

45-711 – Global Economics

Laurence Ales

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Class Time:

- **Section A:** Tuesday and Thursday from 8:30 to 10:15 in Posner Hall 152.
 - **Section B:** Tuesday and Thursday from 10:30 to 12:15 in Posner Hall 152.
 - **Section C:** Tuesday and Thursday from 1:30 to 03:15 in Posner Hall 152.
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Course Description:

This class is designed to give you an understanding of the functioning of the US economy and how it relates to the global economy. This knowledge will enable you to grasp the enormous differences in economic environments faced by businesses around the world; you will be able to appreciate how the environment in the United States differs from that of emerging and developing countries.

We will organize our analysis by viewing the US economy through the lenses of open economy macroeconomics. This is the field of economics concerned with how national performance and economic policies are affected by the presence of trade and international capital flows. We will use this approach to study issues such as economic indicators and forecasting (where are we headed?); economic growth (why are some countries more productive than others?); business cycles (why do we have booms and

recessions?); fiscal and monetary policy (how does policy affect labor and credit markets?); international trade, capital flows and foreign exchange rates.

Macroeconomics is an exciting discipline. I hope you will come to share my enthusiasm for it. A clear understanding of macroeconomic issues will provide you with a crucial advantage when taking business decisions.

Learning objectives:

By the end of this course, you will be able to...

1. ...understand and be able to use the various measures of an aggregate economy's performance and well-being;
2. ...be able to perform simple forecasts of macroeconomic variables;
3. ...understand the factors that cause economic growth and be able to describe the patterns of economic development over time and across countries;
4. ...understand the tradeoffs present in designing fiscal policy and the impact it can have on labor markets;
5. ...understand the goals and instruments available to the Federal Reserve;
6. ...understand how the US interacts with the global economy by studying the fundamentals of trade, international capital flows, and exchange rate determination.

Course material:

Textbook:

Charles I. Jones - Macroeconomics, Edition 2 or 3
W.W. Norton & Company

The textbook is not required, it will be used as a guide and as a reference book. The slides and provided handouts are designed to be self-contained.

Twitter and other News: The class official Twitter feed is [@cmu_macro](#). In this feed, I will post interesting and relevant macroeconomic news. Every week, in the form of a "digest," I will summarize the most relevant macroeconomics news in class.

Canvas: I will make any additional material available on the class website. Check Canvas regularly.

Slides: I will make slides available on the class Canvas website. However, slides made available before class, at times, will be redacted. This is done to encourage discussion during class. This approach will allow me to ask questions that might otherwise be answered by looking at a particular slide. The complete set of slides will be made available shortly after class. Also, during the mini, I will prepare the slides in a book format. The idea is for you to have a document that you might keep for years to come.

The Flipped Classroom:

Class Discussion: In-class discussion will be an essential element of each of our meetings. Discussions will occur mostly at the beginning of class; the goal will be to introduce the key topics and trade-offs that will be covered that day. To spark this conversation, a few days before the class, I will distribute (online) some reading materials. These materials will be organized in a “case study” fashion. It will be crucial for you to read and think about the material ahead of time. Doing so will ensure that the class discussion will be rich and meaningful to everyone. The grade on class participation will also be based on the comments you will contribute to the discussion.

Live Polls: During classes, we will conduct instant polls. These non-graded quizzes will be anonymous and will be used to test your knowledge and spark class discussions. We will either use the nameplates in the classroom or an online form. The online form can be accessed here (make sure to bookmark it!):

<http://tinyurl.com/45711-ales>

Feedback, Email and Office Hours:

Together with the usual evaluation forms, I set up an online, live, instant and anonymous feedback system. You can access it here:

<http://tinyurl.com/evaluations-ales>

I will try to respond to emails within 12 hours. Given high volumes, expect delays just before homework are due. Office hours are scheduled for Wednesday between 2:00 and 4:00 pm. I will be happy to schedule additional office hours by appointment. If your question is brief you can stop by anytime, my door is (almost always) open!

Grading:

The final grade will be computed according to the following components:

- 4 assignments (30% of total grade).
- One midterm (25% of total grade).
- One comprehensive final exam (25% of total grade).
- 21% for attendance and class participation.

Class participation will be determined by evaluating your engagement in the class discussions. Attendance will be taken automatically with the classroom nameplates. Make sure to login using your AndrewID.

Final grades will be determined on a relative basis: students with the highest total points will receive A's, those next in line will receive B's, etc.

Additional Policies:

Absences: you will be excused for any class missed for reasons connected to your job-search. Just let me know.

Working in groups: you may work in groups of up to 4. On the homework, please acknowledge the group participants. Working in groups is not allowed for the midterm.

Important Dates

- **Midterm** (take home/submit online) flexible schedule: Apr 13th-16th.
Details to follow.
- **Final** (in class) on Tuesday May 9th; 9:00 AM - Noon;
Location: Posner 146, 151, 152, 153.
- **Grades** posted on May 12th or earlier.

Topics Outline

In this section, I provide some additional details on the topics covered in each module.

1. **Measurement**

- Methodology. Measuring domestic product and income. Nominal and real GDP. Comparisons of GDP across countries.

2. **Growth**

- Growth facts: historical and contemporary. The aggregate production function. Measures of productivity. Sources of growth, and Solow growth model. Accounting for growth: the role of capital and labor in economic growth.

3. **Labor Markets**

- The US labor market. Employment, unemployment and other important labor market statistics. The frictionless labor model. The minimum wage. Institutions and policies that promote/hinder employment. The stock and flow model and labor market efficiency. The future of US labor markets.

4. **International Economics**

- Trade and comparative advantage. Tariffs: facts and implications for welfare. Trade agreements: NAFTA and TPP. Current account, international lending, and borrowing. Exchange rates: definition and regimes. Determinants of exchange rates: purchasing power parity and interest rate parity conditions. International capital markets. Macroeconomic factors that help determine exchange rates in the short and long run.

5. **Business Cycles**

- Properties of business cycles, booms, and recessions. Business cycle indicators, leading and lagging variables. Smoothing, filtering and basic business cycle forecasting.

6. **Fiscal Policy**

- Government: revenues and spending. Fiscal multipliers. Current fiscal stimulus and its effects. Government debt and deficits. Debt sustainability. Taxation: facts and determinants.

7. **Monetary Policy**

- Money: definitions and measurement. The Federal Reserve: tools and objectives. Determining short-run interest rates and inflation targeting.

Calendar

Week	Tuesday	Thursday
1		(Mar 23) <ul style="list-style-type: none"> • Introduction/Measurement
2	(Mar 28) <ul style="list-style-type: none"> • Growth: Part I → Assignment 1 Posted	(Mar 30) <ul style="list-style-type: none"> • Growth: Part II
3	(Apr 4) <ul style="list-style-type: none"> • Labor Markets: Part I 	(Apr 6) <ul style="list-style-type: none"> • Labor Markets: Part II Assignment 1 Due → → Assignment 2 Posted
4	(Apr 11) <ul style="list-style-type: none"> • International Economics: Part I 	(Apr 13) <ul style="list-style-type: none"> • International Economics: Part II Assignment 2 Due →
5	(Apr 18) <ul style="list-style-type: none"> • International Economics: Part III 	(Apr 20) <ul style="list-style-type: none"> • Business Cycles → Assignment 3 Posted
6	(Apr 25) <ul style="list-style-type: none"> • Fiscal Policy: Part I 	(Apr 27) <ul style="list-style-type: none"> • Fiscal Policy: Part II Assignment 3 Due → → Assignment 4 Posted
7	(May 2) <ul style="list-style-type: none"> • Monetary Policy 	(May 4) <ul style="list-style-type: none"> • Conclusion Assignment 4 Due →