Columbia Business School, Fall 2023

B8250 Global Economic Environment II: Macroeconomic Policy

Professor Shang-Jin Wei

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Office Hours on Zoom or in person: by email appointment, generally on Wednesday afternoons or evenings

**Times:** Mondays and Wednesdays, 9:00-10:30 am (section 1) or 10:50 -12:20 pm (section 2)

*(Note: The first two sessions take place on Wednesday, Sept 6, and Friday, Sept 8.)*

**Venue:** Kravis 880

**Course Assistants:**

- Javy Tantoco (JTantoco24@gsb.columbia.edu), Section 1
- Elisa Martinez (EMartinez24@gsb.columbia.edu), Section 2

**Course Description**

Movements in inflation, unemployment, interest rates, and government macroeconomic policies affect the success or failure of business and investment decisions. News about them affect asset prices.

This course is a sequel to the core course Global Economic Environment I. Building on the fundamentals introduced in that course, we develop a conceptual framework to understand the complex interactions between macroeconomic policy and business cycle fluctuations.

We examine the determinants of key economic variables such as real output, inflation, employment, interest rates, exchange rates, and their interactions in the global economy. We examine the conduct and implementation of monetary and fiscal policies, in the U.S. and other economies.

Since an important goal of this course is for students to become informed and sophisticated consumers of economic news, the discussion in this course will also draw from current events and real-world examples.

**Course Objectives**

To acquire a solid conceptual and applied understanding of the macroeconomy and its relationship to financial markets and the economic environment. To develop a critical and sophisticated view of economic policy questions.
Course Materials

Textbook: Parts 4 and 6 of *Macroeconomics: Policy and Practice*, by Frederic S. Mishkin, 2nd edition, Publisher: Prentice Hall, 2014. Having your own copy of the book provides the most convenience, although some copies of the textbook may be available at the library.

Additional Readings: You are encouraged to read the economics pages of at least one of the following publications on a regular basis: *The Economist*, *The Wall Street Journal*, *The Financial Times*, or *The New York Times*.

Course Requirements and Grading

Class Sessions *(See the calendar on Canvas for the schedule)*
There will be 12 sessions, including an in-class exam in the last session.

Friday Review Sessions (optional)
Optional review sessions by a course assistant will be held on Fridays. They will review or answer questions about the material covered in class and the homework assignment.

Student debates
There will be several student debates to enhance learning (assignment type A). Each debate will take place in class and will involve two student teams who are asked to take a yes or no position on a topic related to the course. Each group will present its position in 4 minutes, followed by a one-minute rebuttal to the rival group’s point. Each group will need to submit the slides to the course assistant and the professor in the weekend before the debate. The debate topics and the schedule are listed later in the syllabus. The group assignment will be posted on Canvas.

Two polls of the class will be taken, before and after each debate, respectively. The team with the largest net gain in the votes will be the winner.

Cases
There will be two major case assignments, which consist of questions to be written up as well as questions to be prepared for general class discussion. These will be done in groups (assignment type A) of 2-4 people. Only one write-up per group needs to be submitted on Canvas. Late cases will not be accepted. Unlike the debates, the groups for the case discussion are formed on a voluntary basis, though they can overlap with the debate groups. All group members should be prepared to discuss the answers in class.

Problem sets
There will be three problem sets. You must submit the problem set answers on Canvas (a copy of hand-drawn graphs is acceptable) and answers will be posted soon after. You may consult with your classmates, but each student should hand in his or her own independently written answers (assignment type B). No answers to problem sets should be exchanged physically or electronically. Late problem sets will not be accepted.

Participation
You are expected to contribute to the learning of everyone in the class. Good participation is defined as:

- Be on time and present in each class.
• Do the assigned readings before each session.
• Participate actively in class discussions, pulling in insights from readings and the news.

Exam
A final examination will take place on Wednesday October 11 (in-class exam, same time and location as other class sessions). While this exam will be closed book, a single-page double-sided (8½"-11") "cheat-sheet" is allowed. It may contain any notes you choose to have. Final exams will not be returned, but will be available for reviewing after the end of the semester.

Regrade policy: All requests for re-grading must be submitted to me in writing within one week after the grades are posted and must be specific. We have the option of regrading the entire exam.

Grading
• Problem sets: 30 points
• Case preparation: 20 points
• Debates: 15 points
  • (12 points for quality of preparation and presentation, and 3 extra points for winning the debate, or 2 extra points to each team if it is a tie.)
• Class participation: 35 points
  • (5 points reduction for each absence not excused by the Office of Student Affairs, and 3 points reduction for either late arrival or early departure.)
• Final exam: 100 points

Total points: 200 points
## Class Schedule

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<thead>
<tr>
<th>Session #</th>
<th>Topics</th>
<th>Assignment Due</th>
<th>Readings (prior to class)</th>
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| (1) | Introduction  
- Course overview  
- Business cycle basics | | Chapter 8 |
| (2) | The AD/AS Framework: Part 1  
- The IS curve | Problem Set 1 due 11 pm on Sept 10 | Ch. 9 |
| (3) | The AD/AS Framework: Part 2  
- Monetary Policy | | Ch. 10 |
| (4) | The AD/AS Framework: Part 3  
- Okun’s Law  
- The Phillips Curve  
- The AS curve | Problem Set 2 due 11 pm on Sept 17  
(You are strongly encouraged to spend some time to read/discuss Case 1 during Sept 15-18) | Ch. 11  
Ch. 12 (299-307) |
| (5) | Application: Disinflation  
- General Ne Win’s Disinflation Program  
- President Nixon’s Disinflation Program | Answers for Case 1 due (on Canvas) 11 pm on Sept 24 | Ch. 12 (307-319) |
| (6) | Monetary Policy in Action  
- Chairman Volcker Disinflation Program  
- Policy Objectives & Complications | Slides for 1st set of debates (by email) due 8 pm on Sept 24 | Ch. 13  
Major Case 1: Monetary policy in action: The FOMC meeting of 1992 |
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<th>Learning from Debates</th>
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<td></td>
<td>Debate 1: Should the European Central Bank raises its key interest rates at its next policy meeting?</td>
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<td>Debate 2: Should Argentina’s very high inflation rate (over 90% in 2022) be brought down to below 10% this year by a sharp increase in the interest rate?</td>
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<td>Debate 3: Should the central bank mandates be changed so they can play a part in managing climate changes?</td>
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<td>Debate 4: Should the United States roll out a digital dollar within the next 5 years?</td>
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<td>Fiscal Policy in Action</td>
<td>Written answers for Major Case 2 due on Oct 1</td>
<td>Ch. 16</td>
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<td>Spending and tax multipliers</td>
<td>Critiques of the Keynesian economics</td>
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<td>Exchange Rates</td>
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<td>Ch. 17</td>
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<td>Open Economy AD/AS</td>
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<td>Macroeconomic News</td>
<td>Slides for the 2nd set of debates (by email) due 8 pm on Oct 8; Problem 3 (on Canvas) due 11 pm on Oct 8</td>
<td>Major Case 2: The Big News</td>
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<td>Taking Stock + 2nd Set of Debates:</td>
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<td>Debate 5: Should Hong Kong abandon its linked exchange rate system?</td>
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<td>Debate 6: Will the Euro appreciate in value relative to the US dollar in the next 12 months?</td>
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<td>Taking Stock: The Science and Art of Macroeconomic Policies</td>
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<td>FINAL EXAM (in-class exam)</td>
<td>Previous lecture notes + textbook chapters</td>
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