spendthrift Nation,”](#) FRBSF Economic Letter, Nov. 10, 2005.

- Widening Wage Inequality, Skill-Biased Technological Progress and International Trade

[“Explanations for Increasing Earnings Inequality,”](#) in Chapter 5 of [Economic Report of the President](#), Feb. 1997, pp. 170-175.

[“Economic Inequality in the United States,”](#) Janet Yellen, FRBSF Economic Letter, Dec 1, 2006.

[“Top Incomes in the Long Run of History,”](#) Tony Atkinson, Thomas Piketty, and Emmanuel Saez, Journal of Economic Literature, 49(1), 2011, 3-71 ([Data Website: The World Top Incomes Database](#)).

[“The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade”](#), David Autor, David Dorn, and Gordon H. Hanson, *Annual Review of Economics*, 2016, 8, 205–240.

- Budget Deficits, Current Account Deficits, and The US Dollar

Readings: *Mankiw, chapter 6.

*[“The US Capital Account Surplus”](#), in Chapter 6 of Economic Report of the President, Feb 2006, pp. 125-147.

[“Chapter 2: Whatever Happened to the Twin Deficits?”](#), in Catherine Mann, *Is the U.S. Trade Deficit Sustainable?*, Institute for International Economics, September 1999.

* [“The Great Thrift Shift”](#), *The Economist*, Sept 24, 2005.

[“Asset Price Booms and Current Account Deficits”](#), Paul Bergin, FRBSF Economic Letter, December 5, 2011.

- Capital Inflows on Saving, Investment and Growth (Time Permitting)

[“Patterns of International Capital Flows and Their Implications for Economic Development”](#), E. Prasad, R. Rajan, and A. Subramanian, Presented at a symposium sponsored by Kansas Fed, Jackson Hole, Wyoming, 2006.

[“Ch. 3 Managing Large Capital Inflows”](#), World Economic Outlook, IMF, October 2007.

3. Productivity and Growth

- Sources of Economic Growth: Growth Accounting Equation

Readings: *Mankiw, Appendix to Chapter 8.

* [“Chapter 2.Productivity Growth”](#), in *Economic Report of the President*, 2007, pp.45-62.

[“What Is the New Normal for US Growth?”](#) John Fernald, FRBSF Economic Letter, Oct 11, 2016.

[“The Global Growth Slump: Causes and Consequences”](#), John Williams, FRBSF Economic Letter, July 3, 2017.

- Slowdown in Productivity Growth in the 1970s through the Mid-1990s

[“Factors Generating Growth of Potential GDP”](#), in *Economic Report of the President*, 1995, pp. 98-109.

- Information Technology Revolution, New Economy, and the Revival of Productivity Growth Since the Mid-1990s

* [“Chapter 2.Productivity Growth”](#), in *Economic Report of the President*, 2007, pp.45-62.

[“What Drives Productivity Growth”](#), Kevin J. Stiroh, *Economic Policy Review*, Federal Reserve Bank of New York, March 2001, pp. 37-59.

4. Money, Inflation, Interest Rates, Exchange Rates, and Asset Prices

- Money, Inflation, and Interest Rates

Readings: *Mankiw, chapters 4 and 5.

[“Globalization and Monetary Policy,”](#) Ben Bernanke, Speech at Stanford, March 2, 2007.

[“Inflation, Uncertainty, and Monetary Policy,”](#) Janet Yellen, Sept 26, 2017

- The Fed, Money Supply, and Monetary Policy Tools

Readings: Handout on Monetary Policy Tools, Bond Markets, Taylor Rule.

Mankiw, chapter 18 (Optional).

[“Lecture 3: The Federal Reserve's Response to the Financial Crisis,”](#) Ben Bernanke, March 27, 2012.

[“Lecture 4: The Aftermath of the Crisis,”](#) Ben Bernanke, March 29, 2012.

[“Quantitative Easing: How Well Does This Tool Work?”](#), Stephen Williams, St. Louis Fed, Third Quarter, 2017.

[“A Skeptical View of the Impact of the Fed’s Balance Sheet,”](#) David Greenlaw, James Hamilton, Ethan Harris, and Kenneth West, NBER Working Paper, June 2018.

- Unconventional Monetary Policy (Quantitative Easing, negative interest rates)

* [“What Tools Does the Fed Have Left?”](#) Ben Bernanke, Brookings Institution, Mar 18 and 24, Apr 11, 2016.

[“Comments on monetary policy at the effective lower bound,”](#) Janet Yellen, Brookings Institution, Sept 14, 2018.

[“Quantitative Easing for the People,”](#) Project Syndicate, John Muellbauer, Nov 5, 2014.

[“Do Central Bank Policies Since the Crisis Carry Risks to Financial Stability?”](#), IMF, Chapter 3 of Global Financial Stability Report, April 2013.

- Bond Pricing, and Risk and Terms Structure of Interest Rates

[“Information in the Yield Curve about Future Recessions,”](#) Michael D. Bauer and Thomas M. Mertens, FRBSF Economic Letters, August 27, 2018.

[“\(Don’t Fear\) the Yield Curve,”](#) Engstrom, Eric, and Steve Sharpe, FEDS Notes, Federal Reserve Board of Governors, June 28, 2018.

[“Long-Term Interest Rates,”](#) Ben S. Bernanke, March 1, 2013.

[“A New Conundrum in the Bond Market?”](#), Michael Bauer, FRBSF Economic Letter, Nov 20, 2017.

[“Demographic Transition and Low U.S. Interest Rates”](#), Carlos Carvalho, Andrea Ferrero, and Fernanda Nechio, FRBSF Economic Letter, Sept 25, 2017.

[“Room to Grow,”](#) Goldman Sachs, January 2020.

- Exchange Rates

Readings: Handout

*[“Chapter 7. Currency Market and Exchange Rates,”](#) in Economic Report of the President, Feb 2007, pp.149-166.

[“China’s Exchange Rate Policies and U.S. Financial Markets”](#), Thomas Mertens and Patrick Shultz, FRBSF Economic Letter, Oct 2, 2017.

The Economy in the Short Run: the Business Cycle

1. AD-AS Model

- Aggregate Demand and Aggregate Supply

Readings: *Mankiw, chapter 10.

[“The Great Expansion,”](#) Chapter 1 of Economic Report of the President, Feb. 2020.

[“The US Business Cycle Expansions and Contractions,”](#) NBER Business Cycle Dating Committee.

[“Will the Economic Recovery Die of Old Age?”](#) Glenn Rudebusch, FRBSF Economic Letter, Feb 4, 2016.

[“Learning from a Century of US Recessions,”](#) US Economics Analyst, Goldman Sachs, Jan. 20, 2019.

[“Sticky Situations,”](#) (on price stickiness) The Economist, Nov 7, 2006.

- Asset Price Bubbles and The Consequences

[“Stock Market Valuation and the Macroeconomy”](#), Kevin Lansing, FRBSF Economic Letter, Nov 13, 2017.

[“Bubbles, Credit, and Their Consequences”](#) Òscar Jordà, Moritz Schularick, and Alan Taylor, FRBSF Economic Letter, Sept 12, 2016.

[“How a Bubble Stayed Under the Radar”](#) Robert Shiller, New York Times, March 2, 2008.

2. Aggregate Demand:

- IS-LM Model in a closed economy (Time Permitting)
- The Great Depression in the 1930s, Today’s Japan Problem, and the 2007-09 Great Recession

Readings: * Mankiw, chapter 11 and 12; and Handout on Stock Valuation and Bubble.

[“Of Debt, Deflation and Denial,”](#) The Economist, Oct. 10, 2002.

[“Preventing Deflation: Lessons from Japan’s Experience in the 1990s,”](#) The Federal Reserve Board, Discussion Paper, No. 729, June 2002.

[“Lessons at the zero bound – the Japanese and US experience,”](#) William Dudley, New York Fed, May 21, 2013.

*[“Japan’s Stimulus Plan Is Not Courageous But Foolhardy,”](#) Financial Times, William White November 20, 2014

[“Printing Money to Fund Deficit Is the Fastest Way to Raise Rates,”](#) Financial Times, November 10, 2014, Adair Turner

3. The Open Economy in the Short Run (Time permitting)

- IS-LM model in a small open economy

Applications: Mexican Peso Crisis in 1995, East Asian Currency Crises in 1997, Argentine Crisis in 2002

Readings:

[“Exchange Rates: Fix or Float, Sink or Swim?”](#) The Economist, June 1997.

[“Euro Brief: The Merits of One Money,”](#) The Economist, Oct. 1998.

[“The Fed is forced to fuel a global boom,”](#) Martin Wolf, The Financial Times, March 30, 2004.

- Globalization and Financial Crisis

[“Global Finance,”](#) The Economist, May 1, 2003.

[“Global Economic Integration: The Overview,”](#) Martin Feldstein, Presented at a symposium sponsored by Kansas Fed, Jackson Hole, Wyoming, August 2000.

[“Lessons of the 1930s – There Could be Trouble Ahead,”](#) Economist, Dec 10, 2011.

4. Monetary and Fiscal Policies, Budget Deficits, and Government Debt

- Tradeoff between Inflation and Unemployment

Readings: * Handout on NAIRU (non-accelerating inflation rate of unemployment).

*Mankiw, chapter 14.

[“The NAIRU in Theory and Practice,”](#) Laurence Ball and N. Gregory Mankiw, Working Paper, Harvard University, April 2002.

[“Unemployment Dynamics during Recessions and Recoveries: Okun’s Law and Beyond,”](#) Chapter 3 of World Economic Outlook, IMF, April, 2010.

- Monetary Policy and Fiscal Policy

Readings: *Mankiw, chapters 4 and 5.

[“Rethinking Macro Policy II: Getting Granular,”](#) Olivier J. Blanchard, Giovanni Dell’Ariccia, Paolo Mauro, April 15, 2013.

* [“What Tools Does the Fed Have Left?”](#) Ben Bernanke, Mar 18 and 24, Apr 11, 2016.

[“Government Spending: An Economic Boost?”](#) Daniel J. Wilson, FRBSF Economic Letter, February 6, 2012

* [“Has austerity gone too far?”](#) Giancarlo Corsetti, April 2, 2012.

* [“Rethinking Stabilization Policy: Symposium Summary,”](#) Gordon H. Sellon, Presented at a symposium sponsored by Kansas Fed, Jackson Hole, Wyoming August, 2002.

* [“Comment: Is There a Role for Discretionary Fiscal Policy?”](#) Martin Feldstein, Presented at a symposium sponsored by Kansas Fed, Jackson Hole, Wyoming, August 2002.

- Budget Deficit and Government Debt

Readings: *Mankiw, chapter 19.

[“A Debt Crisis Is on the Horizon”](#), By Michael J. Boskin, John H. Cochrane, John F. Cogan, George P. Shultz and John B. Taylor, Washington Post, March 27, 2018.

[“A Debt Crisis Is Coming. But Don’t Blame Entitlements,”](#) Martin Neil Baily, Jason Furman, Alan B. Krueger, Laura D’Andrea Tyson and Janet L. Yellen, April 8, 2018.

[“Public Debt and Growth,”](#) Manmohan Kumar and Jaejoon Woo, IMF Working paper, July 2010.

[“The CBO Budget and Economic Outlook Fiscal Years 2020-2030,”](#) Congressional Budget Office (CBO), January 2020.

[“Reassessing the Role and Modalities of Fiscal Policy in Advanced Economies,”](#) The IMF Policy Paper, September 2013.