Global Economic Environment  
Duke Goethe EMBA - Class of 2007  
PAUL BERND SPAHN  

SYLLABUS  

Version: 21/08/2005

I. INSTRUCTOR  
Professor Dr. Paul Bernd Spahn  
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II. VENUE OF THE COURSE AND TIME TABLE  
The venue of the course is Johann Wolfgang Goethe-Universität, Frankfurt am Main.  
New campus Westend (Poelzig-Gelände), Casino.

<table>
<thead>
<tr>
<th>Learning Period</th>
<th>Date</th>
<th>Class weekend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Reading Period:</td>
<td>August 9-15, 2005</td>
<td></td>
</tr>
<tr>
<td>Week 1 of residency/distance:</td>
<td>August 16-22, 2005</td>
<td>Weekend 1: August 18-20, 2005</td>
</tr>
<tr>
<td>Week 2 of residency/distance:</td>
<td>August 23-29, 2005</td>
<td>Chat 28/8</td>
</tr>
<tr>
<td>Week 3 of residency/distance:</td>
<td>August 30-September 05, 2005</td>
<td>Chat 4/9</td>
</tr>
<tr>
<td>Week 4 of residency/distance:</td>
<td>September 06-12, 2005</td>
<td>Weekend 2: September 08-10, 2005</td>
</tr>
<tr>
<td>Week 5 of residency/distance:</td>
<td>September 13-19, 2005</td>
<td>Chat 18/9</td>
</tr>
<tr>
<td>Week 6 of residency/distance:</td>
<td>September 20-26, 2005</td>
<td>Chat 25/9</td>
</tr>
<tr>
<td>Week 7 of residency/distance:</td>
<td>September 27-October 03, 2005</td>
<td>Weekend 3: September 29-October 01, 2005</td>
</tr>
<tr>
<td>Week 8 of residency/distance:</td>
<td>October 04-10, 2005</td>
<td>Chat 9/10</td>
</tr>
<tr>
<td>Week 9 of residency/distance:</td>
<td>October 11-17, 2005</td>
<td></td>
</tr>
<tr>
<td>Final Exam due on</td>
<td>October 13, 2005, 24 h CEST</td>
<td></td>
</tr>
</tbody>
</table>

III. CHAT ROOM  
Chat sessions are Sundays from 19:30-20:30h CEST during weeks 1 through 9, except for the weeks with on-site classes (weeks 1, 4, and 7).

IV. TEXTBOOK AND READINGS  
Not all Chapters will be discussed in detail. See the separate reading list.

If you want the resources provided by Pearson, the publisher of your textbook (Student Access Kit), you must register as a student at their site. There you will find eTexts, quizzes, animated graphs, worked questions, powerpoints, and a glossary that go with the book.  
Pearson’s learning platform will not be used however. We use only Fuqua’s distant learning platform of course.
The Pearson Education CourseCompass Course ID is: **spahn80773**.

**This is how you register:**

1) **http://myeconlab.com/** - click on student access button on left side of page, wind up at:

2) **http://myeconlab.com/studaccess/index.html** - here select Intermediate Macroeconomics by Abel & Bernanke, wind up at:

3) **http://myeconlab.com/abel/** - here select "Yes I Have a CourseID...Register with CourseID" button - wind up here:

4) **https://register.pearsoncmg.com/reg/register/reg1.jsp;jsessionid=CuQOQjZDWoA11CFGrIrLfdqIggtL2KumoCUcO6MpmhZJdwxDrp!-952015824?productID=23026&isCourseProd=yes**

Here begins the normal registration process. You can re-use an existing login/password, or choose a new set of login credentials. Enter that access code here, then go to:


Here you enter the courseID of spahn80773 , and the process is nearly completed. They will ask you for the postal code of the school: Use 60054, and Germany, the school’s name is Goethe Business School.

A very useful site for readings on relevant and timely macroeconomic topics is **http://www.rgemonitor.com/** (still free of charge).

You can also get it under **http://www.stern.nyu.edu/globalmacro/**

Please read the following of the Pre-Assignment Packet:

**Abel and Bernanke, Introduction to Macroeconomics**, Part 1, Chapter 1.

Go through the Review Questions, the Numerical and Analytical Questions, and do the exercise “Working with Macroeconomic Data”.

Furthermore: **Abel and Bernanke, Appendix A: Some Useful Analytical Tools.**


**Reading 1-2**: “Europe v America: Mirror, mirror on the wall, *The Economist*, June 17, 2004


**Reading 1-4**: “Japan's service economy: Dead firms walking, *The Economist*, September 23, 2004

**Reading 1-5**: “Central Europe: Reaping the European Union harvest”, *The Economist*, January 6th, 2005

**Reading 1-6**: “OECD: We can’t go on like this“, *The Economist*, May 24, 2005

**V. COURSE BACKGROUND AND OBJECTIVES OF THE COURSE**

Recent political and economic changes in East Asia, Central and Eastern Europe, and Latin America underscore the importance of these changes for companies operating in an global economic environment. Understanding the economic consequences of these changes is critical to the success of the firm and its managers. The objective of this course is to provide students with the economic intuition and skills to intelligently make business decisions on a global
scale. A secondary objective of this course is to provide students with the tools to critically evaluate and interpret articles in the popular financial press such as the Wall Street Journal, the Financial Times, and The Economist.

The first part of this course reexamines important concepts from macroeconomics that are essential for understanding the framework of the global economy. In particular, as the success of long-term investments critically relies on healthy long-term growth perspectives, the course begins by providing insights into why countries grow at vastly different rates. Related to this question, the course examines why countries differ in terms of their productivity, the growth of their home market, and their export potentials. Typical questions addressed are: What determines the growth rate of a country? How does government policy affect the macro framework for business decisions? How are countries linked to the global economy? What are objectives of economic policy? What determines the price level and inflation? How does inflation affect businesses? How can inflation be controlled? How does growth affect employment? In what way is the labor market affected by the global economy? Should firms necessarily invest in countries where labor is cheap? The material in this part of the course is then applied to understand the engine for growth in various economies around the world.

The second part of the course attempts to understand issues relating to investment and asset allocation, monetary and exchange rate policies as well as a country’s international financial policy. In particular, this section of the course addresses the following questions: What determines the allocation of capital across the globe? What national policies of a given country may affect business decisions of international investors? How does a country’s international financial policy affect long-term interest rates? How can the observed behavior of long-term interest rates tell us something about what investors expect from a country’s future international financial policy? What are the determinants of exchange rates? Why to the exchange rates of some counties come under a speculative attack? What determines a country’s international financial policy in dealing with various financial crises? This section finishes by comparing the international financial policies of the U.S., Europe, East and South-East Asia, and Latin America.

In the end, this course provides the student with some key ingredients for running a successful business in a rapidly changing international economic environment: knowledge of core macroeconomic ideas and an understanding of current global economic issues.

VI. COURSE FORMAT
There are three on-site weekend courses (Thursdays through Saturdays) held in Frankfurt. The lecture dates for the class of 2007 are the following:

<table>
<thead>
<tr>
<th>Lecture #</th>
<th>Date</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>18.08.2005</td>
<td>16:00-18:30h</td>
</tr>
<tr>
<td>2</td>
<td>19.08.2005</td>
<td>14:00-18:00h</td>
</tr>
<tr>
<td>3</td>
<td>20.08.2005</td>
<td>14:00-17:30h</td>
</tr>
<tr>
<td>4</td>
<td>08.09.2005</td>
<td>16:00-18:30h</td>
</tr>
<tr>
<td>5</td>
<td>09.09.2005</td>
<td>14:00-18:00h</td>
</tr>
<tr>
<td>6</td>
<td>10.09.2005</td>
<td>14:00-17:30h</td>
</tr>
<tr>
<td>7</td>
<td>29.09.2005</td>
<td>16:00-18:30h</td>
</tr>
<tr>
<td>8</td>
<td>30.09.2005</td>
<td>14:00-18:00h</td>
</tr>
<tr>
<td>9</td>
<td>01.10.2005</td>
<td>14:00-17:30h</td>
</tr>
</tbody>
</table>
The on-site lectures will be supported by powerpoint presentations, in-class discussions, case studies, group assignments, and short presentations and commentaries by participants.

The off-site sessions will consist of self-study (reading), group work, interaction through the online distant learning platform, discussion boards, and chats.

**A. Reading Assignments**
At the beginning of each week you are asked to read the material and to prepare answers to questions at the end of the week. These assignments are made through the distant learning platform (Bulletin Board), mainly by reference to the textbook. There are also reading assignments during the on-site courses, which are included in the powerpoint presentations. Finally there are self-tests included in the course packet for each chapter. These are voluntary and meant to test your comprehension of the topics covered in the chapter.

**B. Group Work**
For group work the class is broken into eight groups that work together for the whole course. The course includes a project in which your group evaluates the macroeconomic environment of a country. Based on this analysis your group is asked to propose and analyze potential investment opportunities in this country. The group will provide a written analysis posting it to the Bulletin Board by 24h CEST of the indicated date, to be accessible to all participants of the course, and select a speaker to present the project in class. Its format should be chosen in a way to address the Board of a company considering investment in that country. The type of activity of that company can be freely chosen. The presentation should be short (Board members’ time is valuable!), and it could be backed by a powerpoint.

Two rival presentations on similar countries discussed within one session. On the basis of these arguments the class makes a choice on where to invest, and in what activity.

The schedule for the projects is as follows:

<table>
<thead>
<tr>
<th>Group #</th>
<th>Country</th>
<th>Report on file (by midnight CEST)</th>
<th>Discussion in class</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>China</td>
<td>September 05</td>
<td>September 09</td>
</tr>
<tr>
<td>7</td>
<td>India</td>
<td>September 05</td>
<td>September 09</td>
</tr>
<tr>
<td>6</td>
<td>Brazil</td>
<td>September 05</td>
<td>September 10</td>
</tr>
<tr>
<td>5</td>
<td>Argentina</td>
<td>September 05</td>
<td>September 10</td>
</tr>
<tr>
<td>4</td>
<td>Russia</td>
<td>September 26</td>
<td>September 30</td>
</tr>
<tr>
<td>3</td>
<td>Poland</td>
<td>September 26</td>
<td>September 30</td>
</tr>
<tr>
<td>2</td>
<td>U.S.</td>
<td>September 26</td>
<td>October 01</td>
</tr>
<tr>
<td>1</td>
<td>Germany</td>
<td>September 26</td>
<td>October 01</td>
</tr>
</tbody>
</table>

**VII. Grading**
Grades for the course will be based on class participation (which includes the on-site and off-site portions of the course), the group project, and the final exam. The distribution of weights is as follows:

<table>
<thead>
<tr>
<th>Class, Chats, and Board Participation (individual)</th>
<th>35%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group project (group)</td>
<td>30%</td>
</tr>
<tr>
<td>Final exam</td>
<td>35%</td>
</tr>
</tbody>
</table>
A. Class, Chats and Bulletin Board Participation (35%)

Class participation will be encouraged and will be one ingredient for computing the final course grade. The informal social contract requires all course participants to be ready and willing to help carry the discussion burden. In order to help achieve that goal and ensure that participation is as widespread as can be, with everybody having the opportunity to participate. However, what is discouraged is dominating the class discussion and ignoring the context and/or content of the participation up to that point. In calling upon students, the instructor will take care to ensure that participation is widespread and equitable, with no participant dominating and no one remaining silent.

The quality of class participation and board postings are significantly more important than the quantity. It is very possible that you can talk a lot and post many comments, but receive a low grade for class participation. Conversely, someone may speak just once or post a few comments, but get a very high grade due to the high quality of her/his participation.

B. Group work and projects (30%)

Qualified contributions are also decisive for group work and projects. However while the assessment of class and Bulletin Board participation can be made on an individual basis, this is more difficult for the individuals of the group. I will ask each member of a group to evaluate the contribution of all members of the group to the project. In this way your grade for the group project will reflect an overall group grade (which I assign) and your contribution to your group’s project as evaluated by other members of the group. Please make relative evaluations of other group members on the basis of a scale [-3 through +3], where 0 is average, negative values represent below average, and positive values above average contributions.

C. Final exam (35%)

The final exam will be an individual effort, requiring course participants to demonstrate their understanding and application of macroeconomic principles and policies. The final exam consists of a short essay to be written off-site by individual participants and submitted through the platform by October 16th, 2005, 24 h CEST. Students will chose one out of a selection of three topics that will be on the Bulletin Board on October 2nd, 2005 the latest. The essay must reflect the student’s individual achievements of the course and be written without the help of others. It can draw on published information, but this ought to be properly identified or quoted.

It is important that the essay be concise and clear emphasizing a few number of key arguments to support tangible business decisions in a global macroeconomic environment.

VIII. Evaluation criteria

In the context of evaluating individual achievements and group work, it is useful redirecting your attention to the Fuqua Learning Partnership:

In particular, we ask everyone to:

- respect others’ personal views;
- exhibit a strong commitment to honesty and integrity;
- remain open to taking risks and stretching oneself to try new ideas and concepts.

A sampling of criteria typically used to evaluate students is:
• **Factual truth:** Is the student’s statement accurate? Could it be substantiated by statistical data or other sources of information? Does the student recognize the limits of quantitative data and is he/she prepared to make qualified statements?

• **Analytical thinking:** Does the student’s contribution reflect application and integration of relevant concepts learned previously in this and other courses? Does his statement add insight to our understanding of the problem situation? Does it reflect effortful, multi-dimensional thinking?

• **Constructive thinking:** Is the student’s contribution to discussions timely and incremental, i.e., does it advance, or alter meaningfully and constructively, the contributions and comments made by others?

• **Creativity:** Does the student’s contribution enrich the discussion? Does it provide a new/provocative perspective? Does it link to seemingly unrelated facts and processes, inspiring novel insights?

• **Professionalism, respect, and honesty:** Does the statement reflect a concern for openness, professionalism and respect for other persons’ arguments? I.e., does it allow for disagreement and/or agreement in a constructive and comfortable manner? Is the student’s contribution honest and sincere, or does he/she simply seek attention?

**IX. CODE OF HONOR**

Learning occurs as you and your team converge on solutions to problems faced by public and private decision makers. We trust that you will not use information from, or share information with, other classes.

Accordingly, it is a violation of Fuqua’s honor code to get verbal or written information on material before it is submitted or discussed from:

- Fuqua Students in other classes or study groups;
- Students or resources from other schools;
- Electronic means.

It is also a violation of the honor code to give such information to people in other classes now or in the future.

This policy benefits all students at Fuqua. In order to preserve our special Fuqua culture we urge you not to abuse this policy or tolerate others who do.

**X. COURSE CONTENT**

**CHAPTER I: Introduction**

1. Motivation and key questions
   a. *Why is macroeconomics important for business?*
   b. *What are the main topics covered?*

2. Principal topics covered in the course
   a. Growth and efficiency
   b. Supply-side economics and demand management
   c. International differences in wage rates
   d. International trade flows
   e. Global allocation of capital
   f. Monetary policy and interest rates
g. Inflation around the world
h. International finance and exchange rates

CHAPTER II: Macroeconomics and the global economy
a. What is macroeconomics?
b. What is GDP?
c. Can a market economy achieve macro consistency?
d. Is the market fair?
e. What is the role of money
f. How is the economy linked to the “rest of the world”?
g. What is the “global economy”?
h. Should we control globalization?
   Application: Protectionism and the Great Depression
i. What micro links offers the global economy?
j. Is the global economy fair?

CHAPTER III: National income and macroeconomic policies
a. Global production potentials
b. Macroeconomic policies
c. Potential and effective GDP
d. Real and nominal GDP
e. Financing and the real economy
   Application: Stock market crash and the Great Depression
f. The macroeconomic policy framework
g. The basics of demand management
h. Economic policy: The Tinbergen approach
i. Objectives of economic policy

CHAPTER IV: Prices and inflation
a. Measuring prices and inflation
b. The AS-AD Model and inflation
c. Cost-push and demand-pull inflation
d. Inflation as a monetary phenomenon
e. Effects of inflation and inflation hedging
f. Controlling inflation

CHAPTER V: Growth and Employment
a. Accounting for Growth
b. Efficiency of Labor
c. Solow model and interpretation
d. The labor market
e. Real wages
f. Population and migration
   Application: Globalization and the dual labor market
CHAPTER VI: Capital, Investment, and International Capital Flows

a. The determinants of savings
b. The investment decision
c. Marginal product of capital and user costs of capital
d. Tobin’s q and the stock market
e. Capital flows in the global economy
f. The current balance of the United States
g. Financing Developing Nations
   Application: The LDC Debt Crisis
   Application: The Mexican Crisis

CHAPTER VII: Money, Assets, and Interest Rates

a. What is money?
b. Monetary aggregates
c. Demand for financial assets
d. Asset market equilibrium
e. Liquidity preference theory
   Application: Liquidity trap: The case of Japan
f. Interest rates and interest rate spreads

CHAPTER VIII: Money supply and monetary policy

a. The ECB and the Fed
b. The supply of base money
c. Controlling the money supply
d. Open market operations
e. The conduct of monetary policy
f. Application: German hyperinflation

CHAPTER IX: Exchange rates

a. What is an exchange rate?
b. Purchasing power parity (long run)
c. Exchange rates in the short run
d. The organization of foreign exchange markets
e. Exchange rate crises
   Application: The crisis of the Argentinean peso
f. Interventions in foreign exchange markets

CHAPTER X: The international financial system

a. Evolution of the international financial system
b. The gold standard
c. The Bretton-Woods System and the IMF
d. The ECU, the ERM and the euro
e. Nominal anchoring (dollarization, currency boards, and managed float)
f. Globalization and stability of the international financial system