



Business

## MACROECONOMICS FOR THE GLOBAL ECONOMY

### **PROFESSOR**

Annamaria Lusardi, Ph.D.

Denit Trust Endowed Chair of Economics and Accountancy

Director, Global Financial Literacy Excellence Center (GFLEC)

E-mail: [alusardi@gwu.edu](mailto:alusardi@gwu.edu)

Webpage: <http://business.gwu.edu/profiles/annamaria-lusardi/>

Office hours: by appointment

Office: Duques, 450E

Phone: 202-994-8410

### **Teaching Assistant**

Andrea Bolognesi,

M.A. in International Economic Policy

E-mail: [abolognesi@gwu.edu](mailto:abolognesi@gwu.edu)

Phone: 202-286-1179

### **COURSE DESCRIPTION**

Students are expected to be able to assess macroeconomic developments and assess the likely impact of policy changes on macroeconomic variables, such as growth, inflation, unemployment, interest rates, and the balance of payments. They will be able to critically analyze proposed changes in macroeconomic policy and evaluate likely outcomes for firms and nations. Students will be better equipped to read the financial press, comment on global developments, and interact with policymakers and economic professionals. They will be able to improve their business decisions by taking evolving macroeconomic events into account and better understand the economic environment in which they operate.

### **COURSE OBJECTIVES**

1. Students will be able to understand macroeconomic developments covered in the financial press and will be able to comment on global economic events.
2. Students will be able to evaluate such indicators as output, employment, wages, interest rates, inflation rates, and exchange rates.
3. Students will be able to evaluate the effects of fiscal and monetary policies.
4. Students will be able to understand different perspectives brought to economic analysis by different schools of thought.
5. Students will be able to relate macroeconomic indicators to the financial markets worldwide.
6. Students will be able to incorporate macroeconomic perspectives into decisions made within a firm.

## **READINGS**

Recommended (but optional) textbook:

- *Macroeconomics* (ninth edition), Andrew Abel, Ben Bernanke, Dean Croushore; Pearson, 2017, ISBN: 978-0134167398.

PowerPoint presentations and lecture notes (to be posted on Blackboard). They will help students focus on the main points of the lectures.

Other materials: I have indicated some readings for each class. These readings are optional, they are meant to illustrate some of the topics we discuss in class. Selected articles from academic and business journals and other publications will be added to the readings as the course is in session.

You must keep up with current events by reading *The Economist* and daily newspapers such as *The New York Times*, *The Wall Street Journal*, and the *Financial Times*.

## **TESTS AND GRADING POLICIES**

Students' performance in the course is evaluated as follows:

Weekly quizzes	30%
Final exam	50%
Case analysis (due the last day of classes)	10%
Class participation	10%

There will be a total of ten quizzes (some classes, randomly chosen, will not have a quiz). The quizzes will occur at the beginning of each class; students will have about 10 minutes to write answers to a set of questions based on the previous class's lecture and discussion. No makeup quiz will be allowed. Instead, only eight of the ten quizzes will count toward the final course grade. That is, if you miss two quizzes, your score on these quizzes is dropped without affecting your overall grade. If you do all ten quizzes, the lowest two quiz grades will be dropped. The resulting eight quiz grades will have equal weight.

Over the course of a 14-week semester, it is expected that students will spend about 35 hours of in-class instruction and 78 hours outside of class-- preparing for class, doing assignments and taking the final exam.

**Final exam:** The final exam covers the material in the class presentations and other required material. The exam is closed-book but student can bring two sheets (single sided-standard size) with anything written on it. Exams must be taken at the scheduled time.

**Case analysis:** Students are required to do a case analysis. Specific requirements and evaluations will be discussed when the course is in session.

## **USE OF CELL PHONES AND COMPUTERS**

Cell phones must be turned off during class. Laptops, iPads, or tablets can only be used in the classroom to follow the lecture notes. A short break will be planned during each lecture, given the length of the session.

### **STUDENT DISABILITIES**

Any student who feels s/he may need an accommodation based on the impact of a disability should contact the instructor privately to discuss specific needs. Please contact the Disability Support Services to establish eligibility.

### **CODE OF ACADEMIC INTEGRITY**

Academic dishonesty is defined as cheating of any kind, including misrepresenting one's own work, taking credit for the work of others without crediting them and without appropriate authorization, and the fabrication of information. A full discussion of academic integrity can be found at <http://www.gwu.edu/%7Entegrity/code.html>. Academic dishonesty of any kind will not be tolerated in this class.

### **COURSE GRIEVANCE PROCEDURES**

If you feel that a grade you received in the quiz is unfair, you are required to voice your opinion to me within 3 days after the graded work is returned via email. The appeal should include a description of the question(s) that need to be reexamined as well as an explanation of why the original grade was incorrect. The entire quiz will be checked for grading errors, and correcting these could either raise or lower the overall score.

### **OUTLINES OF THE TOPICS AND READING REQUIREMENTS**

Students who have not taken a Macroeconomic course before or have taken the course long ago are encouraged to read chapter 1 and chapter 2 of the recommended textbook to get an overview of what macroeconomics is about.

## **Lecture 1: The National Economy**

### **Topics:**

- Introduction to macroeconomics
- GDP and its components
- Measures of macroeconomic performance: output, employment, and price stability
- Productivity and output
- The sources of economic growth
- Unemployment (definition)

### **Recommended reading:**

- Abel, Bernanke, and Croushore; chapter 3 (pp. 61-71) and chapter 6 (pp. 207-217)

### **Further reading:**

- How countries calculate their GDP, *The Economist*  
<http://www.economist.com/blogs/economist-explains/2014/03/economist-explains-26>
- Will a Global "Happiness" Index Ever Beat Out GDP?, *Time*  
<http://business.time.com/2011/05/24/is-a-global-happiness-index-on-the-horizon/>

- OECD Better Life Index, OECD  
<http://www.oecdbetterlifeindex.org/>
- Sex, drugs and GDP – Italy’s inclusion of illicit activities in its figures excites much interest, *The Economist*  
<http://www.economist.com/news/finance-and-economics/21603073-italys-inclusion-illicit-activities-its-figures-excites-much-interest-sex>
- Column: GDP is a useful measurement but it doesn’t show the whole picture, *PBS News Hour*  
<https://www.pbs.org/newshour/economy/column-gdp-useful-measurement-doesnt-show-whole-picture>
- “Mismeasuring Our Lives. Why GDP Doesn’t Add Up.” J. Stiglitz, A. Sen, and JP Fitoussi, New York: The New Press, 2010.  
<https://thenewpress.com/books/mismeasuring-our-lives>

## Lecture 2: Unemployment and Consumption

### Topics:

- The aggregate demand and the aggregate supply of labor
- The problem of unemployment
- Determinants of consumption

### Recommended reading:

- Abel, Bernanke, and Croushore; chapter 3 (pp. 71-96), chapter 4 (pp. 108-125)

### Further reading:

- Bringing Light to the Grey Economy, *The Economist*  
<https://www.economist.com/international/2016/10/15/bringing-light-to-the-grey-economy>
- How the Government Measures Unemployment, US Bureau of Labor Statistics  
[https://www.bls.gov/cps/cps\\_htgm.htm](https://www.bls.gov/cps/cps_htgm.htm)

## Lecture 3: Consumption, Saving, and Investment

### Topics:

- The consumption and saving decisions of an individual
- Determinants of investment

### Recommended reading:

- Abel, Bernanke, and Croushore; chapter 4 (pp. 125-138)

### Further reading:

- The World’s Savers are Doing Something Wrong, *The Financial Times*  
<https://ftalphaville.ft.com/2018/03/16/2199277/the-worlds-savers-are-doing-something-wrong/>

- Nobel in Economics Given to Angus Deaton for Studies of Consumption, *The New York Times*  
<https://www.nytimes.com/2015/10/13/business/angus-deaton-nobel-economics.html>

## Lecture 4: Government Spending and Its Financing

### Topics:

- Government expenditure
- Taxes and transfers
- Deficits and surpluses
- Government debt
- Fiscal policy

### Recommended reading:

- Abel, Bernanke, and Croushore; chapter 15 (pp. 578-604)

### Further reading:

- “Cutting the Deficit, with Compassion,” *The New York Times*  
[http://www.nytimes.com/2012/09/09/business/cutting-the-deficit-compassionately-economic-view.html?\\_r=0](http://www.nytimes.com/2012/09/09/business/cutting-the-deficit-compassionately-economic-view.html?_r=0)
- How America Learnt to Love the Budget Deficit, *The Financial Times*  
<https://www.ft.com/content/d3d0700a-79eb-11e8-8e67-1e1a0846c475>
- The Perversion of Fiscal Policy (Slightly Wonkish): Austerity in a slump, stimulus in a boom, Paul Krugman for *The New York Times*  
<https://www.nytimes.com/2018/11/02/opinion/the-perversion-of-fiscal-policy-slightly-wonkish.html>

## Lecture 5: Imports and Exports and the IS Curve

### Topics:

- The determinants of imports
- The determinants of exports
- Balance of payments
- The IS curve

### Recommended reading:

- Abel, Bernanke, and Croushore, chapter 5

### Further reading:

- Balance of Payments, Federal Reserve Bank of New York  
<http://www.newyorkfed.org/aboutthefed/fedpoint/fed40.html>
- Why Trade Deficit Matters, and What Trump Can Do About It, *The New York Times*  
<https://www.nytimes.com/2017/10/17/business/economy/trade-deficits-nafta.html>
- A Trade "Imbalance" Doesn't Imply A Currency Problem, *Forbes*

<https://www.forbes.com/sites/nathanlewis/2018/08/03/a-trade-imbalance-doesnt-imply-a-currency-problem/#1c7a57adbed7>

## Lecture 6: Money and Inflation

### Topics:

- What is money?
- The demand and supply of money
- Money growth and inflation

### Recommended reading:

- Abel, Bernanke, and Croushore; chapter 7 (pp. 241-269)

### Further reading:

- Cash, Card, or Car-Sized Stone: Payment Options in the Island of Yap, *Slate*  
[http://www.slate.com/blogs/atlas\\_obscura/2013/10/15/cash\\_card\\_or\\_car\\_sized\\_stone\\_payment\\_options\\_on\\_the\\_island\\_of\\_yap.html](http://www.slate.com/blogs/atlas_obscura/2013/10/15/cash_card_or_car_sized_stone_payment_options_on_the_island_of_yap.html)
- Central Bank Independence, Transparency and Accountability, by Chairman Ben Bernanke  
<http://www.federalreserve.gov/newsevents/speech/bernanke20100525a.htm>
- Venezuela's Hyperinflation Hits 80,000% Per Year in 2018, *Forbes*  
<https://www.forbes.com/sites/stevehanke/2019/01/01/venezuelas-hyperinflation-hits-80000-per-year-in-2018/#2e7649604572>
- WEIMAR: The Truth About History's Most Infamous Hyperinflation Horror Story, *Business Insider*  
<https://www.businessinsider.com/weimar-germany-hyperinflation-explained-2013-9>

## Lecture 7: The LM curve

### Topics:

- Monetary policy in practice
- The LM curve

### Recommended reading:

- Abel, Bernanke, and Croushore; chapter 14

### Further reading:

- As Inflation Soars, Zimbabwe Economy Plunges, *The New York Times*  
<http://www.nytimes.com/2007/02/07/world/africa/07zimbabwe.html?mtrref=www.google.com&gwh=01DECDB7DC325C659EF389740D82C9C5&gwt=pay>
- Turkey Takes Action on Strained Economy with Big Rate Rise, *The Wall Street Journal*  
<https://www.wsj.com/articles/erdogan-moves-to-support-turkeys-embattled-lira-with-new-measures-1536826634>

- Fed Raises Interest Rates, Showing Confidence in Health of Economy, *The New York Times*  
<https://www.nytimes.com/2018/12/19/business/fed-interest-rates.html>

## **Lecture 8: A General Framework for Macroeconomic Analysis**

### Topics:

- Review of IS curve
- Review of LM curve
- The IS-LM model

### Recommended reading:

- Abel, Bernanke, and Croushore; chapter 9 (pp. 314-334)

### Further reading:

- IS-LM notes from Professor Lusardi

## **Lecture 9: The Application of the IS-LM Model**

### Topics:

- The IS-LM model
- The effects of fiscal and monetary policies

### Recommended reading:

- Abel, Bernanke, and Croushore; chapter 9 (pp. 334-339)

### Further reading:

- Macro events we will analyze in class

## **Lecture 10: The International Economy and Exchange Rates**

### Topics:

- Exchange rates
- Fixed and flexible exchange rate systems
- The IS-LM model for an open economy

### Recommended reading:

- Abel, Bernanke, and Croushore; chapter 13

### Further reading:

- The Big Mac index, *The Economist*  
<http://www.economist.com/content/big-mac-index>
- What Was Decided at the Bretton Woods Summit, *The Economist*  
<https://www.economist.com/the-economist-explains/2014/06/30/what-was-decided-at-the-bretton-woods-summit>
- A Brief History of Exchange Rate, *The Wall Street Journal*  
<https://www.wsj.com/articles/SB112195084191892053>

## Lecture 11: The Derivation of the AD-AS Model

### Topics:

- Aggregate supply
- Aggregate demand
- The AD-AS model

### Recommended reading:

- Abel, Bernanke, and Croushore; chapter 9 (pp. 339-347)

### Further reading:

- Aggressive ECB Stimulus Ushers In New Era for Europe, *The Wall Street Journal*  
<http://www.wsj.com/articles/ecb-announces-stimulus-plan-1421931011>
- Fed Raises Key Interest Rate for First Time in Almost a Decade, *The New York Times*  
<http://www.nytimes.com/2015/12/17/business/economy/fed-interest-rates.html>

## Lecture 12: The Application of the AD-AS Model

### Topics:

- The AS-AD model
- The effect of monetary and fiscal policies

### Recommended reading:

- Abel, Bernanke, and Croushore; chapter 9 (pp. 345-347)

### Further reading:

- What kind of recession was 2001? *The Economist*  
[http://www.economist.com/blogs/freeexchange/2009/08/what\\_kind\\_of\\_recession\\_was\\_200](http://www.economist.com/blogs/freeexchange/2009/08/what_kind_of_recession_was_200)

**Lecture 13: Presentation in class of the case study. The final version of the case study is due at the beginning of Lecture 14.**

**Lecture 14: Review of the course and more applications of the IS-LM and AD-AS models**